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Sierra Leone: 2006 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2006 Article IV consultation with Sierra Leone, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, financing assurances review, and request for a waiver of nonobservance of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the combined 2006 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on September 12, 2006, 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 December 1, 2006. 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 Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 15, 2006, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for Sierra Leone.

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

Enhanced Heavily Indebted Poor Countries Initiative Document
Joint Staff Advisory Note on the Poverty Reduction Strategy Paper Progress Report
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*
Poverty Reduction Strategy Paper—Annual Progress Report
Statistical Appendix
Technical Memorandum of Understanding*
*Also be 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

2006 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver of Nonobservance of Performance Criterion

Prepared by the African Department
(in consultation with other departments)

Approved by Thomas Krueger and Adnan Mazarei

December 1, 2006

- **Discussions:** A mission visited Freetown August 28–September 12, 2006 and met with President Kabbah, Vice President Berewa, Finance Minister Benjamin, Governor Rogers, and other senior government officials. The mission also met with representatives of the donor community, civil society organizations, and financial institutions. The team consisted of Messrs. Toé (head), Köhler, Kalonji (all AFR), Kikuchi (PDR), Jones (resident representative to Guinea and Sierra Leone), and Ms. Scarlata (MCM).

- **PRGF arrangement:** The IMF supports Sierra Leone's economic program for 2006–08 with a PRGF arrangement approved on May 10, 2006. Total access is SDR 31.1 million (30 percent of quota), of which SDR 4.7 million (about US$7 million) has been disbursed (Appendix II). A further SDR 4.4 million becomes available when this review is completed. The World Bank in June 2005 endorsed a new IDA Country Assistance Strategy (CAS) for Sierra Leone for 2006–09 to support the strategy outlined in the government's PRSP (Appendix III). Appendix I is the Letter of Intent from the Minister of Finance with the Technical Memorandum of Understanding.

- **Article VIII obligations:** Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4 and, on the basis of current information, maintains a system free of restrictions on the making of payments and transfers for current transactions.

- **The exchange rate regime** has been reclassified as "crawling peg" to reflect the stability of the nominal exchange rate as managed through weekly auctions by the Bank of Sierra Leone (BSL), the sole seller of foreign exchanges.

- **Publication:** The authorities intend to publish this report.

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Executive Summary

Background

- Sierra Leone has made steady progress in consolidating peace and the successful conduct of the general elections in July 2007 would further secure stability.

- Despite strong growth in the past 5 years—one of the strongest in the region—GDP per capita remains well below the average for sub-Saharan Africa, poverty is widespread, and Sierra Leone ranks next to last in the UNDP's Human Development Index.

Article IV issues. The discussions focused on four challenges:

- **Sustaining higher economic growth and reducing poverty**. Sierra Leone needs to address key impediments in order to sustain high economic growth rates over the medium term and progress toward achieving the Millennium Development Goals (MDGs). There was broad agreement that improving the regulatory framework and strengthening property rights would be critical. However, the authorities were also considering targeted tax incentives, while staff stressed the case for a level playing field for all investors.

- **Achieving fiscal and external debt sustainability**. In view of the sizeable financing needs, fiscal sustainability requires raising the domestic revenue-to-GDP ratio, which is among the lowest for sub-Saharan African post-conflict countries. The challenges for the government are formidable given that the National Revenue Authority (NRA) is still at an early development stage and tax compliance remains low, underscoring the need to modernize and strengthen the NRA. As concerns external debt sustainability, debt levels will fall sharply after the provision of debt relief under the enhanced HIPC Initiative and MDRI. The authorities concurred that future borrowing should be limited to concessional terms, to avoid another build up of unsustainable debt.

- **Promoting good governance and transparency**. Sierra Leone has made progress in improving governance and transparency, but much remains to be done, particularly in the area of governance. The government has committed under the Improved Governance and Accountability Pact (IGAP) to implement reforms in ten critical areas by July 2007. Sustained progress in implementing the IGAP will be critical, as it would, among other, enhance the predictability of budget support.

- **Deepening financial intermediation**. Given the underdeveloped state of the financial sector, reforms guided by the recommendations of the recent Financial Sector Assessment Program should be given high priority. The authorities concurred that these reforms should address identified vulnerabilities and promote rural financial intermediation.

Program issues. The PRGF-supported program is broadly on track and the objectives of the 2006 and 2007 programs should be achievable. All quantitative performance criteria through end-June 2006 were met, but the structural performance criterion on the updating and auditing of the civil service database was missed. The staff recommends approval of the authorities' request for a waiver of the nonobservance of the structural performance criterion and completion of the first review of the PRGF arrangement.

I. Introduction and Background

1. **The 2006 Article IV consultation is taking place as Sierra Leone is at a critical juncture**. Having completed the post-conflict recovery phase it aims to achieve higher and sustainable economic growth for poverty reduction. Sierra Leone is set to benefit from debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) when the Executive Board completes the first review of the PRGF arrangement, making more resources available for poverty reduction.

2. **Sierra Leone's record in implementing Fund policy advice has been mixed (Box 1)**. Past Article IV recommendations[1] have been implemented with a varying degree of success and progress with respect to some others has been limited, owing to weak administrative capacity.

Box 1. Sierra Leone: Checklist of Past Key Article IV Consultation Recommendations and Status of Implementation

Advice	Status
Mobilize domestic revenue to meet the demands of economic reconstruction.	The National Revenue Authority (NRA) had implemented measures to enhance domestic revenue collections, expected to increase domestic revenue by 0.6 percentage points of GDP in 2006.
Strengthen public expenditure management (PEM) and budget execution, and adopt a medium-term budgetary framework (MTEF) consistent with the PRSP priorities.	A number of actions to strengthen PFM were taken in 2005–06. The formulation and execution of the budget is now done in the context of the MTEF. PRSP priorities are also reflected in the MTEF.
Expedite civil service reform.	Limited progress made; overruns on the wage bill a recurring problem.
Implement recommendations of the 2002 and 2005 safeguards assessments.	While some progress has been made in implementation, further improvements are necessary in financial reporting and in strengthening Bank of Sierra Leone's (BSL) internal controls.
Address governance issues and improve transparency.	Government and donors providing direct budget support have signed the Integrated Governance and Accountability Pact that moves forward governance and accountability reforms.
Strengthen Statistics Sierra Leone (SSL) and improve the statistical base.	Budget allocations increased in the 2007 budget, but SSL has yet to develop a comprehensive strategy (Statistical Master Plan).

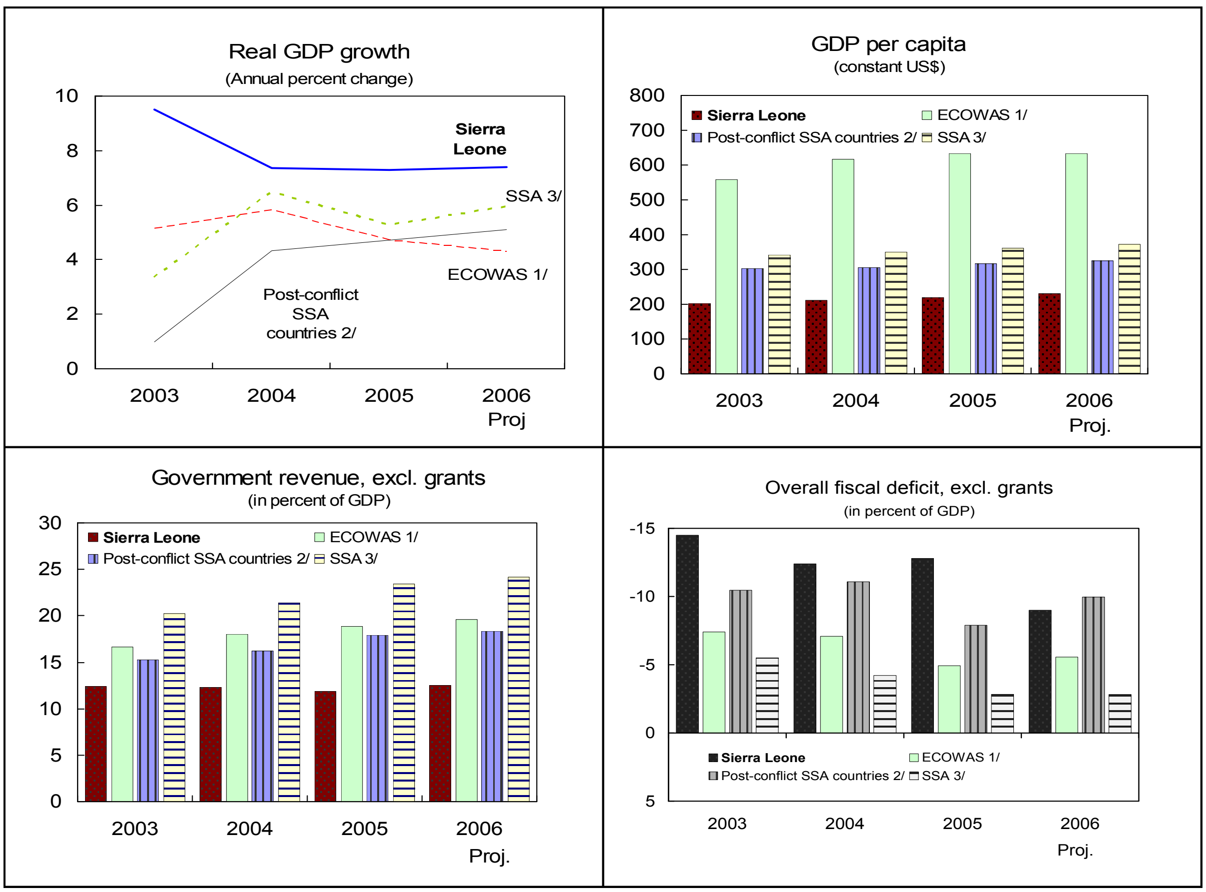
3. **Sierra Leone's main economic indicators lag behind the average for sub-Saharan Africa (Figure 1), underscoring the magnitude of the efforts needed to achieve the Millennium Development Goals (MDGs)**. Despite some of the strongest growth in the region in the past five years, GDP per capita remains well below the average for sub-Saharan

[1] SUR/02/30 (03/14/02), SUR/04/116 (11/15/04, (http://www.imf.org/external/np/sec/pn/2005/pn0505.htm).

Africa and other postconflict countries. Poverty is widespread,[2] and Sierra Leone ranks next to last in the UNDP's Human Development Index (176 out of 177).

4. **Sierra Leone has made steady progress in consolidating peace**. The security situation appears to be largely under control even though the UN peacekeeping force was withdrawn at end-2005. A newly-created UN Peacebuilding Commission (PBC) has selected Sierra Leone and Burundi to help them consolidate peace and prevent a relapse into violence. Successful conduct of the general elections in July 2007 would further secure stability.

Figure 1. Sierra Leone: Selected Comparative Indicators



Sources: AFR Regional Economic Outlook (May 2006) and Sierra Leone database.

1/ ECOWAS, excluding Liberia and Nigeria.
2/ Post-conflict countries include Burundi, Central African Republic, Congo (Rep. of), Congo (Democratic Rep. of), Guinea-Bissau, Rwanda, and Sierra Leone.
3/ Sub-Saharan Africa, excluding Nigeria and South Africa.

[2] According to 2003 data, 57 percent of the population lives below the absolute poverty line (US$1 per day).

II. Recent Developments and Performance under the Program[3]

5. **Economic growth continued to be robust and broad-based during 2004–05, and inflation dropped to single digits by June 2006 (Table 1, Figure 2)**. Real GDP grew by over 7 percent per annum in 2004–05, reflecting increased activity in the agriculture, mining, construction, and the services sectors. Annual average inflation declined moderately to 12.1 percent in 2005 as the fiscal stance was tightened during the last quarter of 2005. A continued tight fiscal stance, supported by adequate monetary policy, pushed inflation down to 9.3 percent at end-June 2006, despite pressures stemming from the pass-through of high world oil prices.

6. **The fiscal outturn in 2005 was weaker than targeted (Table 2 and text table)**. Because of delays in the enactment of relevant legislation, revenues were lower while poverty-related and development expenditures accelerated. As a result, the overall deficit (including grants), at 2.7 percent of GDP, was more than double the original target. The overall deficit was financed by concessional foreign borrowing, essentially project loans (1.5 percent of GDP), and domestic financing (1.2 percent).

Sierra Leone: Fiscal Performance, 2004–06
(In percent of GDP)

	2004	2005		2006					
				First half		Second half		Full year	
	Act.	Prog. 1/	Act.	Prog.	Act.	Prog.	Proj.	Prog.	Proj.
Government domestic revenue	12.3	12.2	11.9	5.8	6.0	6.6	6.5	12.4	12.5
Total expenditure and net lending	24.8	22.0	24.6	10.0	9.3	11.7	12.1	21.7	21.4
Current expenditure	20.1	18.3	18.7	7.6	7.5	9.1	8.9	16.6	16.4
Capital Expenditure	4.6	3.7	5.9	2.4	1.7	3.3	3.3	5.2	5.0
Overall fiscal balance									
(commitment basis, including grants)	-3.5	-1.3	-2.7	1.1	0.4	-1.6	11.0	-0.5	11.4
(commitment basis, excluding grants	-12.4	-9.8	-12.8	-4.2	-3.3	-5.1	-5.6	-9.3	-9.0
Domestic primary balance	-2.8	-2.2	-3.1	-0.6	-0.3	-1.2	-1.2	-1.8	-1.5
Domestic financing	-0.1	0.7	1.2	-0.7	-1.0	0.9	-10.8	0.3	-11.7

Sources: Sierra Leonean authorities; and IMF staff projections.
1/ IMF Country Report No. 06/183 (March 10, 2006)
2/ For 2006, assumes MDRI relief from IMF (as a stock of debt relief).

7. **Under the new PRGF, fiscal performance strengthened in the first half of 2006, improving the prospects that Sierra Leone will meet the full-year program targets (Table 3)**. Strong revenue performance and the receipt of external budgetary support in late June, coupled with lower–than–budgeted expenditures, improved the liquidity position of the government and enabled it to make net repayments to the central bank. This in turn

[3] Economic and financial developments in 2005 are discussed extensively in IMF Country Report No. 06/183, (03/10/06) and IMF Country Report No. 06/183, Supplement 1 (05/01/06).

contributed to a considerable slowdown in the growth of the net domestic assets of the banking system.

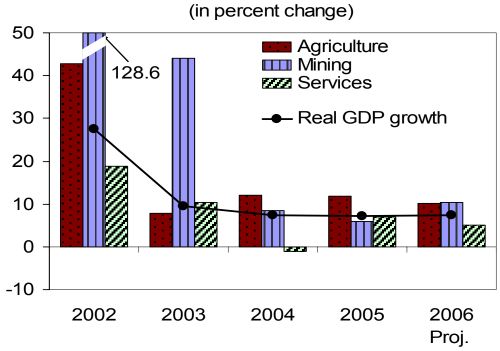
8. **Broad money growth in 2005/06 was dominated by developments in net foreign assets (Table 5)**. In 2005, slower growth in credit to the government and the private sector was dwarfed by large inflows of foreign aid and the accumulation of net foreign assets. As a result, the pace of monetary expansion accelerated, reaching 32.8 percent in 2005 compared with 18.9 percent in 2004. However, money growth declined sharply in 2006 and was below program projections for end-June. The decline reflected foremost policy adjustments: an increase in government deposits at the central bank (as the fiscal position strengthened) and the partial sterilization of domestic liquidity by the BSL through the sale of foreign exchange.

9. **The external current account deteriorated in 2005, mainly because of higher import prices, but the resumption of traditional exports (rutile and bauxite) is improving the outlook for 2006 (Table 7)**. This deterioration occurred even though exports grew markedly on the strength of diamond trade, as import growth was even stronger because of higher cost of imported fuels and capital goods associated with refurbishing the mines. A steeper decrease than expected in the volume of petroleum imports could not fully offset the effects of higher prices. In the first half of 2006, exports of rutile and bauxite resumed. Because refurbishing-related imports have tapered off, the current account is expected to have improved. Moreover, because budgetary support from donors was disbursed at the end of the month, gross foreign reserves rose to US$187 million at end-June 2006 (3.6 months of import coverage).

Figure 2. Sierra Leone: Selected Economic Indicators, 2002-06

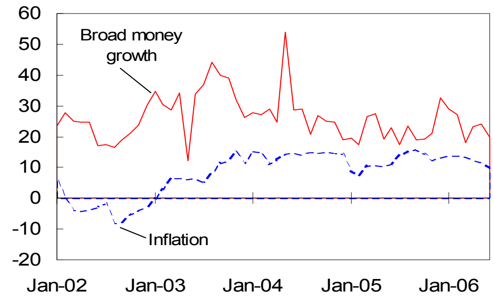
Growth has been robust and broad-based, led by agriculture, mining, and services.

Real GDP growth, 2002-06
(in percent change)



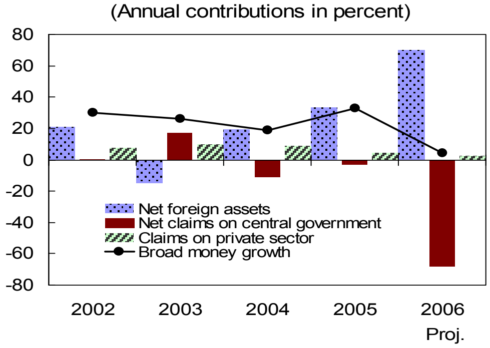
Inflation mirrored movements in broad money.

Inflation and Broad money, 2002 - 06
(in percent change)



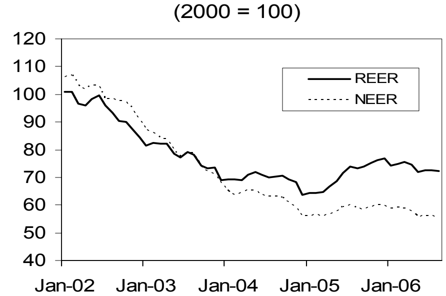
High money growth has been driven by the accumulation of net foreign assets.

Contributions to Broad Money
(Annual contributions in percent)



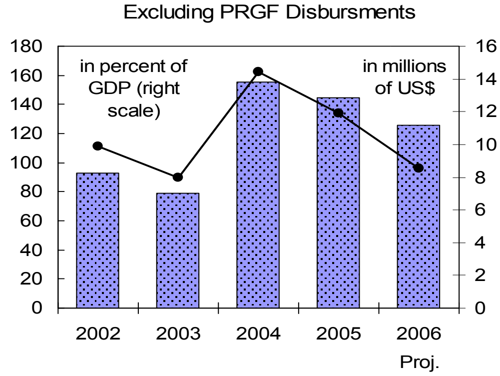
Following a steady depreciation since 2001, the real exchange rate appreciated sharply in 2005.

Nominal and Real Effective Exchange Rates
(2000 = 100)



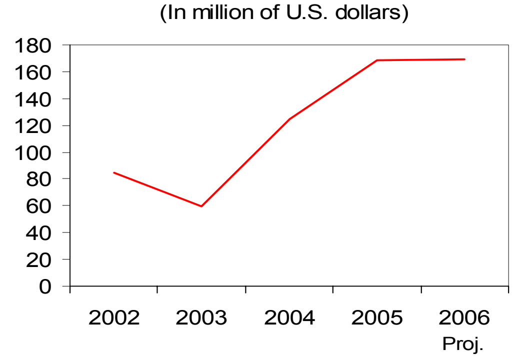
Foreign assistance has remained high...

Official Foreign Assistance: Grants and Loans, Excluding PRGF Disbursments



...which enabled the accumulation of foreign reserves.

Gross Official Foreign Reserves
(In million of U.S. dollars)



Sources: Sierra Leonean authorities; and IMF projections.

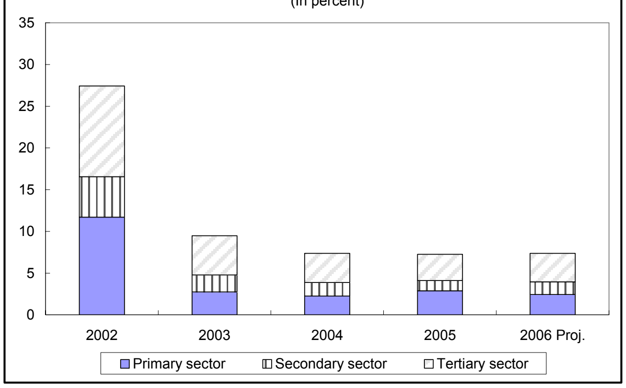
III. Report on the Discussions

10. **The Article IV discussions took place against the backdrop of latent public discontent as peace and stability have not yet translated into better living conditions for the people**. They focused on four challenges: (i) sustaining higher economic growth and reducing poverty; (ii) achieving fiscal and external debt sustainability; (iii) promoting good governance and transparency; and (iv) deepening financial intermediation.

A. Sustaining Higher Economic Growth and Reducing Poverty

11. **Staff and the authorities agreed that a key challenge in the postconflict phase is to sustain higher economic growth to progress toward achieving the MDGs**. The authorities indicated that the vast mineral resources and the potential for the development of agriculture will need to be tapped more efficiently to achieve higher growth (Figure 3). They underscored the importance, in line with the pillars of the Sierra Leone Poverty Reduction Strategy (SL-PRS), of maintaining peace and stability, consolidating macroeconomic stability to foster an enabling environment, and promote private sector activities.

Figure 3. Sierra Leone: Sectoral Contribution to Real GDP Growth, 2002-06
(In percent)



12. **Completion in 2006 of two mining projects (rutile and bauxite) and a pick up in services boost growth prospects**. Agriculture accounts for some 40 percent of GDP (together with forestry and fishery), but other sectors such as mining and services, are increasingly contributing to growth. The recently-completed rehabilitation of the rutile and bauxite mining operations has boosted the overall output from mining. Gold exports are projected to increase significantly in 2006–07, following the acceleration of exploration projects.

13. **The authorities are considering tax incentives to promote agriculture, mining, and services as the main sources of growth over the medium term**. To ensure a steady growth in the agriculture sector, they have entered into joint farming initiatives with emerging market countries[4] aimed at raising productivity and diversifying crop production. In the mining sector, negotiations are well advanced for two companies to commence Kimberlite mining operations by 2008. Iron ore and gold production should benefit from the

[4] China, Egypt, Iran, Malaysia, and Vietnam.

addition of two new mining companies in 2007. The authorities indicated that given the postconflict "stigma" still affecting investors' perception of Sierra Leone, they are considering providing tax incentives to attract foreign direct investments.

14. **While agreeing with the good prospects for the medium term, the staff underscored the need for transparency and a level playing field**. The staff cautioned against the provision of tax incentives and encouraged the adoption of a rules-based and predictable fiscal regime that will apply uniformly to all companies. The authorities agreed to reconsider their position in the context of a private sector development program being implemented with assistance from the U.K. Department of International Development (DfID).

15. **Lack of a reliable supply of power and the poor condition of road networks severely inhibit growth and have to be given high priority**.[5] This view was shared both by the authorities and the stakeholders the staff met in Sierra Leone. The staff indicated that the absence of a business-friendly environment, in particular the high cost of doing business (Figure 4),[6] is also a major impediment, calling for a comprehensive strategy to streamline the regulatory environment and strengthen property rights. The authorities concurred and indicated that the Commonwealth Secretariat for Technical Assistance, the Foreign Investment Advisory Service, and DfID are assisting the government to strengthen the legal framework through revision of the Bankruptcy Act, preparation of a Securities Act, and a new Companies Act.

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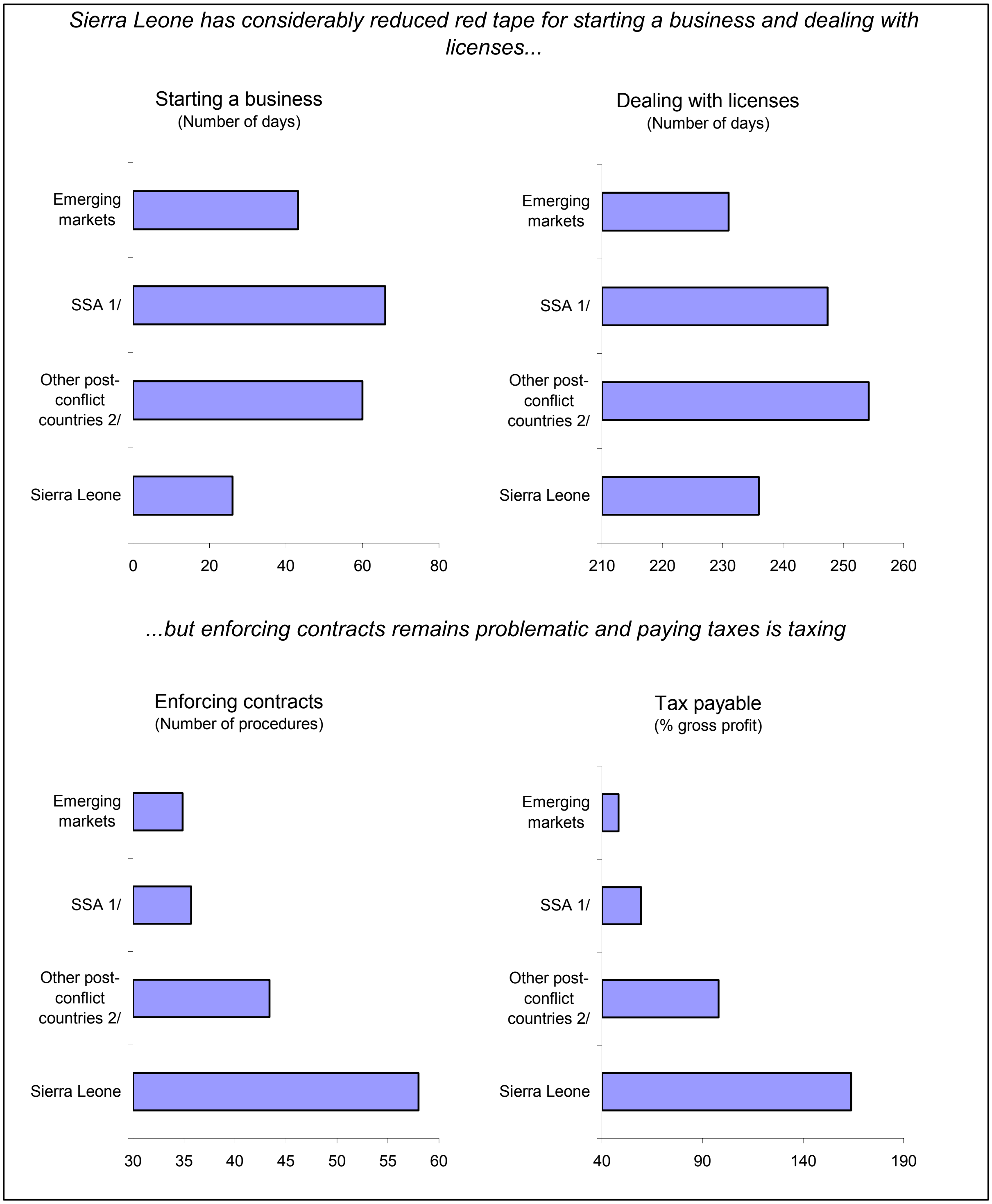
[5] Completion of the Bumbuna hydroelectric power project and several road development projects underway with donor support would help improve the situation.

[6] For the World Bank's 2006 *Doing Business* Report, Sierra Leone ranks 168 out of 175 countries on ease of doing business.

Figure 4. Sierra Leone: Selected Doing Business Indicators, 2006



Source: World Bank's Doing Business 2006 database.

1/ Sub-Saharan Africa, excluding Nigeria and South Africa.
2/ Other postconflict countries include Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo (Democratic Republic of), and Rwanda.

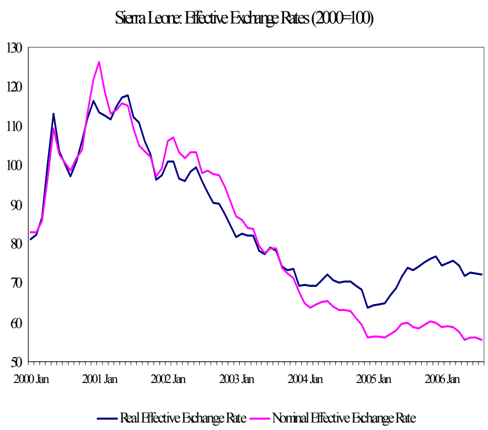
16. **Trade liberalization is proceeding in the context of Economic Community of West African States (ECOWAS)**. Sierra Leone started implementing the ECOWAS Common External Tariff (CET) in 2005, reducing seven duty rates and a maximum rate of 30 percent to only 4 duty rates of 0, 5, 10, and 20 percent. The process is expect to be completed by end-2007 with full alignment of the tariff lines with those prevailing under the CET, resulting in a reduction of the average tariff to 11.5 percent from 17 percent. Based on current information, the exchange system is free of restrictions on the making of payments and transfers for current transactions.

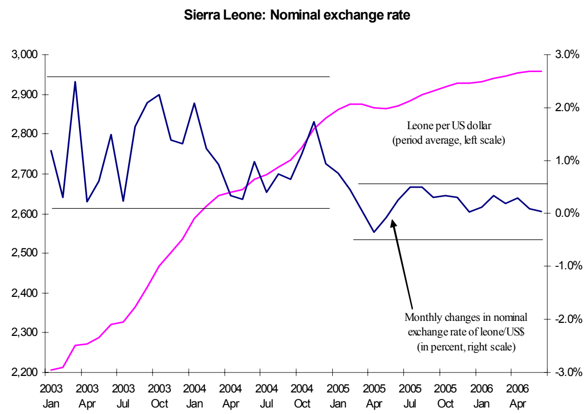
17. **The BSL, *de facto*, maintains a crawling peg exchange rate regime and the real effective exchange rate (REER) appreciated sharply in 2005**. This has partly reversed the competitiveness gains resulting from the cumulative depreciation of 45 percent during 2001–04. The REER has depreciated in recent months and staff calculations indicate that the REER is close to its equilibrium level (Box 2). While these estimates need to be interpreted with caution—not least given major data weaknesses and likely structural breaks in the conflict and post-conflict periods—other indicators also suggest that present exchange rate levels are broadly consistent with the underlying equilibrium; notably, the spread between the official rate and the parallel market rate has narrowed to about 2 percent.[7] The staff underscored, however, the potential negative impact of a renewed appreciation—that could result, for example, from an expansionary fiscal policy—on the development of nonmineral exports. The staff also suggested that a more flexible exchange rate policy would serve Sierra Leone well, especially given its high vulnerability to external shocks. It recommended that interventions by the BSL in the foreign exchange market be limited to the achievement of the program objective for international reserves. The authorities concurred, but also argued that they were already following an exchange rate policy largely along those lines. In particular, they indicated that they had no target exchange rate path and objected to the reclassification of the *de facto* exchange rate regime as a crawling peg (MEFP, ¶ 31). The staff pointed out, however, that the classification, as for other countries, was based principally on the actually observed behavior of the exchange rate, which the authorities acknowledged, had been broadly stable over extended periods.

[7] The spread reflects inflows of foreign exchange into the unofficial market amid high transaction costs in the official market.

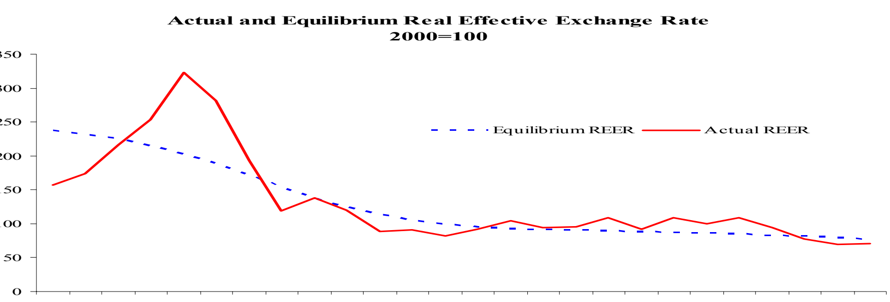
Box 2. Exchange Rate Developments

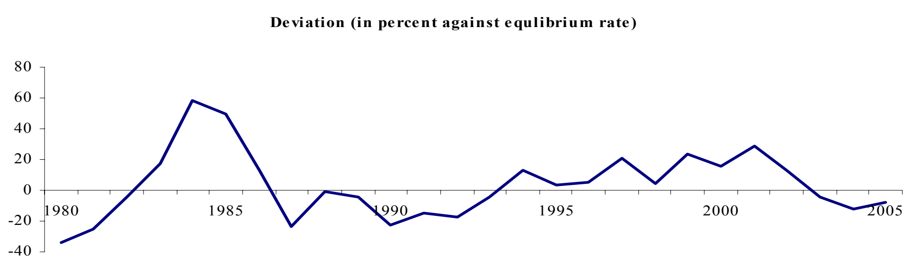
After depreciating steadily during the past few years, the real effective exchange rate (REER) of the leone appreciated by about 21 percent in 2005. With inflation declining and the nominal effective exchange rate fairly stable, the REER depreciated for most of 2006. The appreciation in 2005 resulted from the stability of the nominal exchange rate in the context of high inflation. Weekly interventions by the BSL in the foreign exchange auctions as the sole seller limited the depreciation of the leone vis-à-vis the US dollar to less than 1 percent.





The staff's preliminary estimates of the long-rum equilibrium REER are based on a model with fairly standard fundamental variables (including the terms of trade, government deficit, trade openness, technological progress, and foreign transfers). Results suggest that the REER was significantly overvalued in the mid-1980s. However, during 2001-04, the depreciation of the actual REER has outpaced the trend of the long-run equilibrium rate. With the appreciation in 2005, the actual REER has been converging to the equilibrium level. These results should be interpreted with caution, in particular in view of data limitations and likely structural breaks in the conflict and post-conflict periods.





B. Achieving Fiscal and External Debt Sustainability

18. **With domestic debt low and external debt relief imminent, preserving fiscal sustainability depends on better mobilization of domestic revenues**. The more so, since the country is facing sizeable financing needs resulting from the requirements for increasing poverty-reducing spending and improving infrastructure to support higher economic growth. At the same time, the authorities recognized that the challenges are formidable as the NRA is still at an early stage of development. Also, income tax compliance remains low, without collection enforcement or effective audit capacity.

19. **The staff stressed the need to strengthen the NRA, in order to enhance domestic revenue mobilization over the medium term**. The authorities had taken a number of measures, including: (i) the transfer of the administration of tax and duty waivers to the NRA; (ii) additional staff and collaboration with police and navy to step up the fight against smuggling; and (iii) the creation of a Large Taxpayer Unit. The Fund has assisted the NRA with development of a reform and modernization strategy covering the next four years.

20. **The authorities are implementing reforms to broaden the tax base and eliminate discretionary tax exemptions**. In addition to the efforts to ensure that tax and duty waivers are limited to statutory entitlements, steps are being taken to revise bilateral agreements with private sector entities with a view to maximizing government revenue and leveling the playing field for all investors. Preparations have progressed for the adoption of a Value Added Tax (to be introduced as a Goods and Services Tax—GST) in 2008. The integration of the Gold and Diamond Evaluation Office into NRA's Income Tax Department has facilitated the collection of the withholding tax for diamond exporters and improved compliance. The government has committed to join the Extractive Industries Transparency Initiative (EITI), which would enhance transparency in resource revenue management and maximize revenue collected from the mining sector.

21. **The staff took the view that reining in the wage bill and improving control of wage expenditures needed to be addressed with urgency**. The civil service wage bill remained high—above the ECOWAS average (Figure 5) and absorbing some 55 percent of domestic revenues in 2005—and overruns in the wage bill have been a recurring problem.[8] The staff, therefore, encouraged the authorities to develop and start implementing a credible plan to effectively manage the civil service in key ministries, such as defense, education, and police. The authorities indicated that some progress had already been made, with nominal wage expenditures in 2006 expected to exceed the budgeted amount by only a small margin. Nevertheless, they stressed that managing the wage bill in the aftermath of a conflict is a daunting task, as they feel compelled to reinstate displaced civil servants as they return. The

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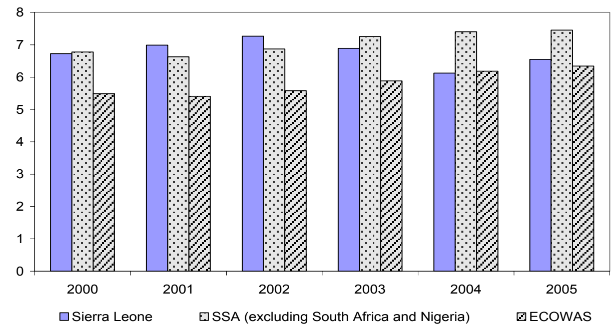
[8] Sierra Leone—Ex Post Assessment of Longer-Term Program Engagement (May 2005), Section II. B.

staff indicated that the updating and auditing of the civil service database that had been completed in October 2006 and the adoption of guidelines for salary adjustments should help the government exercise more control over the wage bill. A key component of the public service reform agenda is the creation of the Senior Executive Service (SES) to generate a competent leadership for the ministries, departments, and agencies (MDAs). There was broad agreement that the reforms should enable better control over the wage bill.

Figure 5. Sierra Leone: Comparative Government Wages and Salaries, 2000-05
(In percent of GDP)



Source: IMF African Department's WETA database.

22. **Assuming debt relief under the enhanced HIPC Initiative and MDRI, external public debt would remain sustainable over the medium term, provided that macroeconomic policies remain adequate and the authorities implement a prudent external financing strategy**. After the receipt of final debt relief under the enhanced HIPC Initiative and the MDRI, the NPV of external debt-to-GDP and debt-to-export ratios would decline to 10 percent and 47 percent, respectively by end-2007, well below the enhanced HIPC and the policy-dependent debt-burden thresholds of the Debt Sustainability Framework (DSF).[9] While this creates room for some build up of debt, the staff stressed the need for prudent borrowing policy and the strengthening of debt management capacity to avoid another build up of unsustainable debt. The authorities renewed their commitment to seek grants and highly concessional loans from development partners (MEFP, ¶ 32).

C. Promoting Good Governance and Transparency

23. **The authorities recognized the need to make progress in improving governance and are taking actions**. Sierra Leone has made some progress in improving the quality of governance since the end of the war in January 2002. However, perception remains that governance is weak and corruption wide-spread,[10] and there was broad agreement that this hindered economic development and poverty reduction. The mission welcomed, therefore,

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[9] See Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Completion Point Document and Multilateral Debt Relief Initiative, page 75.

[10] Transparency International, which ranks Sierra Leone on place 126 out of 158 countries surveyed in 2005, and data from Governance Matters show a worsening in the occurrence of corruption from 2002 to 2004.

the commitment made by the authorities in the IGAP to implement ten critical governance and accountability reforms through July 2007.

24. **The Anti-Corruption Commission (ACC) needs to be strengthened**. The authorities and donors recognized that the effectiveness of the ACC could be greatly enhanced if it were responsible for deciding on prosecutions.[11] Conflict of roles between the ACC and the Attorney General's Department could only be resolved by amending the Constitution. To this end, the government has established a Law Reform Task Force to review and amend the Anti-Corruption Act of 2000.

25. **Public financial management is being strengthened**. Progress in public financial management has been significant with a number of measures implemented in the context of the PRGF arrangement. These include in particular the new Government Budgeting and Accountability law, which restores parliamentary control over public finances and reinstates the oversight roles of the Auditor General and the Public Accounts Committee. Key sector ministries and agencies are now required to produce three-year strategic budget plans with monitorable indicators. The government has also introduced a new Integrated Financial Management Information System (IFMIS) to facilitate expenditure control and accounting. The IFMIS is to be installed in key MDAs by end-April 2007. It is planned to extend IFMIS to the rest of the government, including local councils at a later stage. The installation of this new system should contribute significantly to strengthening expenditure control.

D. Deepening Financial Intermediation

26. **Financial sector development with a view to promoting saving, investment, and growth is a priority for the authorities**. The recent Financial Sector Assessment Program (FSAP) mission concluded that the financial system is currently unable to support private sector-led growth. The authorities are committed to strengthening the financial sector and will adopt by end-September 2007 a comprehensive strategy to that effect, drawing on the recommendations of the FSAP.

27. **Steps are being taken to address vulnerabilities in the financial sector (MEFP, ¶ 25)**. In September 2006, the BSL finalized an assessment of bank capitalization and credit quality for all commercial banks. On the basis of this assessment, the government, in collaboration with the BSL, will address undercapitalization and credit quality issues in commercial banks. The minimum paid-up capital requirement for licensed financial institutions has been raised with effect in December 2006. In addition, efforts will be made to increase financial intermediation by promoting confidence in the banking system and

[11] Cases are referred to the Attorney General—also Minister of Justice—who then decides on the course of action.

developing an efficient payments and settlement system. Rural financial intermediation is being encouraged. The BSL, in partnership with the private sector, will establish in 2007 the administrative and regulatory structures necessary for the start of the stock market trading. The FSAP mission found that the basic framework of Sierra Leone's anti-money laundering (AML) regime is broadly in line with international standards, but remains ineffective. Sierra Leone has ratified the United Nations International Convention for the Suppression of the Financing of Terrorism. The authorities indicated that they would implement in 2007 the AML Act, enacted in July 2005 (MEFP, ¶ 36) and have sought technical assistance to create a Financial Intelligence Unit (FIU) to bolster their AML/CFT efforts.

IV. Program Issues

28. In the attached Letter of Intent (Appendix I) the authorities (i) review the progress made to date in implementing the 2006 economic program; (ii) describe their policy stance for the rest of 2006 and the program for 2007; and (iii) request completion of the first review under the PRGF arrangement.

29. **All quantitative performance criteria through end-June 2006 were met, but the structural performance criterion and benchmark were missed, as were two of three quantitative indicative targets** (Appendix I, Attachment I, Tables 1 and 2). The missed structural performance criterion and benchmark pertain to the updating and auditing of the civil service database and the completion of a review of existing tax exemptions and adoption of a plan for their reduction. The quantitative performance indicators relate to the ceiling on the government wage bill and to the floor for poverty-related spending. As indicated in the LOI, the authorities have completed the audit of the civil service database and are devising an action plan to address the weaknesses identified. Also, following completion of the review of the tax exemptions, the Minister of Finance adopted in September 2006 a plan to reduce their number and the authorities indicated that the structural performance criterion for end-September 2006 has been observed. They stressed that the delays in implementing the structural measures reflected capacity constraints and problems with processes rather than a lack of commitment.

30. **The thrust of the program for the rest of 2006 remains adequate and the program targets are achievable**. The measures contemplated for the rest of the year, as described in the MEFP (¶ 19, 20, and 22) are adequate to achieve of the program targets. The staff, therefore, concluded that the quantitative performance criteria set for end-December 2006 should be maintained. Full financing of the program is predicated on the timely delivery of external budgetary support.

31. **The mission discussed with the authorities a medium-term macroeconomic framework, taking into account debt relief under the enhanced HIPC Initiative and MDRI**. The medium-term economic outlook is for real growth to stabilize at 6½ percent per

year during 2007–09 driven mainly by agriculture and mining (Table 8). Although government revenue is projected to improve by about 2 percentage points of GDP over the next three years as a result of measures to strengthen tax administration (¶ 19-20), expenditure growth is expected to lead to an increase in the fiscal deficit excluding grants. With donor inflows picking up modestly as a result of debt relief initiatives, domestic financing of the deficit will remain in check which should help keep average annual inflation to single digits (between 7-9 percent). Exports are projected to remain high in the near medium term led by positive developments in the mining sector, contributing to a narrowing of the current account deficit (excluding official transfers). After enhanced HIPC Initiative and MDRI debt relief, the external debt situation is expected to improve significantly starting in 2007. Domestic saving is projected to rise significantly in 2007 as the private sector takes a wait-and-see attitude ahead of the elections, with saving rates projected to revert to more normal pre-war levels thereafter. Risks to this outlook include lower or delayed external assistance which could lead to higher domestic financing of the budget, thereby fueling inflation, and lower growth in mining production despite the recent investments in the sector, as well as a large fiscal expansion during the election period.

32. **The macroeconomic framework underpinning the program for 2007 projects real GDP growth of 6.5 percent, while average inflation is anticipated to fall to single digits supported by slower money growth**. Growth prospects are benefiting from an expected positive fiscal impulse from debt relief. The primary fiscal deficit, at 2.7 percent of GDP, is projected to widen to accommodate higher poverty-reducing spending related to debt relief under the enhanced HIPC Initiative and MDRI. The overall deficit (excluding grants) is expected to deteriorate on account of lower projected external budgetary support.[12] However, owing to a significant improvement in private savings, the external current account deficit (including official transfers) will remain almost unchanged at around 5 percent of GDP, compared with 2006.

33. **Fiscal policy will aim at strengthening domestic revenue mobilization while redirecting resources from current toward capital expenditures**. Steps will be taken to protect poverty-related spending consistent with the framework developed with the World Bank. Capital expenditures will increase from 5 percent of GDP in 2006 to 8.6 percent in 2007, in line with the authorities' decision to give priority to infrastructure projects.

34. **Monetary policy during 2007 will seek to achieve the program's inflation objective and allow a modest increase in credit to the private sector**. The monetary policy framework will continue to rely on reserve money as the primary intermediate policy

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[12] Assuming MDRI relief from IDA and AfDF in 2007 as a stock of debt relief, the overall fiscal balance (including grants) is projected to leap from a deficit of 0.3 percent of GDP in 2006 to a surplus of 23.3 percent of GDP.

target. The provision of additional government securities to the BSL (¶ 38) would enhance its management of reserve money, thus strengthening its ability to contain inflationary pressures. The BSL intends to sterilize projected inflows from debt relief and donor disbursements (MEFP, ¶ 30). It will continue its intervention as a seller in weekly foreign exchange auctions for the purpose of meeting the gross reserve target of the program, expected to reach US$182.5 million by end-2007 (3.4 months of import coverage).

35. **The external position is expected to stabilize in 2007, and the program is financed fully**. The stabilization of the external current account deficit is predicated on strong rutile and bauxite exports that would be offset by an expected increase in imports for a further expansion of reconstruction-related demands for mineral developments. The main sources of financing include official grants, concessional loans, and the completion point HIPC assistance, together with the MDRI relief. The MDRI debt service savings in 2007 are projected at 1.4 percent of GDP, of which the IMF will contribute about three-fourths. The authorities will request debt relief from Paris Club creditors pertaining to the HIPC completion point once the first review is completed and the HIPC completion point is reached. Relations with other bilateral creditors remain unchanged.

Sierra Leone: MDRI Debt Service Savings, 2007-11

	2007	2008	2009	2010	2011
			(in millions of US dollars)		
Total	22.6	29.7	33.2	41.3	40.1
of which IMF	16.9	24.6	28.1	36.0	34.4
of which IDA	3.9	3.2	3.2	3.4	3.5
of which AfDF	1.8	1.9	1.9	1.9	2.2
			(in percent of GDP)		
Total savings	1.4	1.7	1.8	2.0	1.8

Source: IMF staff projections

36. **A financing assurance review was conducted as arrears to private creditors are outstanding**. The authorities are continuing their efforts to engage external commercial creditors and have made goodwill payments to some of them to avoid litigation. No new litigations from commercial creditors have been initiated since the last review. The staff considers that the current status of Sierra Leone's relations with its external creditors provides sufficient financing assurances for the Fund-supported program.

37. **The structural reform program for 2007 addresses key challenges, especially those relating to anti-corruption, public financial management, and transparency**. The IGAP provides a good basis for an integrated approach to take the agenda on governance forward with more effectiveness. The installation of IFMIS in key MDAs by end-March 2007 and subsequently in other government areas, including the local councils (¶ 25) will be critical for improving expenditure control.

38. **Structural reforms in the financial sector will be guided by the FSAP recommendations**. In 2007, priority will be given to a strategy to adequately capitalize the BSL and strengthen its ability to conduct monetary policy. The Ministry of Finance and the BSL have finalized a memorandum of understanding that will address the shortage of Treasury bills in the portfolio of the BSL (MEFP, ¶ 22) providing additional monetary

instruments to mop up excess liquidity. In addition, the government will convert Le 50 billion from the outstanding non-interest bearing government notes[13] into marketable securities, in order to meet the minimum paid-up capital of the BSL (MEFP, ¶ 30).

39. **A safeguards assessment of the Bank of Sierra Leone was completed in June 2006**. It made recommendations to address new and continuing vulnerabilities in the financial reporting, internal audit, and controls areas. In particular, staff recommended that formal procedures be initiated to restore compliance with the BSL Act by providing the central bank with government securities to replenish the prescribed minimum paid-up capital by end-December 2006. The MOU between the Ministry of Finance and the BSL addresses this issue (¶38). Another priority identified by the safeguards assessment was the automation of financial processes in the Banking Department of the BSL, including a book-entry system for Treasury (bearer) bonds. The BSL has indicated that this work is well underway with technical assistance provided by the multi-donor FIRST Initiative.[14]

40. **The risks to the program appear reasonably balanced**. The major risk in an election year would stem from difficulty in enforcing fiscal discipline. However, the President and Vice President (the ruling party's candidate for the 2007 presidential election) have both expressed support for the program and stated that execution of the 2007 budget would not be affected by the elections. Unpredictability in donors' disbursement, which constituted a risk to past programs, is lessened with the creation of a Multi-Donor Budget Support (MDBS) Progress Assessment Framework (PAF) under which the government and key donors[15] providing direct budget support have agreed to harmonize program conditionality, monitoring, and evaluation systems, consistent with the PRSP framework.

41. **Performance under the program will be monitored based on quantitative performance criteria and indicative indicators, as well as structural performance criteria and benchmarks described in Tables 3 and 4 of Appendix I, Attachment I**. The third disbursement is conditional on the completion of the second review and the observance of the quantitative performance criteria for end-December 2006 and the fourth disbursement

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[13] The BSL's capital includes Le 530 billion in government notes—which are noninterest bearing and nontradeable—issued to the BSL in compensation for past loans made to the government.

[14] The Financial Sector Reform and Strengthening (FIRST) Initiative is a significant US$65 million multi-donor program, supporting capacity building and policy development projects in the financial sector.

[15] The AfDB, DfID, the European Commission, and the World Bank.

is conditional on the completion of the third review and the observance of the quantitative and structural performance criteria for end-June 2007.[16]

V. Statistical Issues

42. **While Sierra Leone's statistical data are adequate for program monitoring and surveillance, major weaknesses remain**. Sierra Leone participates in the General Data Dissemination System (GDDS), but much remains to be done to meet best practice GDDS recommendations in all areas. Shortcomings, for the most part, are a reflection of inadequate resources for, and unreliable funding of, SSL. These adversely affect, for example, the analysis of real sector developments (national accounts statistics).[17] Therefore, SSL needs support from all MDAs for the compilation of economic data.

VI. Staff Appraisal

43. **Sierra Leone's progress in consolidating peace and stability has provided a strong impetus for economic activity**. Continued stability throughout the country, even after the UN peacekeeping force withdrew, has reinforced public perception that peace has returned. As a result, economic growth rates are among the highest in the region. Nevertheless, the postconflict challenges are daunting and need to be addressed with urgency if Sierra Leone is to make strides toward achieving the MDGs and prevent a relapse into violence. The recent selection of Sierra Leone by the UN Peacebuilding Commission is welcome and could help further consolidate peace.

44. **The continued support of development partners has been instrumental in maintaining macroeconomic stability, but the need for Sierra Leone to achieve fiscal sustainability and avoid accumulating excessive debt cannot be overemphasized**. The resource requirements to increase poverty-related spending and progress toward achievement of the MDGs are sizeable and donors' continued financial assistance of at least past magnitude will be warranted for the foreseeable future. With a relatively low domestic revenue-to-GDP ratio, the pillar for fiscal sustainability is enhanced mobilization of domestic revenue, supplemented by a rationalization of public expenditure to create the needed fiscal space for poverty reduction. Actions taken to strengthen the NRA have yielded some positive results; the government needs to move expeditiously to finalize and submit to parliament the required legislation for a comprehensive modernization plan for the NRA. The government

[16] The structural performance criterion for end-June 2007 pertains to adoption by the government, and presentation to parliament, of a three-year modernization plan for the NRA, including a separation of HQ and operations functions.

[17] The latest STA technical assistance report states that the revised national accounts estimates do not satisfy the *1993 SNA* guidelines and cannot do so without considerable improvement in source data.

also needs to adopt more ambitious revenue targets for the medium term so as to bring Sierra Leone's domestic revenue-to-GDP ratio within the average for its peers.

45. **The wage bill needs to be brought under control to avoid the recurrent overruns**. In this context, the authorities need to accelerate the reform of the civil service and seek donor funding for the initial phase of the Senior Executive Service, which should be part of this reform. Competitive merit-based recruitment and selection criteria and ensuring transparency in the promotion system could help attract donor support.

46. **The authorities have launched a number of initiatives to enhance transparency and accountability in the management of public resources**. In particular, the agreement with donors in the context of the IGAP is welcome as it is comprehensive and addresses critical areas of governance, transparency and accountability. Also, the authorities' commitment to ensure full implementation of the EITI is noteworthy; they should now actively seek technical assistance to accomplish this. Full implementation of the initiative could maximize fiscal revenue from the mining sector. Sustained progress in implementing the IGAP would certainly enhance the predictability of budget support.

47. **Still, public perception is that corruption is high and the ACC is ineffective**. Conflicts between the role of the ACC and that of the Attorney General need to be resolved in a timely manner, and the appointment of the Law Reform Task Force to review the Anti-Corruption Act of 2000 is therefore encouraging. Amendments of the act should ensure that cases of corruption are duly prosecuted.

48. **Reforms of the financial sector could foster domestic savings and spur investment and growth**. The findings of the FSAP indicate a financial system that is underdeveloped and cannot adequately support private sector activities. The authorities have recognized this as an urgent issue and endorsed the recommendations of the FSAP. They now need to set the timetable for adopting a comprehensive strategy to that effect.

49. **A more flexible exchange rate policy would facilitate economic adjustments to frequent shocks**. While available indicators indicate no major misalignment at this point, future exchange market interventions by the central bank should be limited only to achieving the foreign exchange reserve target and smoothing excessive short-term volatility.

50. **The SSL should capitalize on the recent attention accorded to statistical issues to improve the timeliness and quality of economic and financial data**. Adequate resources will need to be provided to the SSL so that it can improve the quality of statistical data in general and the national accounts and price data in particular. Improving the quality of both external and domestic debt data to ensure close monitoring of public debt accumulation in the post-MDRI will also be essential.

51. **The authorities have regained momentum in the implementation of the measures envisaged under the program and staff recommends completion of the first review**

under the PRGF arrangement. The missed performance criterion on the updating and auditing of the civil service database originally programmed for end-June 2006 has been implemented as a prior action. In addition, the structural performance criterion for end-September 2006 has been met. On this basis, the staff supports the authorities' request for a waiver of the nonobservance of the end-June 2006 structural performance criterion.

52. Staff recommends that the next Article IV consultation with Sierra Leone be held in accordance with the decision on consultation cycles approved on July 15, 2002.

Table 1. Sierra Leone: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006		2007		2008
	Act.	Act.	Prog.	Proj.	Prog.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
Income and expenditure							
Real GDP	7.4	7.3	7.4	7.4	6.5	6.5	6.5
GDP deflator	16.0	12.9	14.1	15.7	10.0	10.5	7.4
Nominal GDP 1/	24.6	21.1	22.5	24.2	17.1	17.7	14.4
Consumer prices (end of period)	14.4	13.1	10.1	10.1	8.5	8.5	7.5
Consumer prices (annual average)	14.2	12.1	12.4	12.2	9.3	9.3	8.0
Money and credit							
Broad money	18.9	32.8	6.4	3.9	17.1	17.1	16.4
Velocity (level)	5.1	4.7	5.3	5.6	5.3	5.6	5.5
Domestic credit 2/	-1.1	1.0	5.1	-55.8	5.7	17.5	15.0
Government 2/	-6.5	-2.2	0.9	-71.5	0.6	20.7	9.3
Private sector 2/	45.2	17.8	24.1	11.2	24.6	14.7	22.6
Reserve money	12.6	24.3	1.3	0.5	14.2	15.6	15.2
Interest rate 3/	28.0	16.9	...	...	...	...	...
External sector							
Exports (U.S. dollars)	17.3	11.1	32.7	28.7	15.3	20.7	12.1
Imports (U.S. dollars) 4/	-11.8	32.0	19.4	7.7	10.0	13.8	7.2
Terms of trade (- deterioration)	-4.6	-2.3	-4.6	-9.4	-1.8	-3.2	1.6
Real effective exchange rate (- depreciation; eop)	-8.0	20.9	…	...	…	…	…
	(In percent of GDP)						
Gross domestic saving	-1.7	-0.6	-1.4	1.8	-0.1	5.4	3.7
Government	-1.2	-1.6	-0.2	0.1	0.3	0.9	0.6
Private	-0.5	1.0	-1.2	1.7	-0.4	4.5	3.0
Gross domestic investment	10.7	17.4	15.0	15.1	14.9	18.1	15.1
Government	4.6	5.8	5.1	5.0	6.1	8.6	9.6
Private	6.1	11.5	9.9	10.1	8.8	9.4	5.5
Current account balance, including official transfers	-4.9	-7.7	-6.9	-5.4	-6.4	-5.1	-4.8
Current account balance, excluding official transfers	-11.5	-14.6	-12.3	-10.3	-11.5	-10.1	-9.3
Overall balance of payments	1.4	-0.2	-2.8	9.0	-1.0	-1.9	-1.2
Government domestic revenue	12.3	11.9	12.4	12.5	12.8	13.2	13.4
Total expenditure and net lending	24.8	24.6	21.7	21.4	22.6	25.3	27.3
Of which : current expenditure	20.1	18.7	16.6	16.4	16.5	15.4	16.0
Overall fiscal balance							
(commitment basis, excluding grants and MDRI)	-12.4	-12.8	-9.3	-9.0	-9.8	-12.2	-13.9
(commitment basis, including grants and MDRI) 5/	-3.5	-2.7	-0.5	11.4	-2.7	23.3	-4.4
Domestic primary fiscal balance 6/	-2.8	-3.1	-1.8	-1.5	-1.9	-2.7	-3.5
Domestic financing	-0.1	1.2	0.3	-11.7	0.1	0.9	0.1
Financing gap	0	0	0	0	0	0	0
	(In percent of exports of goods and nonfactor services)						
Debt service due (incl. to IMF) after debt relief 7/	10.5	10.6	8.2	8.4	3.4	0.8	1.1
Debt service due (incl. to IMF) before debt relief	39.4	30.1	18.6	73.1	17.8	125.2	12.5
Net present value of debt-to-exports ratio 8/	413.6	364.3	110.2	35.9	107.0	37.6	40.8
	(In millions of U.S. dollars, unless otherwise indicated)						
Memorandum items:							
External current account balance, excluding official transfers	-123.6	-177.3	-164.7	-151.6	-174.2	-162.6	-162.2
Gross international reserves	124.9	168.3	168.2	169.0	188.2	182.5	208.5
(in months of imports) 9/	3.1	3.8	3.1	3.4	3.1	3.4	3.5
GDP	1,073.0	1,214.8	1,342.1	1,473.0	1,512.2	1,614.6	1,740.5
GDP (billions of leones)	2,898.6	3,510.2	4294.8	4,361.2	5,029.9	5,132.2	5,872.8

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

1/ Minor differences compared to the briefing paper relate to an update of CPI data.
2/ The numbers for 2006 reflect the impact of MDRI.
3/ Treasury bill rate (end of period).
4/ Includes imports purchased with bilateral aid and imports of embassies and the UN.
5/ For 2006, assumes MDRI relief from IMF and for 2007, assumes MDRI relief from IDA and AfDF (both as a stock of debt relief).
6/ Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure and DDR program.
7/ As percent of exports of goods and services; after Naples (2001) and Cologne flow reschedulings (2002-04), and delivery of full HIPC Initiative MDRI assistance.
8/ Net present value (NPV) of debt under the LIC DSF. Program numbers in 2006 and 2007 do not include the effect of MDRI.
9/ In months of imports of goods and services of subsequent year.

Table 2. Sierra Leone: Central Government Financial Operations, 2004–09
(In billions of leones, unless otherwise indicated)

	2004	2005		2006	2007	2008	2009
	Act.	Prog.1 /	Act.		Proj.		
Total revenue and grants	616.3	727.5	767.9	1,432.7	2,498.4	1,344.0	1,468.0
Domestic revenue	357.0	428.3	416.0	544.0	674.9	785.9	960.6
Income Tax Department	97.7	122.0	114.4	152.6	198.1	224.2	286.0
Customs and Excise Department	221.6	243.0	236.0	306.8	364.5	417.7	500.0
Mines Department	7.7	13.0	10.2	17.8	30.0	38.0	47.6
Other departments	13.1	25.2	31.4	33.2	45.0	56.7	67.9
Road user charges	16.9	25.1	23.9	33.7	37.3	49.3	59.0
Grants	259.4	299.2	351.9	888.6	1,823.5	558.1	507.4
Program	206.2	240.5	250.6	239.2	244.8	323.6	332.2
Of which: HIPC Initiative 2/	93.7	61.3	60.8	48.9	47.2	123.0	124.0
Projects	53.2	58.7	101.3	138.2	254.5	234.5	175.2
MDRI assistance from IMF, IDA, and AfDB 3/	...	...	...	511.2	1,324.2	...	...
Total expenditure and net lending	717.6	772.8	863.8	934.4	1,300.4	1,601.7	1,473.7
Current expenditure	583.5	642.8	656.3	715.5	790.8	938.1	1,043.3
Wages and salaries	177.2	225.9	229.4	268.0	304.6	353.7	388.4
Current noninterest, nonwage expenditure	247.3	252.2	265.7	300.9	357.8	432.6	502.0
Goods and services	191.7	189.7	202.5	196.9	225.2	288.5	333.1
Transfers to local councils	...	13.7	15.5	34.3	47.1	56.5	66.1
Grants to educational institutions	21.2	21.0	20.5	27.8	31.6	36.3	41.4
Transfers to Road Fund	16.9	25.1	23.9	33.7	37.3	49.3	59.0
Elections	6.6	0	0.7	8.0	15.1	0.4	0.4
Interest payments	159.0	164.6	161.1	146.5	128.5	151.9	152.9
Domestic	103.7	98.2	94.7	83.0	84.3	82.2	80.8
Foreign	55.3	66.5	66.5	63.6	44.2	69.6	72.1
Capital expenditure and net lending	134.0	130.1	207.6	218.9	442.5	563.3	312.5
Capital expenditure	134.5	130.1	204.0	218.9	442.5	563.3	312.5
Foreign	108.4	104.0	176.4	178.4	360.6	457.4	178.6
Loans	64.3	45.3	75.1	40.2	106.1	223.0	3.4
Grants	44.1	58.7	101.3	138.2	254.5	234.5	175.2
Domestic	26.1	26.1	27.6	40.4	81.9	105.9	133.9
Net lending	-0.5	0	3.6	0	0	0	0
Contingency spending related to MDRI	...	...	...	...	67.1	100.2	118.0
Overall balance (commitment basis)							
Excluding grants	-360.6	-344.5	-447.8	-390.4	-625.5	-815.7	-513.2
Including grants	-101.2	-45.3	-96.0	498.3	1,198.0	-257.6	-5.7
Total financing	101.2	45.3	96.0	-498.3	-1,198.0	257.6	5.7
Foreign	110.8	32.6	62.4	-0.7	-1,265.5	166.3	-82.8
Borrowing	151.0	75.3	105.1	40.2	106.1	223.0	3.4
Project	64.3	45.3	75.1	40.2	106.1	223.0	3.4
Program	86.7	30.0	30.0	0	0	0	0
Amortization 2/	-126.6	-138.2	-138.2	-129.1	-1,436.6	-183.0	-193.1
Change in foreign arrears	-25.1	0	0	0	0	0	0
Debt relief obtained 2/	111.5	95.5	95.4	88.2	65.0	126.3	106.9
Domestic	-2.1	25.6	42.7	-511.2	44.6	5.5	-17.3
Bank financing	-51.6	12.3	-16.4	-517.8	42.6	23.1	6.9
Of which: MDRI-related deposits	0	0	0	0	50.1	83.1	99.9
Nonbank financing	49.5	13.3	59.1	6.6	2.0	-17.6	-24.2
Privatization receipts	0.1	0	0	12.9	25.0	88.0	108.0
Change in arrears	-7.4	-4.8	-6.0	-1.7	-2.1	-2.1	-2.1
Unaccounted (– = overfinancing of the budget)	-0.1	-8.0	-3.2	2.4	0	0	0
Financing gap	0	0	0	0	0	0	0
Nominal GDP	2,894.3	3,518.2	3,504.9	4,361.2	5,132.2	5,872.8	6,662.7
Total HIPC Initiative interim assistance (percent of GDP)	3.2	1.7	1.7	1.1	0.9	2.1	1.9
Total poverty expenditures (percent of GDP)	4.7	4.0	4.4	4.5	5.0	5.0	4.7
(in billions of leones)	134.7	139.8	154.6	196.1	258.9	295.7	314.4
	(In percent of GDP, unless otherwise indicated)						
Domestic revenue	12.3	12.2	11.9	12.5	13.2	13.4	14.4
Total expenditure and net lending	24.8	22.0	24.6	21.4	25.3	27.3	22.1
Of which: current expenditure	20.1	18.3	18.7	16.4	15.4	16.0	15.7
capital expenditure	4.6	3.7	5.9	5.0	8.6	9.6	4.7
Overall fiscal balance (commitment basis)							
Including grants 3/	-3.5	-1.3	-2.7	11.4	23.3	-4.4	-0.1
Excluding grants	-12.4	-9.8	-12.8	-9.0	-12.2	-13.9	-7.7
Domestic primary balance 4/	-2.8	-2.2	-3.1	-1.5	-2.7	-3.5	-2.7
(in billions of leones)	-84.1	-75.9	-110.3	-65.4	-136.5	-206.4	-181.7
Domestic financing	-0.1	0.7	1.2	-11.7	0.9	0.1	-0.3
Domestic debt stock	32.6	27.5	28.1	10.9	10.1	8.9	7.6
Total wages and salaries	6.1	6.4	6.5	6.1	5.9	6.0	5.8
Total wages and salaries (percent of domestic revenue)	49.7	52.7	55.2	49.3	45.1	45.0	40.4

Sources: Sierra Leonean authorities, and IMF staff estimates.

1/ IMF Country Report No. 06/183 (March 10, 2006).
2/ HIPC Initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward.
3/ For 2006, assumes MDRI relief from IMF and for 2007, assumes MDRI relief from IDA and AfDF (both as a stock of debt relief).
4/ Domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the DDR program.

Table 3. Sierra Leone: Central Government Financial Operations, 2005–06
(In billions of leones, unless otherwise indicated)

	2005	2006							
		First half		Q3		Q4		Full year	
	Act.	Prog. 1/	Act.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Total revenue and grants	767.9	474.7	423.0	185.2	185.2	250.8	824.4	910.7	1,432.7
Domestic revenue	416.0	249.0	260.4	131.0	131.0	152.6	152.6	532.6	544.0
Income Tax Department	114.4	70.6	68.7	39.3	39.3	44.6	44.6	154.5	152.6
Customs and Excise Department	236.0	137.1	144.0	74.6	74.6	88.2	88.2	299.9	306.8
Mines Department	10.2	6.2	9.0	4.4	4.4	4.3	4.3	14.9	17.8
Other departments	31.4	18.7	20.0	5.5	5.5	7.7	7.7	31.8	33.2
Road user charges	23.9	16.4	18.7	7.2	7.2	7.8	7.8	31.4	33.7
Grants	351.9	225.7	162.6	54.2	54.2	98.2	671.8	378.1	888.6
Program	250.6	143.1	134.6	25.2	25.2	71.6	79.3	239.9	239.2
Of which: HIPC Initiative 2/	60.8	23.4	21.4	11.2	11.2	16.3	16.3	50.9	48.9
Projects	101.3	82.7	28.0	29.0	29.0	26.6	81.2	138.2	138.2
MDRI assistance from IMF	...	...	...	...	...	...	511.2	...	511.2
Total expenditure and net lending	863.8	428.6	404.9	231.4	234.7	272.8	294.8	932.9	934.4
Current expenditure	656.3	324.5	328.6	192.2	190.4	197.3	196.5	714.0	715.5
Wages and salaries	229.4	129.7	136.8	67.0	66.7	68.3	64.5	265.0	268.0
Current noninterest, nonwage expenditure	265.7	124.2	116.8	84.1	84.1	96.3	100.0	304.7	300.9
Goods and services	202.5	86.0	74.4	59.0	57.3	70.7	65.2	215.7	196.9
Transfers to local councils	15.5	5.1	6.2	8.3	10.2	8.2	18.0	21.6	34.3
Grants to educational institutions	20.5	13.9	14.7	6.9	6.9	6.9	6.2	27.8	27.8
Transfers to Road Fund	23.9	16.4	18.7	7.2	7.2	7.8	7.8	31.4	33.7
Elections	0.7	2.8	2.8	2.6	2.4	2.6	2.8	8.0	8.0
Interest payments	161.1	70.6	75.0	41.1	39.5	32.7	32.0	144.3	146.5
Domestic	94.7	37.6	44.9	18.1	18.1	20.0	20.0	75.6	83.0
Foreign	66.5	33.0	30.1	23.0	21.5	12.7	12.0	68.7	63.6
Capital expenditure and net lending	207.6	104.2	76.3	39.2	44.3	75.5	98.3	218.9	218.9
Capital expenditure	204.0	104.2	76.3	39.2	44.3	75.5	98.3	218.9	218.9
Foreign	176.4	82.7	56.6	29.0	34.1	66.7	87.7	178.4	178.4
Loans	75.1	0	28.7	0	5.1	40.2	6.4	40.2	40.2
Grants	101.3	82.7	28.0	29.0	29.0	26.6	81.2	138.2	138.2
Domestic	27.6	21.5	19.6	10.1	10.1	8.8	10.7	40.4	40.4
Net lending	3.6	0	0	0	0	0	0	0	0
Overall balance									
Excluding grants	-447.8	-179.7	-144.5	-100.4	-103.7	-120.2	-142.2	-400.3	-390.4
Including grants	-96.0	46.0	18.1	-46.2	-49.5	-22.1	529.6	-22.2	498.3
Total financing	96.0	-46.0	-18.1	46.2	49.5	22.1	-529.6	22.2	-498.3
Foreign	62.4	-19.5	14.5	-3.6	0.4	18.8	-15.5	-4.4	-0.7
Borrowing	105.1	0	28.7	0	5.1	40.2	6.4	40.2	40.2
Project	75.1	0	28.7	0	5.1	40.2	6.4	40.2	40.2
Program	30.0	0	0	0	0	0	0	0	0
Amortization 2/	-138.2	-69.2	-66	-36.4	-34.3	-30.7	-28.4	-136.4	-129.1
Change in foreign arrears	0.0	0	0	0	0	0	0	0	0
Debt relief obtained 2/	95.4	49.7	52.2	32.8	29.6	9.3	6.5	91.8	88.2
Domestic	42.7	-31.0	-41.8	45.4	44.7	-1.3	-514.2	13.1	-511.2
Bank financing	-16.4	-15.5	-44.6	22.7	22.1	-0.6	-495.3	6.6	-517.8
Nonbank financing	59.1	-15.5	2.8	22.7	22.7	-0.6	-18.9	6.6	6.6
Privatization receipts	0	5.0	0	5.0	4.0	5.1	8.9	15.1	12.9
Change in arrears	-6.0	-0.6	-0.5	-0.5	-0.2	-0.5	-1.0	-1.7	-1.7
Float (checks payable)	0.0	0	7.8	0	0	0	-7.8	0	0
Unaccounted (– = overfinancing of the budget)	-3.2	0	1.8	0	0.6	0	0	0	2.4
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Nominal GDP (in billions of leones)	3,504.9	8,590	8,722.3	4,295	4,361	4,295	4,361	4,295	4,361
Total HIPC Initiative interim assistance (percent of GDP)	1.7	0.5	0.5	0.3	0.3	0.4	0.4	1.2	1.1
Total poverty expenditures (percent of GDP)	4.4	2.1	1.6	1.2	1.6	1.5	1.3	4.7	4.5
(in billions of leones)	154.6	89	69.9	50.0	70.3	63.0	55.8	202.3	196.1
			(In percent of GDP, unless otherwise indicated)						
Domestic revenue	11.9	5.8	6.0	3.1	3.0	3.6	3.5	12.4	12.5
Total expenditure and net lending	24.6	10.0	9.3	5.4	5.4	6.4	6.8	21.7	21.4
Of which: current expenditure	18.7	7.6	7.5	4.5	4.4	4.6	4.5	16.6	16.4
capital expenditure	5.9	2.4	1.7	0.9	1.0	1.8	2.3	5.1	5.0
Overall fiscal balance									
Including grants and MDRI 3/	-2.7	1.1	0.4	-1.1	-1.1	-0.5	12.1	-0.5	11.4
Excluding grants	-12.8	-4.2	-3.3	-2.3	-2.4	-2.8	-3.3	-9.3	-9.0
Domestic primary balance 4/	-3.1	-0.6	-0.3	-0.7	-0.7	-0.5	-0.5	-1.8	-1.5
Domestic financing	1.2	-0.7	-1.0	1.1	1.0	-0.2	-11.8	0.3	-11.7
Domestic debt stock	28.1	21.9	21.7	25.0	22.7	21.7	10.9	23.0	10.9
Total wages and salaries	6.5	3.0	3.1	1.6	1.5	1.6	1.5	6.2	6.1
Total wages and salaries (percent of domestic revenue)	55.2	52.1	52.5	51.1	50.9	44.8	42.2	49.8	49.3

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

1/ IMF Country Report No. 06/183, Supplement 1 (May 2, 2006).
2/ HIPC Initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward.
3/ For 2006, assumes MDRI relief from IMF (as a stock of debt relief).
4/ Domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the DDR program.

Table 4. Sierra Leone: Central Government Financial Operations, 2006–07
(In billions of leones, unless otherwise indicated)

	2006		2007					
			Q1	Q2	Q3	Q4	Full year	
	Prog. 1/	Proj.	Prog.				Prog. 1/	Rev. Prog.
Total revenue and grants	910.7	1,432.7	1,573.0	274.1	235.3	416.1	1,000.6	2,498.4
Domestic revenue	532.6	544.0	148.2	183.2	171.4	172.1	641.6	674.9
Income Tax Department	154.5	152.6	43.8	50.3	58.8	45.2	189.0	198.1
Customs and Excise Department	299.9	306.8	80.9	94.0	89.7	99.9	342.4	364.5
Mines Department	14.9	17.8	5.7	11.0	6.1	7.2	30.0	30.0
Other departments	31.8	33.2	8.5	16.6	9.2	10.8	43.0	45.0
Road user charges	31.4	33.7	9.3	11.2	7.6	9.1	37.3	37.3
Grants	378.1	888.6	1,424.8	90.9	63.8	244.1	359.1	1,823.5
Program	239.9	239.2	40.0	65.8	10.4	128.7	268.9	244.8
Of which: HIPC Initiative	50.9	48.9	9.6	10.2	10.4	16.9	102.6	47.2
Projects	138.2	138.2	60.6	25.1	53.4	115.3	90.1	254.5
MDRI assistance from IDA and AfDF	...	511.2	1,324.2	0	0	0	...	1,324.2
Total expenditure and net lending	932.9	934.4	285.2	308.0	318.5	388.7	1,136.1	1,300.4
Current expenditure	714.0	715.5	169.1	190.4	214.2	217.1	827.8	790.8
Wages and salaries	265.0	268.0	75.2	75.4	76.9	77.1	304.6	304.6
Current noninterest, nonwage expenditure	304.7	300.9	59.1	84.1	103.6	111.0	547.7	357.8
Goods and services	215.7	196.9	35.0	50.1	64.9	75.3	228.5	225.2
Transfers to local councils	21.6	34.3	7.3	11.5	15.2	13.1	42.8	47.1
Grants to educational institutions	27.8	27.8	7.9	7.9	7.4	8.4	31.6	31.6
Transfers to Road Fund	31.4	33.7	4.8	8.2	11.2	13.0	37.3	37.3
Elections	8.0	8.0	3.8	6.0	4.6	0.7	15.1	15.1
Interest payments	144.3	146.5	34.9	30.9	33.7	29.0	166.4	128.5
Domestic	75.6	83.0	20.8	24.4	19.3	19.8	81.3	84.3
Foreign	68.7	63.6	14.1	6.5	14.4	9.2	85.2	44.2
Capital expenditure and net lending	218.9	218.9	99.3	100.8	87.5	154.9	308.3	442.5
Capital expenditure	218.9	218.9	99.3	100.8	87.5	154.9	308.3	442.5
Foreign	178.4	178.4	85.8	75.5	66.9	132.3	231.2	360.6
Loans	40.2	40.2	25.3	50.4	13.5	16.9	141.0	106.1
Grants	138.2	138.2	60.6	25.1	53.4	115.3	90.1	254.5
Domestic	40.4	40.4	13.5	25.3	20.5	22.6	77.2	81.9
Net lending	0	0	0	0	0	0	0	0
Contingency spending related to MDRI relief 2/	...	...	16.8	16.8	16.8	16.8	...	67.1
Overall balance								
Excluding grants	-400.3	-390.4	-137.0	-124.8	-147.1	-216.6	-494.6	-625.5
Including grants and MDRI assistance from IDA and AfDF	-22.2	498.3	1,287.8	-33.9	-83.2	27.4	-135.5	1,198.0
Total financing	22.2	-498.3	-1,287.8	33.9	83.2	-27.4	135.5	-1,198.0
Foreign	-4.4	-0.7	-1,309.4	45.6	13.9	-15.6	144.6	-1,265.5
Borrowing	40.2	40.2	25.3	50.4	13.5	16.9	141.0	106.1
Project	40.2	40.2	25.3	50.4	13.5	16.9	141.0	106.1
Program	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization 3/	-136.4	-129.1	-1,355.6	-13.9	-31.5	-35.6	-121.0	-1,436.6
Debt relief obtained 3/	91.8	88.2	20.9	9.1	31.9	3.1	124.6	65.0
Domestic	13.1	-511.2	16.8	-11.1	59.6	-20.6	7.3	44.6
Bank financing	6.6	-517.8	15.8	-11.4	59.4	-21.2	4.3	42.6
Of which: MDRI-related deposits	...	...	12.4	12.7	12.4	12.6	...	50.1
Nonbank financing	6.6	6.6	1.0	0.3	0.2	0.5	3.0	2.0
Privatization receipts	15.1	12.9	5.0	0.0	10.0	10.0	25.1	25.0
Change in arrears	-1.7	-1.7	-0.1	-0.5	-0.3	-1.2	-2.1	-2.1
Float (checks payable)	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Nominal GDP (in billions of leones)	4,295	4,361	5,132	5,132	5,132	5,132	5,030	5,132
Total HIPC Initiative interim assistance (percent of GDP)	1.2	1.1	0.2	0.2	0.2	0.3	2.0	0.9
Total poverty expenditures (percent of GDP) 4/	4.7	4.5	0.9	1.3	1.4	1.4	7.0	5.0
(in billions of leones)	202.3	196.1	47.5	67.6	73.2	70.7	352.1	258.9
			(In percent of GDP, unless otherwise indicated)					
Domestic revenue	12.4	12.5	2.9	3.6	3.3	3.4	12.8	13.2
Total expenditure and net lending	21.7	21.4	5.6	6.0	6.2	7.6	22.6	25.3
Of which: current expenditure	16.6	16.4	3.3	3.7	4.2	4.2	16.5	15.4
capital expenditure	5.1	5.0	1.9	2.0	1.7	3.0	6.1	8.6
Overall fiscal balance								
Including grants and MDRI 5/	-0.5	11.4	25.1	-0.7	-1.6	0.5	-2.7	23.3
(including grants, but excluding MDRI)	...	0.4	-0.7	-0.7	-1.6	0.5	...	-2.5
Excluding grants	-9.3	-9.0	-2.7	-2.4	-2.9	-4.2	-9.8	-12.2
Domestic primary balance 6/	-1.8	-1.5	-0.3	-0.4	-0.9	-1.1	-1.9	-2.7
Domestic financing	0.3	-11.7	0.3	-0.2	1.2	-0.4	0.1	0.9
Domestic debt stock	23.0	10.9	9.6	9.4	10.5	10.1	19.8	10.1
Total wages and salaries	6.2	6.1	1.5	1.5	1.5	1.5	6.1	5.9
Total wages and salaries (percent of domestic revenue)	49.8	49.3	50.7	41.2	44.8	44.8	47.5	45.1

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.
1/ IMF Country Report No. 06/183, Supplement 1 (May 2, 2006).
2/ The authorities have identified poverty-reducing activities to be funded by these resources, which will be included in a supplementary budget.
3/ HIPC Initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward.
4/ Different to authorities data, brief and program projections included poverty expenditures contingent to MDRI debt relief.
5/ For 2006, assumes MDRI relief from IMF and for 2007, assumes MDRI relief from IDA and AfDF (both as a stock of debt relief).
6/ Domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the DDR program.

Table 5. Sierra Leone: Monetary Survey, 2005–08

(In billions of leones; at actual exchange rates unless otherwise indicated)

	2005		2006								2007	2008
	Dec.		Mar.		Jun.		Sep.		Dec.		Dec.	Dec.
	Prog. 1/	Act.	Prog. 2/	Act.	Prog. 2/	Act.	Prog. 2/	Proj. 3/	Prog. 2/	Proj. 3/	Proj.	Proj.
Monetary survey												
Net foreign assets	-5.4	85.9	42.3	43.2	97.4	121.7	74.3	104.4	87.7	611.3	676.2	757.2
Net domestic assets	667.4	668.3	697.7	696.9	692.3	649.7	715.7	665.7	715.1	172.0	241.0	310.9
Domestic credit	916.1	888.0	915.8	919.2	910.4	862.7	933.8	886.5	933.2	392.8	461.6	530.8
Net credit to government	752.8	724.0	733.5	741.6	708.5	679.4	731.2	701.5	730.6	206.2	248.8	271.9
Excluding non-interest bearing stock	222.5	193.8	203.3	211.4	178.3	149.2	201.0	171.3	200.3	-324.0	-281.4	-258.3
Claims on nonfinancial public enterprises	5.4	4.4	4.4	6.3	4.4	9.1	4.4	9.1	4.5	9.1	9.2	9.3
Claims on private sector	157.9	159.6	177.9	171.4	197.4	174.2	198.2	175.9	198.2	177.5	203.6	249.6
Other items (net)	-248.6	-219.7	-218.1	-222.3	-218.1	-213.0	-218.1	-220.8	-218.1	-220.8	-220.6	-219.9
Broad money	662.0	754.2	740.1	740.1	789.7	771.4	790.0	770.0	802.8	783.3	917.2	1,068.1
Money	343.0	424.2	384.0	436.8	409.8	424.4	398.9	389.5	394.1	372.7	425.4	494.3
Quasi money	319.0	330.1	356.0	303.3	379.9	347.0	391.1	380.5	408.7	410.6	491.8	573.8
Memorandum items:					(Annual percentage change)							
Broad money	16.5	32.8	17.9	17.9	22.6	19.8	19.2	16.2	6.4	3.9	17.1	16.4
Reserve money	9.8	24.3	13.6	13.6	21.7	9.8	18.3	13.0	1.3	0.5	15.6	15.2
Banks' reserves	68.3	101.0	50.6	17.3	76.2	36.2	24.1	16.5	-20.8	-6.0	8.5	8.9
Net credit to the government	1.7	-2.2	-5.1	-4.1	-12.0	-15.6	-7.0	-10.8	0.9	-71.5	20.7	9.3
Claims on private sector	16.5	17.8	24.1	19.5	25.4	10.7	26.6	12.4	24.1	11.2	14.7	22.6
Velocity (GDP/M2)	5.3	4.7	5.8	5.9	5.4	5.7	5.4	5.7	5.3	5.6	5.6	5.5
Money multiplier (M2/base money)	2.5	2.5	2.5	2.5	2.5	2.7	2.6	2.6	2.6	2.6	2.6	2.6

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

1/ IMF Country Report No. 06/183 (March 10, 2006).

2/ IMF Country Report No. 06/183, Supplement 1 (May 2, 2006).

3/ Items denominated in foreign currencies are valued at program exchange rates.

Table 6. Sierra Leone: Summary Accounts of Central Bank and Deposit Money Banks, 2005–08

(In billions of leones; at actual exchange rates unless otherwise indicated)

	2005		2006								2007	2008
	Dec.		Mar.		Jun.		Sep.		Dec.		Dec.	Dec.
	Prog. 1/	Act.	Prog. 2/	Act.	Prog. 2/	Act.	Prog. 2/	Proj. 3/	Prog. 2/	Proj. 3/	Proj.	Proj.
Bank of Sierra Leone												
Net foreign assets	-136.3	-64.0	-98.6	-82.0	-53.1	-41.0	-91.9	-81.8	-100.9	407.5	419.9	470.4
Net domestic assets	404.9	367.9	392.9	376.3	369.9	326.9	398.5	374.6	408.9	-102.0	-66.7	-63.5
Net credit to government	587.9	518.4	542.0	525.0	519.0	470.5	547.6	518.5	558.0	41.9	77.0	79.6
Excluding non-interest bearing stock	57.6	-11.8	11.7	-5.2	-11.3	-59.8	17.4	-11.7	27.8	-488.3	-453.2	-450.7
Claims on nonfinancial public enterprises	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	2.5	5.6	5.6	3.9	5.6	3.4	5.6	3.4	5.6	3.4	3.4	3.4
Claims on deposit money banks	2.7	3.4	3.4	1.5	3.4	0.0	3.4	0.0	3.4	0.0	0.0	0.0
Other items (net)	-188.2	-159.5	-158.0	-154.2	-158.1	-147.1	-158.1	-147.4	-158.1	-147.4	-147.2	-146.5
Reserve money	268.6	304.0	294.3	294.3	316.8	285.8	306.6	292.8	308.1	305.5	353.2	406.9
Currency outside banks	205.7	231.3	226.9	236.1	242.1	232.4	242.2	232.0	246.2	236.0	276.4	321.8
Reserves of deposit money banks	47.1	56.4	51.4	41.9	57.6	37.1	47.4	44.5	44.6	52.9	57.4	62.5
Other deposits	15.7	16.3	15.9	16.2	17.0	16.3	17.0	16.3	17.3	16.6	19.4	22.6
Deposit money banks												
Net foreign assets	130.9	149.9	140.9	125.2	150.5	162.7	166.2	186.2	188.6	203.8	256.3	286.8
Net domestic assets	309.6	356.8	356.3	362.6	380.0	359.9	364.5	335.5	350.8	326.9	365.2	436.9
Net credit to government	164.9	205.6	191.6	216.6	189.6	208.9	183.6	182.9	172.6	164.3	171.8	192.3
Claims on nonfinancial public enterprises	5.4	4.3	4.4	6.2	4.4	9.0	4.4	9.0	4.4	9.1	9.2	9.3
Claims on private sector	155.4	154.1	172.3	167.5	191.9	170.9	192.6	172.5	192.6	174.1	200.2	246.2
Reserves	47.1	56.3	51.4	40.0	57.6	44.5	47.4	44.5	44.6	52.9	57.4	62.5
Other items (net)	-63.2	-63.4	-63.4	-67.8	-63.4	-73.5	-63.4	-73.5	-63.4	-73.5	-73.5	-73.5
Total deposits	440.5	506.7	497.2	487.7	530.5	522.6	530.7	521.7	539.4	530.7	621.4	723.7
Local currency deposits	313.3	361.8	358.0	360.6	382.0	361.7	371.0	350.3	365.8	332.9	378.8	440.0
Foreign currency deposits	127.2	144.9	139.2	127.1	148.6	160.9	159.7	171.4	173.5	197.9	242.7	283.7

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ IMF Country Report No. 06/183 (March 10, 2006).
2/ IMF Country Report No. 06/183, Supplement 1 (May 2, 2006).
3/ Items denominated in foreign currencies are valued at program exchange rates.

Table 7. Sierra Leone: Balance of Payments, 2004–10

(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005		2006	2007	2008	2009	2010
	Est.	Prog. 1/	Est.			Proj.		
Current account balance	-52.4	-101.0	-93.0	-79.6	-83.1	-83.1	-85.2	-89.9
Balance on goods	-102.6	-128.1	-171.3	-144.4	-147.2	-143.2	-135.6	-138.8
Exports, f.o.b.	171.3	210.7	190.3	245.0	295.8	331.5	378.4	430.1
of which: Rutile	0.0	0.0	0.0	34.0	55.6	59.3	91.0	119.0
Bauxite	0.0	0.0	0.0	20.2	24.3	25.3	26.3	27.4
Diamonds 2/	157.9	182.9	173.5	174.1	186.7	199.7	204.2	215.2
Kimberlite	17.3	25.0	25.0	40.0	43.0	46.4	48.8	51.2
Imports, f.o.b.	-273.9	-338.8	-361.7	-389.4	-443.0	-474.7	-514.0	-568.9
of which: Petroleum products	-59.5	-107.5	-74.7	-105.6	-116.0	-124.6	-131.8	-140.7
Rice	-24.9	-24.0	-21.8	-21.0	-20.5	-20.1	-19.7	-19.3
Balance on services	-30.9	-94.6	-47.1	-51.7	-56.7	-56.4	-66.5	-75.1
Credit	61.4	75.9	78.0	87.8	101.0	120.2	130.4	143.5
Debit	-92.3	-170.5	-125.1	-139.5	-157.6	-176.6	-196.9	-218.7
Income	-29.7	-31.0	-34.3	-34.9	-30.1	-37.4	-39.6	-41.6
Credit	21.3	21.7	15.4	16.0	16.6	17.2	17.8	18.5
Debit	-51.0	-52.7	-49.7	-50.9	-46.7	-54.6	-57.4	-60.1
Interest payments due before debt relief 3/	-21.4	-24.4	-24.4	-22.5	-16.6	-20.0	-19.1	-18.0
Current transfers	110.8	152.5	159.7	151.4	150.8	154.0	156.5	165.7
Public (net) 4/	71.2	72.3	84.3	72.0	79.5	79.1	79.6	82.9
of which: HIPC grants	35.0	21.0	21.1	16.2	15.9	17.8	18.1	18.7
Private (net) 5/	39.6	80.2	75.3	79.3	71.3	74.8	76.9	82.7
Current account balance, excl. public transfers	-123.6	-173.4	-177.3	-151.6	-162.6	-162.2	-164.8	-172.8
Capital and financial account	67.7	79.7	90.8	212.1	52.4	61.5	70.4	77.0
Capital account	28.2	22.2	37.3	222.7	508.3	53.0	53.7	44.8
Project grants	26.1	19.9	35.1	46.7	60.0	50.4	51.0	42.0
Other transfer (MDRI grant) 6/	0.0	-	0.0	173.7	0.0	0.0	0.0	0.0
Debt forgiveness (MDRI relief from IDA and AfDB) 6/	0.0	-	0.0	0.0	445.9	0.0	0.0	0.0
Private capital transfers	2.2	2.3	2.3	2.4	2.5	2.6	2.7	2.8
Financial account	39.5	57.5	53.5	-10.6	-455.9	8.5	16.7	32.2
Direct investment and portfolio investment 7/	12.5	39.1	43.0	25.1	20.4	24.8	27.0	30.9
Other investment	27.0	18.4	10.6	-35.6	-476.3	-16.3	-10.3	1.3
Public sector loans (net)	43.2	13.8	-4.0	-29.1	-445.4	10.3	11.1	16.4
of which: disbursements	90.3	61.7	44.0	13.5	35.0	46.7	48.6	52.5
program loans	31.3	18.7	11.0	0.0	0.0	10.0	10.0	12.0
project loans	58.9	43.0	33.0	13.5	35.0	36.7	38.6	40.5
amortization due before debt relief	-47.0	-47.9	-47.9	-42.6	-480.3	-36.5	-37.4	-36.0
Private sector loans (net) 8/	38.4	15.6	19.9	16.3	11.0	12.0	13.0	13.1
Change in net foreign assets of commercial banks	-7.8	-16.7	-17.2	-20.6	-17.4	-18.0	-18.0	-18.0
Other, including errors and omissions	-46.9	5.7	11.8	-2.2	-24.6	-20.5	-16.4	-10.2
Overall balance	15.3	-21.4	-2.1	132.5	-30.7	-21.6	-14.8	-12.9
Financing	-15.3	21.4	2.2	-132.5	30.7	21.6	14.8	12.9
Change in net foreign assets of the central bank (- increase)	-47.4	-11.7	-31.1	-178.8	-13.6	-26.0	-26.0	-18.1
Change in reserve assets (- increase)	-65.5	-24.1	-43.4	-0.7	-13.6	-26.0	-26.0	-16.0
Net Fund credit	18.1	12.3	12.3	-178.1	0.0	0.0	0.0	-2.1
Disbursements	41.2	20.7	20.7	0.0	0.0	0.0	0.0	0.0
Repayments	-23.1	-8.4	-8.4	-178.1	0.0	0.0	0.0	-2.1
Exceptional financing	32.1	33.2	33.3	0.0	0.0	0.0	0.0	0.0
Change in arrears (+ increase) 9/	-9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief 10/	41.6	33.2	33.3	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	46.3	44.3	47.6	40.8	31.0
Debt relief 10/ 11/	0.0	0.0	0.0	32.9	31.2	34.5	34.2	31.0
Fund disbursement under new PRGF	0.0	0.0	0.0	13.4	13.1	13.1	6.6	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(in percent of GDP unless otherwise indicated)					
Current account	-4.9	-8.5	-7.7	-5.4	-5.1	-4.8	-4.5	-4.4
Current account, excluding public transfers	-11.5	-14.5	-14.6	-10.3	-10.1	-9.3	-8.8	-8.5
Overall balance of payments	1.4	-1.8	-0.2	9.0	-1.9	-1.2	-0.8	-0.6
MDRI debt service savings (in millions of US dollars)	0.0	-	0.0	0.0	22.6	29.7	33.2	41.3
of which: IMF	0.0	-	0.0	0.0	16.9	24.6	28.1	36.0
AfDF	0.0	-	0.0	0.0	1.8	1.9	1.9	1.9
IDA	0.0	-	0.0	0.0	3.9	3.2	3.2	3.4
Gross official reserves (in millions of US dollars) 12/	124.9	148.9	168.3	169.0	182.5	208.5	234.5	250.5
Gross official reserves (in months of imports) 13/	3.1	3.0	3.8	3.4	3.4	3.5	3.6	3.6

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

1/ IMF Country Report No. 06/183 (March 10, 2006).
2/ Includes unrecorded diamond exports estimated from partner-country data.
3/ Official interest payments due, including Fund charges.
4/ Includes mostly program grants.
5/ Includes worker remittances and transfers to NGOs.
6/ For 2006, assumes MDRI relief from the IMF as a stock of debt reduction. For 2007, assumes MDRI relief from IDA and AfDF as a stock of debt reduction.
7/ Includes investment related to the rehabilitation of the Koidu Kimberlite mine and assumes investment into rutile mining, financed by foreign loans, foreign investment, and government on-lending of an EU grant.
8/ Includes capital outflows associated with unrecorded diamond exports, and change in trade credits.
9/ In 2004, arrear clearance operations with the EU and the OPEC Fund are completed.
10/ This reflects the rescheduling on Cologne terms for the period 2002-05 agreed by the Paris Club at the decision point in February 2002, and assumptions of the extended consolidation period retroactively from July 2005 under the new PRGF program. Comparable relief by other creditors are assumed.
11/ Includes Japanese Debt cancellation under the Trade and Development Board (TDB) Resolution.
12/ Some of the foreign assets that were not readily available to the Bank of Sierra Leone, but included as foreign reserves, were excluded after 2005 data.
13/ In months of imports of total goods and services of subsequent year.

Table 8. Sierra Leone: Selected Economic and Financial Indicators, 2006–10

	2006		2007		2008	2009	2010
	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
Income and expenditure							
Real GDP	7.4	7.4	6.5	6.5	6.5	6.5	6.6
GDP deflator	14.1	15.7	10.0	10.5	7.4	6.5	6.6
Nominal GDP 1/	22.5	24.2	17.1	17.7	14.4	13.5	13.6
Consumer prices (end of period)	10.1	10.1	8.5	8.5	7.5	7.0	6.5
Consumer prices (annual average)	12.4	12.2	9.3	9.3	8.0	7.3	6.8
Money and credit							
Broad money	6.4	3.9	17.1	17.1	16.4	13.1	23.7
Velocity (level)	5.3	5.6	5.3	5.6	5.5	5.5	5.1
Domestic credit 2/	5.1	-55.8	5.7	17.5	15.0	15.2	17.6
Government 2/	0.9	-71.5	0.6	20.7	9.3	2.5	-0.4
Private sector 2/	24.1	11.2	24.6	14.7	22.6	29.6	33.6
Reserve money	1.3	0.5	14.2	15.6	15.2	12.7	36.8
Interest rate 3/	...	...	...	...	...	...	...
External sector							
Exports (U.S. dollars)	32.7	28.7	15.3	20.7	12.1	14.2	13.7
Imports (U.S. dollars) 4/	19.4	7.7	10.0	13.8	7.2	8.3	10.7
Terms of trade (- deterioration)	-4.6	-9.4	-1.8	-3.2	1.6	2.1	0.5
Real effective exchange rate (- depreciation; eop)	…	...	…	…	…	…	…
	(In percent of GDP)						
Gross domestic saving	-1.4	1.8	-0.1	5.4	3.7	3.6	3.1
Government	-0.2	0.1	0.3	0.9	0.6	1.7	0.6
Private	-1.2	1.7	-0.4	4.5	3.0	1.9	2.5
Gross domestic investment	15.0	15.1	14.9	18.1	15.1	14.3	13.6
Government	5.1	5.0	6.1	8.6	9.6	4.7	6.3
Private	9.9	10.1	8.8	9.4	5.5	9.7	7.3
Current account balance, including official transfers	-6.9	-5.4	-6.4	-5.1	-4.8	-4.5	-4.4
Current account balance, excluding official transfers	-12.3	-10.3	-11.5	-10.1	-9.3	-8.8	-8.5
Overall balance of payments	-2.8	9.0	-1.0	-1.9	-1.2	-0.8	-0.6
Government domestic revenue	12.4	12.5	12.8	13.2	13.4	14.4	14.6
Total expenditure and net lending	21.7	21.4	22.6	25.3	27.3	22.1	25.3
Of which : current expenditure	16.6	16.4	16.5	15.4	16.0	15.7	17.0
Overall fiscal balance							
(commitment basis, excluding grants and MDRI)	-9.3	-9.0	-9.8	-12.2	-13.9	-7.7	-10.7
(commitment basis, including grants and MDRI) 5/	-0.5	11.4	-2.7	23.3	-4.4	-0.1	-4.4
Domestic primary fiscal balance 6/	-1.8	-1.5	-1.9	-2.7	-3.5	-2.7	-4.3
Domestic financing	0.3	-11.7	0.1	0.9	0.1	-0.3	1.8
Financing gap	0	0	0	0	0	0	0
	(In percent of exports of goods and nonfactor services)						
Debt service due (incl. to IMF) after debt relief 7/	8.2	8.4	3.4	0.8	1.1	1.1	1.4
Debt service due (incl. to IMF) before debt relief	18.6	73.1	17.8	125.2	12.5	11.1	10.1
Net present value of debt-to-exports ratio 8/	110.2	35.9	107.0	37.6	40.8	42.5	42.5
	(In millions of U.S. dollars, unless otherwise indicated)						
Memorandum items:							
External current account balance, excluding official transfers	-164.7	-151.6	-174.2	-162.6	-162.2	-164.8	-172.8
Gross international reserves	168.2	169.0	188.2	182.5	208.5	234.5	250.5
(in months of imports) 9/	3.1	3.4	3.1	3.4	3.5	3.6	3.6
GDP	1,342.1	1,473.0	1,512.2	1,614.6	1,740.5	1,874.2	2,029.4
GDP (billions of leones)	4294.8	4,361.2	5,029.9	5,132.2	5,872.8	6,662.7	7,566.1

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

1/ Minor differences compared to the briefing paper relate to an update of CPI data.
2/ The numbers for 2006 reflect the impact of MDRI.
3/ Treasury bill rate (end of period).
4/ Includes imports purchased with bilateral aid and imports of embassies and the UN.
5/ For 2006, assumes MDRI relief from IMF and for 2007, assumes MDRI relief from IDA and AfDF (both as a stock of debt relief).
6/ Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure and DDR program.
7/ As 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.
8/ Net present value (NPV) of debt under the LIC DSF. Program numbers in 2006 and 2007 do not include the effect of MDRI.
9/ In months of imports of goods and services of subsequent year.

Table 9. Sierra Leone: Disbursements Under the PRGF Arrangement, 2006–09
(In millions of SDRs)

Date	Disbursements	Subject to
May 10, 2006	4.71	Approval of arrangement
December 2006	4.40	First review and performance criteria (PCs) for end-June 2006
May 2007	4.40	Second review and PCs for end-December 2006
November 2007	4.40	Third review and PCs for end-June 2007, and structural PC as described in Table 4.
May 2008	4.40	Fourth review and PCs for end-December 2007, and structural PC as described in Table 4.
November 2008	4.40	Fifth review and PCs for end-June 2008
May 2009	4.40	Sixth review and PCs for end-December 2008
Total disbursements	31.11[1]	

Source: IMF.

[1] The total disbursement is equivalent to 30 percent of Sierra Leone's quota.

Table 10. Sierra Leone: Indicators of Capacity to Repay the Fund, 2004-2015 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Proj.					
Fund credit outstanding (end of period)												
In millions of SDRs	126.0	134.4	23.1	31.9	40.7	45.1	43.7	40.4	35.8	29.4	21.3	13.7
In millions of U.S. dollars	185.4	198.6	34.2	47.5	60.7	67.4	65.6	60.9	53.9	44.3	32.1	20.6
In percent of quota	121.6	129.6	33.0	30.8	39.2	43.5	42.1	39.0	34.5	28.4	20.5	13.2
Fund obligations	24.0	9.3	5.5	0.2	0.3	0.3	2.4	5.3	7.3	9.9	12.5	11.6
Fund total charges and interests	0.9	1.0	1.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.1
Existing drawings	0.9	1.0	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Prospective drawings	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Fund total repayments/repurchases	23.1	8.4	4.5	0.0	0.0	0.0	2.1	4.9	7.0	9.6	12.2	11.5
Existing drawings	23.1	8.4	4.5	0.0	0.0	0.0	2.1	4.9	5.6	5.6	5.6	3.5
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	4.0	6.6	7.9
Fund credit outstanding in percent of:												
Exports of goods and services	79.7	74.0	10.3	12.0	13.4	13.3	11.4	9.9	8.3	6.4	4.4	2.7
Total external debt	10.8	12.6	2.4	4.9	6.3	6.9	6.7	6.2	5.4	4.3	3.1	1.9
Gross official reserves	148.5	118.0	20.3	26.0	29.1	28.8	26.2	22.8	19.1	14.4	9.5	5.7
Fund obligations in percent of:												
Exports of goods and services	10.3	3.5	1.7	0.1	0.1	0.1	0.4	0.9	1.1	1.4	1.7	1.5
Gross international reserves	19.2	5.5	3.3	0.1	0.1	0.1	1.0	2.0	2.6	3.2	3.7	3.2
Memorandum items:												
Exports of goods and services (in millions of U.S. dollars)	232.7	268.4	332.8	396.8	451.6	508.8	573.6	614.5	650.7	688.5	729.5	773.1
Gross official reserves (in months of imports of goods and services)	3.1	3.8	3.4	3.4	3.5	3.6	3.6	3.5	3.5	3.6	3.7	3.8

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

1/ After HIPC and MDRI assistance, and includes the prospective disbursements under the current PRGF arrangement for a total of SDR 31.1 million , of which SDR 4.7 million has been disbursed.

Table 11. Sierra Leone: Millennium Development Goals, 1990–2004 1/

	1990	1995	1998	2001	2004
Goal 1: Eradicate extreme poverty and hunger					
Income share held by lowest 20%	*1*	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	29	..	..	*27*	..
Poverty gap at $1 a day (PPP) (%)	*41*	..	..	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	*57*	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	*83*	..	..	..	*70*
Prevalence of undernourishment (% of population)	..	..	*44*	..	*50*
Goal 2: Achieve universal primary education					
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	48
Persistence to grade 5, total (% of cohort)	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	..
School enrollment, primary (% net)	*43*	..	..	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (%)	..	..	*6*	9	15
Ratio of girls to boys in primary and secondary education (%)	*66.8*	..	..	70.6	74.3
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	63
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	21	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	..	..	*62*	50	64
Mortality rate, infant (per 1,000 live births)	175	171	..	*167*	165
Mortality rate, under-5 (per 1,000)	302	293	..	*286*	283
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	..	..	..	*41.7*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*2000*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children orphaned by HIV/AIDS	..	..	..	..	*31000*
Contraceptive prevalence (% of women ages 15-49)	..	..	..	*4*	..
Incidence of tuberculosis (per 100,000 people)	223.7	..	..	..	443.2
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	*1*
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	*2*
Tuberculosis cases detected under DOTS (%)	..	27.9	36.2	33.9	35.6
Goal 7: Ensure environmental sustainability					
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	..
Forest area (% of land area)	43	..	..	*40*	*38*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	39
Improved water source (% of population with access)	..	..	..	..	57
Nationally protected areas (% of total land area)	..	..	..	..	2.1
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	14.9	49.9	24.9	73.7	67.4
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	10	63	9	73	10
Fixed line and mobile phone subscribers (per 1,000 people)	3.3	4	4.1	10.6	27.2
Internet users (per 1,000 people)	0	0	0.1	1.5	1.9
Personal computers (per 1,000 people)	..	..	..	..	..
Total debt service (% of exports of goods, services and income)	10	54	33	105	11
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..
Other					
Fertility rate, total (births per woman)	6.5	6.5	*6.5*	*6.5*	6.5
GNI per capita, Atlas method (current US$)	200	190	160	160	210
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.7	0.8	1.1
Gross capital formation (% of GDP)	10	5.6	5.3	6.7	10.6
Life expectancy at birth, total (years)	38.8	39.1	*39.6*	*40.6*	41.1
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	35.1
Population, total (millions)	4.1	4.1	4.3	4.7	5.3
Trade (% of GDP)	46.2	45.1	35.3	50.3	60.2

Source: World Development Indicators database, September 2006.

1/ Figures in italics refer to periods other than those specified.

APPENDIX I. SIERRA LEONE: LETTER OF INTENT

Freetown, Sierra Leone
November 29, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. On May 10, 2006, the Executive Board approved a successor three-year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF) following the successful conclusion of the sixth and final review of the previous PRGF arrangement, which expired in June 2005. The government of Sierra Leone, in collaboration with staff of the IMF, has carried out a review of program performance during the first half of 2006, assessed the outlook for the rest of the year, and identified macroeconomic policies and structural reform measures for 2007.

2. The government remains committed to addressing the pervasive poverty situation in the country through the implementation of the Sierra Leone Poverty Reduction Strategy Paper (SL-PRS), which commenced effectively in mid-2005. The first annual progress report has been issued to you and to the management of the World Bank.

3. The attached memorandum of economic and financial policies (MEFP) supplements the one attached to my letter to you dated March 8, 2006. It describes progress made under the 2006 program and sets forth the broad objectives and policies for 2007. The policies for 2006 set forth in the previous MEFP remain appropriate, and we do not envisage a need for new measures.

4. Financial performance under the PRGF-supported program through end-June was broadly satisfactory. The government met all the quantitative performance criteria through end-June 2006. However, two quantitative performance indicators related to the ceiling on the government wage bill and the floor for poverty-related spending were missed. The overrun in the wage bill was due to a one-time recruitment of 3,000 teachers in January 2006 and the payment of a four-month backlog of salaries, and severance payments to the military as a result of the on-going restructuring program. The lower-than-budgeted poverty-related spending was due to slow spending in the health sector and delays in the processing and disbursement of transfers to local councils.

5. Whilst the government also made progress on the structural front, there were delays in the implementation of the performance criterion and benchmark slated for end-June 2006. The database containing all job grades and salary levels for all civil servants and teachers was updated as planned, but the auditing of the database and the ensuing approval by cabinet of guidelines for salary adjustments could not be completed by the test date owing to

difficulties in hiring private audit firms to carry out the exercise. Also, the review of existing tax exemptions and the plan for their reduction was not completed on time. The government implemented these two measures in September and October 2006. On the basis of the broad progress made and the strength of the policies set forth in the attached MEFP, the government requests that the IMF complete the first review under the PRGF arrangement and disburse the second loan in the amount of SDR 4.40 million.

6. The government believes that the conditions required for Sierra Leone to reach the completion point under the enhanced HIPC Initiative have been satisfied. The first annual progress report highlights the progress made in implementing the SL-PRS, and the government's continued commitment to the poverty reduction strategy. Reaching the enhanced HIPC Initiative completion point will enable Sierra Leone to benefit from the remaining amount of HIPC assistance, determined at the HIPC decision point, and additional debt relief from Sierra Leone's bilateral creditors. The government requests delivery of the MDRI relief from the IMF, the International Development Agency (IDA), and the African Development Fund (AfDF). The government intends to use the resources freed up from these initiatives to enhance its policy measures to reduce poverty. In order to ensure effective and transparent use of the resources, the government will closely coordinate with the IMF to budget annual spending under the annual program.

7. The government also believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but stands ready to take any further measures that become necessary. The fourth disbursement will be based on quantitative performance criteria set for end-June 2007 and subject to the third program review, scheduled to be completed before end-November 2007. The fifth disbursement will be based on quantitative performance criteria set for end-December 2007 and subject to the fourth review, scheduled to be completed before end-May 2008. The end-March 2007 and end-September 2007 quantitative targets will be indicative. The government of Sierra Leone will consult with the Fund on the adoption of such measures. Furthermore, the government of Sierra Leone will continue to provide the staff of the Fund with the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. It will also continue to consult with the IMF on its economic and financial policies, in accordance with the provisions and practices of the Fund governing such consultations.

Very truly yours,

/s/

John O. Benjamin
Minister of Finance

Attachment

Appendix I. Attachment I. Sierra Leone: Memorandum of Economic and Financial Policies for 2007

November 29, 2006

I. Introduction

8. The government continues to make progress in maintaining political and economic stability and improving governance, as the country moves from the emergency postconflict phase to sustainable development and poverty reduction. The United Nations Integrated Office in Sierra Leone (UNIOSIL) is assisting the government in implementing a Peace Consolidation Strategy, focusing on the nature of existing and potential threats, as well as the capacities and strategies to address them. The government remains committed to addressing the pervasive poverty situation in the country through the implementation of the Sierra Leone Poverty Reduction Strategy (SL-PRS). The SL–PRS is in its second year of implementation and the first annual progress report has been issued to the country's development partners. The improved security situation strengthened public confidence and is having a positive impact on economic activities.

9. In this memorandum, the government of Sierra Leone describes recent economic and financial developments and performance under the program through end-June 2006 and the economic and financial policies to be implemented during the remainder of 2006 and in 2007 in the context of the Poverty Reduction and Growth Facility (PRGF) arrangement with the Fund.

II. Recent Economic Developments and Performance Under the Program

10. Economic growth remained strong in 2005 and continued to be robust in 2006, reflecting buoyant activities in the agriculture, mining, construction, and services sectors. Despite higher international oil prices, end-period inflation declined from 13.1 percent (year-on-year) in December 2005 to 9.2 percent in June 2006 as food and nonfood prices fell during the first half of the year. This in turn reflected the improved supply situation for basic commodities, slow growth in money supply and a relatively stable nominal exchange rate. However, annual average inflation persisted in the double digits, averaging 12.4 percent as of end-June 2006, indicating that inflationary pressures remain a risk, particularly as spending is scaled up in the second half of the year.

11. Fiscal performance improved significantly during the first half of 2006, resulting in a net repayment by the government to the banking system. Domestic revenues collected exceeded the program target by 0.3 percentage points of GDP, mainly on account of higher-than-projected collections of customs and excise duties and road user charges. The improved collections of customs and excise duties was made possible thanks to a significant reduction in discretionary duty waivers and increased imports volume brought about in part by the

lowering of import duty rates following the implementation of the Common External Tariff (CET). The underperformance in income taxes was partly due to legislative slippages, including delays in the preparation and approval of the Finance Bill for 2006. Total expenditure and net lending remained within the program ceilings mainly on account of lower–than–budgeted development expenditures; the latter due to the nondisbursement of project loans and shortfalls in project grants during the first half of the year. Total current expenditure was higher than budgeted because an overrun in the wage bill and higher interest payments could not be offset by lower-than-budgeted noninterest, nonsalary current expenditure. The improved revenue performance coupled with the lower–than–budgeted expenditures resulted in a net repayment by government to the banking system.

12. Reflecting the improvement in the fiscal sector, monetary policy was more restrictive than programmed. Broad money and reserve money grew by 19.8 percent and 9.8 percent, respectively, on an annual basis at end-June 2006 compared with 22.6 percent and 21.7 percent programmed. The growth in broad money during the period reflected mainly the higher-than-expected increase in net foreign assets of the banking system. Growth in credit to the private sector also slowed during the period. Interest rates on three-month Treasury bills fell to 19.0 percent in June 2006 from 24.7 percent in June 2005 and 20.4 percent at the end of 2005, reflecting the easing of inflationary pressures and the sharp reduction in government borrowing. Commercial bank lending rates remained unchanged.

13. Export performance continued to improve with the resumption of rutile and bauxite mining. At the same time, imports remain high because of increased volume of oil products combined with higher international prices. Imports of fuel rose from US$43.9 million in first half of 2005 to US$63.4 million in the same period in 2006. Gross international reserves stood at US$187 million (3½ months of import coverage).

14. The Bank of Sierra Leone (BSL) continued to pursue an exchange rate policy that allows flexibility in order to facilitate rapid adjustments to external shocks, and thus to maintain a competitive external position. The nominal exchange rate remained relatively stable, narrowly moving from Le 2,927.5 per US dollar in December 2005 to Le 2,958.7 in June 2006 and the spread between the official rate and the parallel market rate has narrowed to about 2 percent. Segmentation in the foreign market was also reduced significantly.

15. Whilst the government also made progress on the structural front, there were delays in the implementation of the structural performance criterion and benchmark slated for end June 2006. The indicative targets on the government wage bill and poverty-related expenditures were not met. We also missed the structural performance criterion for end-June 2006 and a structural benchmark. The government intends to accelerate the pace of structural reforms to make up for some of the delays incurred in the first half of the year. In particular, steps have been taken to speed up the auditing of the database containing all job grades and salary levels for all civil servants and teachers, which enabled the cabinet to

approve on October 25 new guidelines for salary adjustments that ensure tighter control over the wage bill. In addition, the government has completed a review of existing tax exemptions and adopted in September 2006 a plan for their reduction. Also, an assessment of bank capitalization and credit quality for all commercial banks—a performance criterion for end-September 2006—has been finalized by the BSL.

16. With respect to transparency and accountability, the government and its major development partners agreed to implement 10 critical governance and accountability reforms during 2006–07 in the context of the Improved Governance and Accountability Pact (IGAP). The IGAP covers a wide range of reform areas, including anti-corruption, external audit and parliamentary oversight, procurement, anti-money laundering, civil service reforms, service delivery, and implementation of the Extractive Industry Transparency Initiative (EITI). In the spirit of mutual accountability, the Pact also includes commitments from development partners to rationalize procedures, improve aid effectiveness, and strengthen coordination in support of these reforms. In our efforts to enhance transparency and accountability in the management of public resources, the government installed an Integrated Financial Management Information System (IFMIS) in the Accountant General's Department in June 2005 and extended its coverage to the Ministry of Finance and the Sierra Leone Police.

17. We remain committed to improving governance, including stepping up our anti-corruption efforts and enhancing transparency and accountability. In 2005, a total of fifty corruption-related reports were made to the Anti-Corruption Commission (ACC), of which forty-two were investigated, and twenty-two of these were referred to the Attorney General, Minister of Justice, and to court. To ensure further transparency in the prosecution of corruption cases, a three-member committee, comprising two special prosecutors attached to the ACC and a State Counsel has been established. We will continue to pursue our anti-corruption strategy with a focus on the preventive measures, consistent with the Anti-Corruption Act 2000.

III. Policies for the Remainder of 2006

18. The focus of our policies for the rest of 2006 is to consolidate the stabilization gains achieved in the first half of the year, speed up reforms in the public expenditure management area, and accelerate poverty-related spending to catch up on the delays experienced in the first half.

Fiscal policy

19. Fiscal policy will aim at keeping the domestic primary fiscal deficit below the program target of 1.8 percent of GDP by generating additional revenue to compensate for the overrun in the wage bill and higher interest payments for the rest of the year. We will intensify our efforts to mobilize domestic revenue and reduce wasteful expenditure while protecting growth-inducing spending. Domestic revenues are expected to remain above the

original target of the program on account of increased tax collection efforts by the National Revenue Authority (NRA) in the second half of the year. Specifically, the government will continue to strengthen tax administration by giving the NRA special incentives to enhance its performance. The NRA will collect tax arrears on the sales tax on cell phone calls. The NRA also expects to collect increased revenues from mining licenses based on revised fees and royalties. The government will continue to minimize the granting of discretionary waivers. On the basis of the forgoing, domestic revenues are projected to amount to Le 544 billion, or 12.5 percent of GDP compared to the program target of 12.4 percent of GDP. Privatization receipts are also expected to reach Le 12.9 billion for the year as a whole.

20. On the expenditure side, wages and salaries are expected to exceed the program ceiling by about Le 3 billion (0.1 percent of GDP) due to pension and gratuity payments to the restructured military. The under-spending on noninterest, nonwage expenditures will be fully compensated in the second half of the year as the disbursement of most of the external budgetary support will be made in the fourth quarter. In particular, transfer to local councils will be increased sharply in the fourth quarter. Domestic interest payments are expected to be higher than originally programmed on account of the impact in the fourth quarter of the interest cost of the conversion of the Le 50 billion worth of non-interest bearing securities held by the BSL into interest bearing securities. Hence, total expenditures for 2006 are projected at Le 934.4 billion (21.4 percent of GDP). Of this, current expenditures will amount to Le 715.5 billion (16.4 percent of GDP). The overall budget deficit, excluding grants, will drop marginally to 9 percent of GDP compared with a program target of 9.3 percent of GDP.

21. The government will continue to conduct regular public expenditure tracking surveys (PETS) focusing mainly on the social and economic sectors to monitor the flow of public resources from the central ministries to districts and service delivery facilities with a view to ascertaining whether the resources disbursed reach the intended beneficiaries. The 2004 Report on FY 2004 selected expenditures in health, education and agriculture, and was approved by cabinet in August 2006. The government and donors reached an understanding in 2005 that PETS should be conducted on a bi-annual basis. The first PETS covering public expenditures for the fiscal year 2005 was conducted in April 2006. The survey covered the distribution of essential drugs in the health sector and textbooks in the education sector. The draft report has been forwarded to key stakeholders for review. The second PETS was conducted in September 2006. The September survey covered the distribution of essential drugs in the health sector, the distribution of text books and the construction and rehabilitation of schools by the SABABU project in the education sector and distribution of seed rice in the agriculture sector.

Monetary Policy

22. Monetary policy continues to be conducted using market-based indirect instruments, primarily open market operations and reserve requirements. For the remainder of 2006, monetary policy will support fiscal policy in consolidating macroeconomic stability. The planned drawdown of government deposits to finance poverty-related expenditures could trigger inflationary pressures, thereby posing a renewed challenge for monetary policy operations. To enable the BSL to conduct effective monetary policy, the Ministry of Finance and the BSL agreed on October 14, 2006 on a memorandum of understanding (MOU) to convert Le 50 billion worth of non-interest bearing securities from the outstanding stock of Le 530 billion held by the BSL into interest bearing marketable securities to support monetary policy with the aim of containing inflationary pressures in the second half of the year. The authorities have also agreed to equalize the interest rate on Ways and Means to the three month Treasury bill rate.

Structural reforms in 2006

23. The structural reform agenda for the rest of 2006 will focus on strengthening public financial management and enhancing the soundness and integrity of the financial system. The government will accelerate the completion of the unfinished structural performance criterion for end June 2006 related to the updating and auditing of the data base containing all job grades and salary levels for civil servants and teachers and the development of guidelines for annual salary adjustments within grades.

24. Our anti-corruption agenda in the medium term is to promote accountability and transparency with greater emphasis on public institutions. The government has established a Law Reform Task Force to review the Anti-Corruption Act 2000 with a view to eliminating the inconsistencies between the Act and the national Constitution and facilitating the prosecution of corruption cases.

25. In an effort to address the threat of banking system fragility, the revised minimum capital requirement for licensed financial institutions will take effect in December 2006, with the minimum paid-up capital for commercial banks raised from Le 800 million to Le 6 billion and for discount houses from Le 600 million to Le 2 billion. The BSL will facilitate the establishment of a stock exchange with the introduction of an interim stock trading facility before the end of 2006. To further encourage rural financial intermediation, two more community banks (Kabala in the far north and Zimmi in the far south) will be officially commissioned by end-2006.

IV. Program Objectives, Policies, and Measures for 2007

26. The macroeconomic framework for 2007 projects further expansion in domestic output and lower inflation. Real GDP is expected to grow by 6.5 percent, underpinned by the

continued expansion in agriculture, mining, manufacturing, construction and service sectors. Annual average inflation is expected to drop to single digit levels (9.3 percent) with end year inflation projected to fall sharply to 8.5 percent from 10.1 percent in 2006 on account of prudent monetary and fiscal policies combined with the expected stabilization of fuel prices. The external current account deficit excluding official transfers is projected to stabilize at around 10 percent of GDP in 2007, owing to the anticipated growth in imports as fuel prices stabilize at higher levels.

2007 budget

27. The main objective of the 2007 budget is to ensure fiscal sustainability and further consolidate macroeconomic stability while channeling substantial resources to growth inducing and poverty reduction activities. Reflecting a significant increase in poverty-related spending related to resources freed under the Multilateral Debt Relief Initiative (MDRI) the primary fiscal deficit will increase to 2.7 percent of GDP from 1.5 percent in 2006. Similarly, the overall fiscal deficit (excluding grants) is projected to widen to 12.2 percent of GDP in 2007 from 9 percent in 2006. Including grants, the overall deficit is expected to increase to 2.5 percent of GDP in 2007, from 0.3 percent in 2006. The deficit will be entirely financed from foreign sources with the government making net repayment to the banking system. Sierra Leone is expected to reach the Completion Point under the enhanced HIPC Initiative by the end of 2006 and could also become eligible for additional debt relief under the MDRI. However, the 2007 budget was formulated in the context of the projected domestic resources and the full external budgetary support indicated by the major donors in September 2006.

28. Domestic revenues are projected to increase by 0.7 percent of GDP in 2007 to 13.2 percent of GDP on account of the acceleration of the tax reforms which started in 2006. The government will continue to strengthen tax administration by providing budgetary support to the NRA in addition to the current 3 percent of domestic revenue being transferred to the institution. Revenues collected by MDAs that had heretofore been kept will be centralized into the Consolidated Revenue. Contrary to earlier expectations, the implementation of the ECOWAS Common External Tariff (CET) has resulted in increased volumes of importation of goods and improved tax compliance. The government will, therefore, complete the implementation of the CET in 2007 to further enhance tax compliance. Pre-shipment inspection of certain categories of imported goods is gradually being replaced with destination inspection and this will be extended to all eligible goods in 2007. This is expected to reduce transactions cost for importers and hence improve tax compliance. The NRA will strengthen the Flexible Anti-Smuggling Teams (FAST) to minimize cross border smuggling.

29. Total expenditures and net lending are projected to increase to 25.3 percent of GDP in 2007 from 21.4 percent of GDP in 2006, reflecting mainly the substantial increase in capital expenditures, consistent with government's policy of strengthening infrastructure to

support private sector activities. Capital expenditures are projected to increase from 5 percent of GDP in 2006 to 8.6 percent of GDP in 2007. Current expenditures, on the other hand, are expected to remain broadly unchanged, in terms of GDP, as wages and salaries and nonwage and noninterest current expenditure are maintained at their current ratios to GDP. In nominal terms, the government wage bill will increase by Le 36 billion (0.7 percent of GDP) to provide room for (i) a 10 percent cost of living adjustment to wages and salaries, (ii) 5 percent annual salary increment, (iii) the cost of recruiting 2000 additional teachers and 374 police in 2007, as well as the recruitment of additional health personnel and the provision for severance pay and administrative cost for implementing the Senior Executive Service (SES). Interest payments are also projected to increase slightly to finance the interest cost associated with the conversion of the non-interest bearing securities held by the BSL into interest bearing securities. In line with the SL-PRS, poverty-related expenditures, including transfers to local councils are programmed to increase to Le 259 billion (5 percent of GDP) from 4.5 percent in 2006. The fiscal priority framework developed in 2006 in collaboration with the Work Bank to protect poverty-related expenditures will guide the government in the execution of the 2007 budget.

Monetary and exchange rate policies

30. Monetary policy in 2007 will aim at achieving single digit inflation consistent with the overall growth in the economy. In this connection, monetary policy will sterilize inflows from debt relief expected in early 2007 to buffer the economy from inflation. The BSL's capacity to conduct monetary operations in 2007 will be enhanced by the gradual conversion of an additional Le 50 billion from the outstanding non-interest bearing securities, in the context of the MOU reached with the government on October 14, 2006, and the development of the requisite infrastructure. Furthermore, in accordance with the BSL Act 2000 and on the basis of the MOU, the government will issue on January 2007 medium-term marketable securities equivalent to Le 50 billion to recapitalize the BSL and issue before December 2007 additional marketable securities for the purpose of preserving the minimum paid-up capital of the BSL. The conduct of monetary policy will thus rely on market-based indirect instruments of monetary management. Secondary market operations will be enhanced and the spread in the BSL rediscount window will be reviewed to further deepen the inter-bank market. The Treasury bill and the Treasury bearer bond auction systems will be harmonized by end 2007. The BSL will pursue its efforts to create an efficient national payments system and will also explore the possibility of initiating a Real Time Gross Settlement System (RTGS), which is better suited for high-value transactions with lower settlement risks.

31. The BSL will continue to maintain a market-determined exchange rate policy and will conduct the weekly foreign exchange auctions to meet the gross reserve target of the program and maintain external competitiveness. The exchange rate will remain free from restrictions on the making of payments and transfers for current transactions. The BSL will seek to moderately build up foreign exchange reserves that would provide a cushion against

external shocks and continue the sale of foreign exchange to complement monetary policy operations and facilitate the absorption of aid flows. The official foreign reserves are programmed to increase to US$182.5 million, the equivalent of 3.4 months of imports in 2007. In view of the projected increase in official foreign reserves in the medium term, the BSL will put in place an asset and liability reserve management framework to strengthen its foreign reserves management operations.

External Sector Policies

32. The government will continue to pursue the policy of strengthening external debt management capacity and will adhere to its commitment to avoid nonconcessional external borrowing. It will strive to remain current on its obligations to multilateral creditors. The government is continuing negotiations with non-Paris Club creditors to reach debt relief agreements consistent with the enhanced HIPC Initiative framework and on comparable terms to those that would be granted by the Paris Club. Preparations for another IDA supported debt buyback operation to extinguish long outstanding commercial and pipeline debts are in progress and expected to be completed when Sierra Leone reaches the Completion Point under the enhanced HIPC Initiative by end-2006.

33. Sierra Leone's trade policy is influenced by the ECOWAS integration process. The country's trade and exchange regimes are already substantially liberalized. The adjustment of external tariffs is currently being done in the context of the ECOWAS Common External Tariff (CET). Full implementation of the CET is projected to reduce the average tariff rate from 17 percent to 11.5 percent.

Structural reforms

34. The program of structural reforms for 2007 will focus on two main areas: strengthening fiscal management and addressing financial sector issues. In respect of strengthening fiscal management, the government will eliminate all discretionary tax and duty exemptions while the NRA will intensify efforts to collect tax arrears. The NRA will expand the Large Tax Payers Unit (LTU) established in 2006 for the better management of tax arrears to include all tax payers, consistent with the planned introduction of the value-added tax in early 2008 (to be called Goods and Services Tax (GST). The NRA will adopt an integrated approach for the computerization of tax procedures. In this respect the NRA will seek to introduce a software package that has the capacity to link income tax and customs procedures. To further boost domestic revenue collection, the government will review all bilateral agreements with mining companies and other commercial enterprises with a view to rationalize and streamline tax exemptions granted to these entities. Furthermore, licenses, fees, and charges in the telecommunications sector will be reviewed. Based on the review of existing tax exemptions completed in October 2006, the government will eliminate all

discretionary tax and duty waivers and will also review certain provisions of the Income Tax and Finance Acts to strengthen tax enforcement.

35. The government will actively pursue reform of the financial sector aimed at deepening financial intermediation and ensuring a competitive and vibrant financial environment. To this end, the government will develop and implement a strategy to adequately capitalize the BSL to enable it to efficiently fulfill its key functions. The BSL will intensify the supervision and regulation of commercial banks and strengthen prudential controls. The BSL is working closely with international donors to mobilize the requisite finances for the establishment of additional community banks to help harness financial resources in economically viable communities through out the country. Efforts at extending micro financial services to the poor and underprivileged continue to occupy center stage in government's overall poverty reduction strategy, with technical assistance provided by the Microfinance Investment and Technical Assistance Facility (MITAF) in the form of capacity building of all stakeholders.

36. The BSL, in collaboration with the private sector, will be putting in place both the administrative and regulatory structures for the commencement of full-fledged stock market trading in 2007. This will include the enactment of a Securities Law and Collective Investment Schemes (CIS) to provide an appropriate legal framework for the effective operation of the stock exchange. The existing Companies Act has been revised and a Bankruptcy bill drafted for enactment in 2007. In the medium to long term, a Securities Exchange Commission will be established to serve as the principal regulatory agency for stock market transactions. Implementation of the Anti-Money Laundering Act will be pursued in 2007, with the BSL ensuring that financial institutions comply with its provisions by monitoring their activities with a view to detecting and reporting suspicious transactions. The establishment of a Financial Intelligence Unit at the central bank is expected to be completed during 2007 to provide the necessary institutional support.

V. Program Monitoring

37. The program will continue to be monitored based on the agreed quantitative performance criteria and benchmarks set for end-December 2006 and structural performance criteria and benchmarks set for end–September 2006, and end-December 2006, and end-June 2007, as indicated in Tables 3 and 4 annexed to this attachment.

38. To ensure effective monitoring of program implementation, the Net Domestic Financing (NDF) Technical Committee will meet on a weekly basis to review the performance of revenues and expenditure as well as progress toward meeting the quantitative and structural performance criteria and benchmarks agreed to by the government and the IMF staff under the program. In addition the Inter-Agency Committee for National Statistics will meet on a monthly basis with a view to providing relevant statistics and reviewing gaps

as well as discuss and provide remedial actions to constraints in providing reliable and timely national statistics. Furthermore the Economic Policy and Research Unit (EPRU) in the Ministry of Finance will be restructured to undertake a more proactive role in program monitoring. On a monthly basis, the government will provide the statistical data and information as described in the technical memorandum of understanding (attached) as well as any other information deemed necessary or requested by Fund staff in order to monitor the program.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for January-December 2006

(Cumulative change from beginning of calendar year to end of month indicated; in millions of leones, unless otherwise indicated.) 1/

	March				June				September	December
	Indicative Targets	Adjusted Targets	Act.	Met or Not met	Performance Criteria	Adjusted targets	Act.	Met or Not met	Indicative Targets	Performance Criteria
Performance criteria										
Net domestic bank credit to the central government (ceiling)	20,216	37,809	17,572	Met	-15,478	-39,441	-44,597	Met	7,199	6,558
Unadjusted target (ceiling)		20,216				-15,478				
Adjustment for the shortfall (excess) external budget support		69				5,704				
Adjustment for the issuance of treasury securities to the private sector		-17,662				18,258				
Net domestic assets of the central bank (ceiling)	30,216	30,582	8,385	Met	522	-4,585	-41,065	Met	29,199	39,558
Unadjusted target (ceiling)		30,216				522				
Adjustment for the shortfall (excess) external budget support		69				5,704				
Adjustment for exchange rate depreciation (appreciation)		435				597				
Domestic primary budget balance of the central government (floor)	-29,180	-29,180	-11,866	Met	-26,470	-26,470	-12,840	Met	-56,744	-77,542
Subsidies to National Power Authority (ceiling) 2/	0	0	0	Met	0	0	0	Met	0	0
Gross foreign exchange reserves of the central bank, in millions of U.S. dollars (floor)	-0.40	-0.38	4.98	Met	10.67	12.61	28.59	Met	-1.46	-0.12
Unadjusted target (floor)		-0.40				10.67				
Adjustment for the shortfall (excess) external budget support		-0.02				-1.94				
Adjustment for the shortfall in the U.S. dollar value of IMF disbursement		0.0				0.0				
Contracting or guaranteeing of new nonconcessional external debt by the public sector (ceiling) with maturities of one year or more 2/	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 2/	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0
External payment arrears of the public sector (ceiling) 2/	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0
Indicative targets										
Total domestic government revenue (floor)	111,409	111,409	118,896	Met	248,973	248,973	260,436	Met	379,972	532,573
Government wage bill (ceiling)	66,500	66,500	67,553	Not met	129,666	129,666	136,832	Not met	196,666	265,005
Poverty-related expenditures (floor)	43,320	43,320	31,919	Not met	89,254	89,254	69,919	Not met	139,254	202,254
Memorandum items:										
External budgetary assistance 3/	22,424		22,493		107,514		113,218		120,138	170,420
Net credit to government by nonbank private sector 4/	20,782		3,120		-15,478		2,780		7,199	6,558
Disbursements under the PRGF, in millions U.S. dollars	6.73				6.73				6.73	13.02

Sources: Sierra Leonean authorities; and IMF staff estimates.

1/ Variables are based on definitions in the TMU of March 2006.
2/ These apply on a continuous basis.
3/ Including program grants and program loans.
4/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the non-financial private sector.

Table 2. Sierra Leone: Structural Conditionality for 2006

Measure	Timing	Status
Prior actions for approval of the PRGF arrangement		
Deputy Auditor General has been appointed.		✓
The implementation of action plans to reform five key ministries has commenced, and Cabinet has approved the sixth action plan for the ministry of local government.		✓
A plan for transforming the Establishment Secretary's Office into Human Resources Management office has been approved by Cabinet.		✓
A medium-term revenue projection has been finalized for diamonds, rutile, and bauxite, and incorporated in the overall fiscal framework.		✓
All government units and accounts that should be included in the new reporting system for monetary and fiscal data have been identified, and benchmark annual data for 2004 established.		✓
Implementation of a new fiscal and monetary reporting system, developed with Fund technical assistance in 2005, for the reconciliation of fiscal data with monetary data has started.		✓
Specific measures to be taken during the period through end-2006 to convert the Establishment Secretary's Office into a Human Resource Management Office have been identified.		✓
An action plan for the implementation of the Government's Budgeting and Accountability Act has been approved by Cabinet.		✓
The stock as of February 28, 2006, of outstanding utility and wage arrears has been identified and an action plan to clear these arrears has been approved.		✓
Key ministries and agencies have established internal audit units under the control of the chief internal auditor of the Ministry of Finance.		✓
Structural performance criteria		
The database containing all job grades and salary levels for all civil servants and teachers has been updated and audited, and guidelines for annual salary adjustments within grade ranges approved by the cabinet.	June 30	Not met
An assessment of bank capitalization and credit quality for all commercial banks has been finalized by the Bank of Sierra Leone.	September 30	Met
Structural benchmarks		
A review of existing tax exemptions has been conducted and a plan approved for minimizing the exemptions.	June 30	Not met

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for January-December 2007

(Cumulative change from beginning of calendar year to end of month indicated; in millions of leones, unless otherwise indicated.) 1/

	March	June	September	December
	Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
Quantitative performance criteria and indicative targets				
Net domestic bank credit to the central government (ceiling)	15,840	4,406	63,806	42,609
Net domestic assets of the central bank (ceiling)	17,084	5,116	65,408	35,323
Gross foreign exchange reserves of the central bank, in millions of U.S. dollars (floor)	-6.17	4.08	-13.04	13.56
Domestic primary budget balance of the Central Government (floor)	-16,322	-34,718	-81,089	-136,450
Subsidies to National Power Authority (ceiling) 2/	0	0	0	0
Contracting or guaranteeing of new nonconcessional external debt by the public sector (ceiling) with maturities of one year or more 2/	0.0	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) 2/	0.0	0.0	0.0	0.0
External payment arrears of the public sector (ceiling) 2/	0.0	0.0	0.0	0.0
Budget performance indicators				
Total domestic government revenue (floor)	148,199	331,383	502,823	674,908
Government wage bill (ceiling)	75,196	150,638	227,493	304,603
Poverty-related expenditures (floor)	47,463	115,018	188,199	258,912
Memorandum items:				
External budgetary assistance 3/	30,375	85,890	85,890	197,683
Net credit to government by nonbank private sector 4/	952	1,252	1,452	2,000
Disbursements under the PRGF, in millions of U.S. dollars	0.00	6.50	6.50	12.99

Sources: Sierra Leonean authorities; and IMF staff calculations.

1/ Variables are based on definitions in the TMU of March 2006.
2/ These apply on a continuous basis.
3/ Including program grants and program loans.
4/ Comprises Treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the non-financial private sector.

Sierra Leone: Table 4: Proposed Structural Conditionality for 2007

Measures	Timing
Prior action for completion of the first review	
The database containing all job grades and salary levels for all civil servants and teachers has been updated and audited, and guidelines for annual salary adjustments within grade ranges approved by the cabinet.	
Structural performance criteria	
A three-year modernization plan for the National Revenue Authority (NRA), including a separation of HQ and operations functions has been adopted by the cabinet and tabled before parliament.	June 30, 2007
A comprehensive strategy for the reform of the financial sector has been adopted by the BSL, drawing on the recommendations of the FSAP, as described on pages 9 and 10 of the Financial System Stability Assessment.	September 30, 2007
Prepare a reconciliation of fiscal data with the expanded monetary data produced by the BSL and ensure consistency of the fiscal database with the monetary database.	December 31, 2007
Structural benchmarks	
A Revenue Reform Steering Committee has been established with membership and charter agreed.	March 31, 2007
Coverage of the Integrated Financial Management Information System (IFMIS) has been extended to key ministries, departments, and agencies (MDAs) to facilitate better expenditure control.	April 30, 2007
Consistent with the MOU, formal procedures with the Ministry of Finance (MOF) have been initiated to restore compliance with the BSL Act 2000 by establishing the terms and conditions for BSL's receipt of interest-earning securities to replenish the prescribed minimum paid-up capital.	March 31, 2007
Key MDAs have established and adequately staffed statistics units to collect and assemble information relevant for the compilation of socio-macroeconomic data by Statistics Sierra Leone (SSL) and a framework for cooperation between SSL and these units has been agreed upon.	June 30, 2007
Aggregated data for all extrabudgetary agencies and projects have been consolidated with the budgetary accounts of the Accountant General Office for the purpose of compiling analytical data of the whole central government.	June 30, 2007

Sierra Leone: Table 4: Proposed Structural Conditionality for 2007 (continued)

Measures	Timing
A Steering Committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement has been established and produced its first report.	March 31, 2007
The action plan on public expenditure tracking surveys (PETS) has been integrated into the broader public financial management (PFM) action plan to improve service delivery and reduce leakages.	September 30, 2007
The implementation framework for the Extractive Industries Transparency Initiative (EITI) has been developed in collaboration with key donors.	December 31, 2007

Appendix I. Attachment II. Sierra Leone: Technical Memorandum of Understanding

November 29, 2006

I. Introduction

39. 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 and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. It supplements the technical memorandum of understanding (TMU) in IMF Country Report No. 06/183, (3/10/06) (Appendix I; Attachment III) and adds three new structural performance criteria pertaining to (i) a modernization plan of the NRA, (ii) a comprehensive strategy for financial sector reform, and (iii) reconciliation of fiscal and monetary data. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 4 of the Memorandum of Economic and Financial Policies of the Government of Sierra Leone for January 1–December 31, 2007.

40. **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. For the 2007 program, the key exchange rates are shown in the box below. For other currencies, they will be converted into leones using those at September 29, 2006.

Leone/US$	2,970
US$/Euro	1.266
US$/Pound	1.870
US$/SDR	1.476

II. Quantitative Performance Criteria

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

41. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183).

42. **Adjustment clauses.** 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;[18] (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-liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

43. **Definition.** (See Appendix I; Attachment III in IMF Country Report No. 06/183).

44. **Adjustment clauses.** The ceiling on the NDA of the BSL will be adjusted upward by fifty percent of the amount of the shortfall in the external budgetary assistance at the test dates. The ceiling will be adjusted downward by the amount of the excess in the external budgetary assistance at the test dates.

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

45. **Definition.** (See Appendix I; Attachment III in IMF Country Report No. 06/183).

46. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward by up to fifty percent of the amount of the shortfall in external budgetary assistance and in case of delays of debt relief under MDRI. The ceiling will be adjusted downward by the amount of the excess in external budgetary assistance. 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 3 of the MEFP).

47. **Data source**. The data source for the above will be the series "Claims on Government (Net)" submitted to Fund 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).

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[18] External budgetary assistance is defined as program grants and program loans, but excluding external financing for the Disarmament, Demobilization and Reintegration (DDR) Program, and project-related grants and loans. The leone value of the cumulative shortfall (excess) of external budgetary assistance will be calculated at the program exchange rates.

D. Domestic Primary Budget Balance of Central Government

48. **Definition of Central government.** (See Appendix I; Attachment III in IMF Country Report No. 06/183).

E. Subsidies to the NPA

49. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183). This performance criterion will apply on a continuous basis.

F. External Payment Arrears of the Public Sector

50. **Definition.** (See Appendix I; Attachment III in IMF Country Report No. 06/183). This performance criterion will apply on a continuous basis.

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

51. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183). This performance criterion will apply on a continuous basis.

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

52. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183). This performance criterion will apply on a continuous basis.

III. Quantitative Performance Indicators

A. Domestic Revenue of Central Government

53. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183). The **floor on total domestic central government revenue** is defined as total central government revenue, excluding external grants.

B. Central Government Wage Bill

54. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183).

C. Poverty-related Expenditures

55. **Definition**. (See Appendix I; Attachment III in IMF Country Report No. 06/183).

IV. STRUCTURAL PERFORMANCE CRITERIA

A. Modernization Plan of the National Revenue Authority (NRA)

56. The three-year modernization plan of the NRA will aim at streamlining the NRA, including a separation of headquarters and operations functions. The cabinet will adopt the plan and table it before parliament by the test date.

B. Comprehensive strategy for the reform of the financial sector

57. The BSL, in consultation with key stakeholders, will adopt a comprehensive strategy for the reform of the financial sector, drawing on the recommendations of the FSAP, as described on pages 9 and 10 of the Financial System Stability Assessment.

C. Reconciliation of fiscal and monetary data

58. For this structural performance criterion, fiscal data should be collected and reconciled with the expanded monetary data produced by the BSL to ensure consistency of the fiscal and monetary databases.

V. PROGRAM MONITORING

59. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Economic Development and Planning; the Bank of Sierra Leone, and other relevant agencies. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. In addition, the Net Domestic Financing (NDF) Technical Committee shall provide the Fund 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.

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 in point 9(a) 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”].
(B) 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)	Monthly	End of month + 6 weeks
	Petroleum product pricing formula, tax receipts by categories of petroleum products	Monthly	End of month + 4 weeks
	Wage bill with a breakdown by ministries and MDAs showing numbers and corresponding amounts	Monthly	End of month + 4 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 central bank	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	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
	Gross official foreign reserves	Weekly	End of week + 3 days
	Foreign exchange cashflow table	Quarterly	End of quarter + 4 weeks

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

Type of Data	Tables	Frequency	Reporting Deadline
Balance of payments	Balance of payments	Annual	End of year + 9 months
	Revised balance of payments data	Variable	When revisions occur
	Exports and imports of goods (including a volume of key minerals and fuels)	Monthly	End of month + 6 weeks
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	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 3 weeks
MDRI	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 3 weeks
Monitoring	Minutes of the meeting of the Net Domestic Financing (NDF) Technical Committee	Weekly	End of meeting + 2 weeks
	Minutes of the meeting of the Inter-Agency Committee for National Statistics	Monthly	Date of meeting + 3 weeks

Appendix II. Sierra Leone: Relations with the Fund
(As of October 31, 2006)

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	17.45	100.00
Holdings	20.23	115.91

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	136.56	131.69

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/10/06	5/9/09	31.11	4.71
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 Fund (without HIPC assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	0.51	10.81	16.37	19.17	24.77
Charges/interest	0.35	0.65	0.59	0.50	0.39
Total	0.85	11.46	16.95	19.67	25.16

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002
Assistance committed (NPV terms)[19]	end-2000
Total assistance by all creditors (US$ million)	600.30
Of which: IMF assistance (US$ million)	123.30
(SDR equivalent in millions)	98.48
Completion point date	Floating
Disbursement of IMF assistance (SDR million)	
Amount disbursed	66.03
Interim assistance	66.03
Completion point balance	--
Total disbursements	66.03

VIII. Safeguards Assessment

Under the IMF safeguards assessment 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 the financial reporting, internal audit, and internal controls areas. The implementation of these measures is being monitored by IMF staff.

IX. Exchange Rate Arrangement and Summary of Exchange Restrictions

The BSL calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial banks' mid-rate and the bureaus' mid-rate in the previous week, for customs valuation purposes and for official transactions. Commercial banks may buy and sell foreign exchange from/to individual customers, as well as trade among themselves or with the BSL on a freely negotiable basis. As of October 31, 2006, the BSL mid-rate was Le 2986.9=US$1. The exchange rate regime has been reclassified as "crawling peg" to reflect the nominal stability of exchange rate developments under *de facto* management by the BSL through the auction as the only seller of foreign exchanges.

With effect from 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

[19] Net present value (NPV) terms at the decision point under the enhanced framework.

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.

X. Article IV Consultation

The 2004 Article IV consultation was concluded by the Executive Board on November 12, 2004. The next Article IV consultation with Sierra Leone will be held in accordance with the decision on consultation cycles, approved on July 15, 2002.

XI. Technical Assistance

Department	Time of Delivery	Purpose
MFD	October 1999	Financial sector issues.
MFD	January/February 2000	Improving foreign exchange auction.
FAD	May 2001	Conducting fiscal sector review and recommending reforms in expenditure manage and revenue administration.
MFD	May/June 2001	Assisting in banking supervision and regulation; monetary operations and framework; and payment systems.
MFD	November 2001	Assessing TA needs of the BSL, banking supervision, and central bank management.
FAD	June 2002	Reviewing public expenditure management systems.
STA	June 2002	Assessing the legal-institutional framework for statistics.
MFD	December 2002	Banking supervision and regulation and monetary operations and framework.
STA GDDS	April 2003	Monetary and financial accounts.
STA GDDS	April 2003	Balance of payments.
MFD	May/June 2003	Monetary operations, banking supervision, and payment systems.
STA GDDS	November 2003	Follow-up on Balance of Payments.
MFD	November 2003	Providing and planning follow-up TA to the BSL on monetary operations, banking supervision, and payment systems.

Department	Time of Delivery	Purpose
FAD	February 2004	Reviewing the tariff and indirect tax system, National Revenue Authority, and tax and customs administration
STA GDDS	March 2004	Strategic planning.
FAD	March/April 2004	Reviewing the system of fiscal incentives, especially the special tax regimes applied to mining and petroleum sectors.
STA GDDS	April 2004	National accounts.
STA GDDS	August 2004	Study tour for Sierra Leonean officials to Kenya on strategic planning.
STA GDDS	September 2004	National accounts.
STA GDDS	September/October 2004	Balance of payments
STA GDDS	October 2004	Monetary-fiscal accounts reconciliation.
MFD	November 2004	Multi-topic technical assistance.
STA GDDS	February 2005	Monetary-fiscal accounts reconciliation.
STA GDDS	February 2005	National accounts.
STA GDDS	April 2005	Monetary-fiscal accounts reconciliation.
STA GDDS	August/September 2005	Monetary-fiscal accounts reconciliation.
MFD	November 2005	Multi-topic technical assistance.
STA GDDS	January 2006	National accounts.
STA GDDS	August 2006	Monetary-fiscal accounts reconciliation.

XII. Resident Representative

Mr. Alvin Hilaire assumed responsibility for the Fund office in November 2006. Mr. Hilaire is also the Fund's resident representative in The Republic of Guinea and stationed in Conakry.

Appendix III. Sierra Leone: World Bank–IMF Relations

(As of September 30, 2006)

A. Partnership in Sierra Leone's development strategy

1. Sierra Leone's development strategy increasingly emphasizes growth and poverty reduction. Its final PRSP (adopted by the government in March 2005) highlights growth as a precondition for poverty reduction, and comprises three pillars: (i) Good governance, Security, and Peace Building; (ii) Pro-poor Sustainable Growth for Food Security and Job Creation; and (iii) Human Development.

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes regular participation of Bank staff in the meetings with the government on the Fund's program review missions, IMF staff participation in Bank development policy missions, and Bank internal review meetings. The IMF takes the lead in macroeconomic stabilization and the World Bank in social and structural areas, with close collaboration on a few structural areas that have a particular impact on macroeconomic stability. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's dialogue and conditionality have maintained consistency with the macroeconomic framework endorsed by the Fund.

B. World Bank Group strategy

3. The Bank's Board endorsed a new IDA Country Assistance Strategy (CAS) for Sierra Leone for FY2006–09 in June 2005 following continued progress in establishing security and governance as well as the completion of the new PRSP. The new CAS supports the strategy outlined in the PRSP for a transition to policies and programs for sustained growth and poverty reduction with gradually decreasing emphasis on post-conflict needs. The continued maintenance of a stable macroeconomic framework is considered to be a prerequisite for World Bank program support.

4. Under the CAS, the World Bank, through IDA, is assisting the government in pursuing progress under three strategic priorities: (i) Governance, Decentralization, and Public Financial Management; (ii) Sustainable Growth, Food Security and Jobs Creation; and (iii) Human Development. Instruments used in supporting these objectives include a series of Development Policy Grants followed by a series of PRSC operations, a US$44 million transportation project, a US$23 million rural and private sector development project, a US$6 million Mining Sector Management operation, and further social sector, infrastructure, and public sector reform operations in the outer years.

5. Thus, in FY2006, the Bank provided a US$44 million credit for an Infrastructure Development Project (Transport). In FY2007, planned operations include a Rural Development and Private Sector Development Project (US$23 million), a Mineral Resources Technical Assistance Project (US$6 million), and a Development Policy Grant (US$10 million). In FY2008, the Bank expects to provide another Development Policy Grant and a social sector credit (education and health).

6. As of July 14, 2006, the World Bank has approved 51 loans, credits and grants for a total of US$833.9 million, with an undisbursed amount of US$179.2 million. The current portfolio consists of eight operations, as summarized in the table below, in the areas of infrastructure, decentralization, and government services totaling about US$206.5 million.

Sierra Leone: Financial Relations with the World Bank
(As of September 30, 2006; in millions of U.S. dollars)

	Commitments			Of which:
	IBRD	IDA		Undisbursed
IBRD/IDA Lending Operations				
HIV/AIDS Response Project	0.00	15.0		5.3
Rehabilitation of Basic Education	0.00	20.0	G/	11.1
Health Sector Reconstruction	0.00	20.0	G/	11.9
National Social Action Project	0.00	35.0		15.3
Institutional Reform and Capacity Building	0.00	25.0	G/	11.2
Power and Water	0.00	35.0		29.9
Completion of Bumbuna Hydroelectric Project	0.00	12.5		12.3
Infrastructure Development Project (Transport)	0.00	44.0	G/	44.6
Total	0.00	206.5		141.6
Total disbursed (IBRD and IDA)*	18.7	629.1		
Of which: repaid	18.2	46.9		
* Of which: Total disbursed IDA Grants		50.0		

Source: World Bank.

G/ Loan type = IDA Grant (all others are IDA Credits)

C. IMF-World Bank collaboration

7. **Areas in which the Fund leads.** The Fund takes the lead in macroeconomic stabilization including macro-fiscal policy, monetary policy, exchange rate policy, and financial stability and risk management.

8. **Areas in which the Bank leads.** The Bank takes the lead in structural areas where both institutions have conditionality, including structural reform, privatization, and

regulatory reform (telecommunications, banking, financial and energy sectors). The Bank also leads in other areas such as: agricultural competitiveness/diversification; rural development (irrigation, roads, support to producer organizations); private sector development (strengthening the investment climate, access to business services, support to small/medium enterprises); urban development (historic rehabilitation/preservation, land/housing market development, water/road infrastructure); transportation policy/infrastructure; energy sector reforms; and social sectors (health, education and social protection, including HIV/AIDS). The Bank's work in structural areas includes analytical work and dialogue on trade and growth policies, which form part of the overall economic policy dialogue.

9. **Areas of shared responsibility.** Both Bank and Fund collaborate in assessing performance of HIPC resource use. Both also monitor progress on budgetary and public expenditure management, yet emphasize different aspects of the government's reform program in their respective support operations. Bank support is at the national level in the Ministry of Finance (global MTEF, integrated information technology system, audit capabilities, budget reporting) and sector ministries (selected sector MTEFs, inter- and intra-sectoral allocations), as well as at the local councils' level. The Fund's emphasis is on fiscal management, expenditure management, and revenue enhancing measures.

Appendix IV. Sierra Leone: Statistical Issues

1. The prolonged civil war has resulted in serious deficiencies in the macroeconomic database, particularly in the areas of the balance of payments, national accounts, and social indicators. From the May 1997 coup to March 1998, statistical compilation virtually collapsed because of institutional damage and the departure of key skilled personnel from the administration. Since April 1998, however, the authorities have endeavored to rehabilitate the data collection and compilation systems. The authorities are cooperating fully in providing data to the Fund for the purposes of policy formulation and program monitoring. The authorities are also trying to disseminate economic and financial data to the public on a regular basis.

2. A major and sustained improvement in the coverage and timeliness of economic data will require the restructuring of the institutional framework following recommendations of the March 2004 IMF/World Bank mission on the development of a strategic plan for the statistical system. Budgetary resources remain scarce for the main statistical unit, Statistics Sierra Leone (SSL); this situation most adversely affects the compilation of national accounts and price statistics. Cooperation and coordination between the main statistical agencies should also be improved. Sierra Leone participates in the GDDS and its metadata, including detailed plans for improvement over the short and medium term, were posted on the Fund's DSBB on May 29, 2003, and subsequently updated in August 2006. Sierra Leone is receiving Fund technical assistance (TA) in priority areas under the regional GDDS project for Anglophone African countries, funded by the U.K. Department for International Development (DfID).

National accounts

3. National accounts data are prepared by the SSL using data received from government ministries and agencies, public enterprises, and through small annual sample surveys of economic activity, although based on outdated lists and with extremely low response rates. Thus, the private sector has not been adequately represented in the national accounts compilations, especially small businesses, which represent a very high proportion of business activity in Sierra Leone. The consumer price index (CPI) is used extensively to derive estimates of GDP at constant prices.

4. Following the civil war, an effort to reconstruct the national accounts estimates commenced during 2003/04 and is continuing, with the main effort now focusing on preparing new estimates for 2001 and beyond. Resource constraints have significantly delayed production of final estimates and only preliminary data for the 2001–04 period have been made available. These are now in the final stages of revision, but will be relatively weak because of the lack of adequate source data, especially for 2001 and 2002.

5. Since March 2004, and with support from the GDDS Anglophone Africa Project, five national accounts TA missions visited Freetown, the last being in January 2006. These missions reviewed the source data, methodologies, and compilation issues and assisted with data development and improvements in methodology. The last mission prepared and coordinated with the authorities a short-term action plan to incorporate longer-term improvements in the strategic plan. Plans 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 statistical development undertaken by SSL.

6. Fund area department missions continue to make their own estimates and projections of key national accounts aggregates, as well as adjustments to historical data using available information.

Prices

7. The CPI is compiled on a monthly basis by the SSL and published with a lag of about three weeks. It covers the capital city and three towns with a base period of 1992. Plans are underway to re-base the CPI to 2004; using the 2003 Sierra Leone integrated household survey and extended the geographic coverage of the CPI so that a national CPI can be compiled. SSL plans to complete this work during 2006 following the end of the field work in June 2006. The production of producer price indices remains a medium-term goal.

Government finance statistics

8. The budget reporting system was established with assistance provided under the Fund/UNDP technical assistance project. Monthly data on central government revenue, current expenditure, and financing are provided, with appropriate desegregation. The European Commission (EC) is providing technical assistance to the Accountant General's Office that will improve the timeliness and quality of fiscal data. Data on capital expenditure are poor. Sierra Leone reports fiscal data to AFR and has resumed its submission of annual data for publication in the *GFS Yearbook* (data for 2002 through 2004 will be published in the 2006 *GFSY*). Fiscal data only cover the budgetary central government, excluding extrabudgetary agencies and local governments.

9. There is an urgent need for greater timeliness and accuracy of data on foreign-financed development projects. Reports on the implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis as implementation data are not available. There is also need for assuring quality control of the final data. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general- and foreign aid-financed projects. In the context 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 these two data sets (see below). This reconciliation is a performance criterion in Sierra Leone's PRGF program with the Fund.

Monetary statistics

10. The main components of the central bank balance sheet are available on a daily and weekly basis; this system provides an early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks, with comprehensive coverage of commercial banks.

11. A key issue remains the reconciliation of fiscal and monetary statistics. An October 2004 TA mission indicated that such reconciliation is very difficult due in part to (i) fiscal data compilation solely on a cash basis, and (ii) incomplete definition of the central government. Even though the authorities undertook an exercise in 2003 to identify government accounts in the banking system, the review of the list of government agencies revealed significant shortcomings. The mission recommended that the authorities develop a reliable definition of the central government for statistical purposes. Three follow-up missions were conducted in 2005 to assist the authorities in the identification of all government units, to establish a fiscal reporting system, to classify the accounts of the BSL according to STA's Standard Report Form (SRF), and to provide training for commercial bank officials. A follow-up mission in August 2006 reviewed progress in developing reconciliation between the expanded fiscal data and the existing monetary data and implementing the SRFs for the BSL and other depository corporations (ODC). The mission noted that while significant progress was made in implementing the SRF for the BSL and introducing new forms for reporting ODC data to the BSL, progress has been slow in establishing a regular fiscal reporting system.

Balance of payments statistics

12. The BSL is responsible for the compilation of balance of payments (BOP) statistics. The BSL 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. Goods estimates are based on the import and export data compiled by Customs and are adjusted for coverage, valuation, and timing to accord with BOP definitions. However, the BSL does not make adjustments to BOP data using supplementary information to take account of unreported data.

13. External transactions are characterized by a large volume of activity in the informal sector, principally the smuggling of diamonds. A considerable portion of imports is financed by these unrecorded exports. As a result, official BOP statistics tend to substantially understate

transactions. The staff has been addressing this problem through the use of third-country (principally EU member) import data. The Fund's Statistics Department (STA) has been providing technical assistance on BOP issues under the GDDS project to help the authorities with the implementation of the *Balance of Payments Manual, Fifth Edition (BPM5)*—the most recent technical assistance mission took place in September/October 2004.

14. Outstanding data problems exist for trade in services, income statistics, current transfers, and in the financial and capital accounts. Regarding the latter, 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 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.

15. Against this background, information on official program grant and loan receipts is relatively good and is prepared by AFR on the basis of contact with the authorities and donor agencies. In contrast, data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private capital flows, especially those linked to the informal diamond trade, are implicitly included within "Errors and omissions." Data on the gross and net official reserves positions of the BSL are provided monthly to the Fund with a short lag. STA is in contact with the authorities in an effort to reconcile balance of payments flow data with stock data in the international investment position.

Sierra Leone: Table of Common Indicators Required for Surveillance

November 13, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	10/06	10/06	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6/06	7/06	M[7]	M	M
Reserve/Base Money	9/06	11/06	M[8]	M	M
Broad Money	9/06	11/06	M[7]	M	M
Central Bank Balance Sheet	9/06	11/06	M[8]	M	M
Consolidated Balance Sheet of the Banking System	9/06	11/06	M[8]	M	M
Interest Rates[2]	10/06	11/06	W	M	W
Consumer Price Index	7/06	9/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	6/06	8/06	M	Q	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	6/06	8/06	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/06	8/06	M	Q	N/A
External Current Account Balance	12/05	10/06	A	A	A
Exports and Imports of Goods and Services	12/05	10/06	A	A	A
GDP/GNP	2005	7/06	A	I	A
Gross External Debt	12/05	7/06	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state
and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)
[7] Weekly estimates provided in Bank of Sierra Leone's "Daily Indicators"
[8] Daily estimates provided in Bank of Sierra Leone's "Daily Indicators"

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 07/19
FOR IMMEDIATE RELEASE
February 13, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with Sierra Leone

On December 15, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sierra Leone.[1]

Background

Sierra Leone has made substantial progress with its post-conflict transition. Macroeconomic performance during the last Poverty Reduction and Growth Facility-supported program (2001-04) was on the whole strong, and structural reforms helped establish a foundation for improved public finance management and the conduct of macroeconomic policies. Overall performance continued to improve during 2005, with output growth estimated at 7.3 percent, reflecting healthy activity in agriculture, mining, construction, and the services sectors. In 2005, annual average inflation declined moderately to 12.1 percent as the fiscal stance was tightened during the last quarter of 2005.

However, this tightening did not fully produce the hoped-for results and the overall fiscal position deteriorated because revenues were lower and poverty-related spending and development expenditures accelerated. Significant inflows of foreign aid led to the accumulation of net foreign assets and accelerated the pace of monetary expansion. The external current account deficit (including official transfers) widened to 7.7 percent of GDP from about 5 percent of GDP in 2004, because import growth outpaced a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

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diamond-led strong export performance, reflecting higher cost of imported fuels and capital goods associated with refurbishing the mines. After depreciating steadily during the past few years, the real effective exchange rate of the leone appreciated by about 21 percent in 2005.

In the context of the new PRGF-supported program (2006-08), the government took corrective measures and policies against the fiscal and monetary slippages. During the first half of 2006, inflation fell to 9.3 percent at end-June 2006, as a continued tight fiscal stance, supported by adequate monetary policy, mitigated pressures stemming from the pass-through of high world oil prices. Revenue performance and external budgetary support were strong and, coupled with lower-than-budgeted expenditures, led to a significant improvement of the liquidity position. This allowed the government to make net repayments to commercial banks, which in turn contributed to a slowdown in the growth of net domestic assets of the banking system. Broad and reserve money expansion fell below the program projections set for June 2006. External gross reserves reached US$187 million (3.6 months of import coverage) at end-June 2006, reflecting fully disbursed budgetary support. With inflation declining and the nominal effective exchange rate fairly stable, the real exchange rate depreciated for most of 2006.

Regarding structural reforms, progress has been made in the area of public financial management with a numbers of measures implemented in the context of the PRGF arrangement. These include the adoption of a Government Budgeting and Accountability law and the introduction of a new Integrated Financial Management Information System (IFMIS) to facilitate better expenditure control and accounting. On the other hand, progress has been limited in the area of combating corruption and the Anti-Corruption Commission needs further strengthening.

Growth prospects over the medium term remain encouraging with the completion of the rehabilitation of rutile and bauxite mining operations, a projected increase in gold exports, and a pick up in services growth. Real output growth is projected to stabilize in the range of 6-7 percent during 2006-10, underpinned by broad-based sectoral growth. Inflation is expected to converge to single digits by the end of 2007, while the current account deficit would narrow, aided by growth in mineral exports. The projected strong and broad-based growth will, however, still leave Sierra Leone quite far in terms of achieving the MDGs. Poverty remains pervasive, particularly in rural areas, and poverty-reducing efforts have yet to make notable progress.

Executive Board Assessment

Executive Directors welcomed Sierra Leone’s continued robust and broad-based economic growth and the recent moderation of inflation, and commended the authorities for their steady progress in consolidating the environment of peace and stability. Directors recognized the continued critical role of the international community in helping Sierra Leone to surmount the daunting post-conflict challenges.

Directors stressed that the realization of the Millennium Development Goals (MDGs) will depend on progress towards fiscal sustainability, the avoidance of excessive debt accumulation, and strong private-sector led growth, supported by significant external financial assistance. They observed that, in order to create fiscal space for poverty reduction, the authorities will need to increase Sierra Leone's domestic revenue-to-GDP ratio and rationalize public expenditure. Directors emphasized, in this context, the importance of bringing the wage bill under control, including through civil service reforms.

Directors encouraged the authorities to accelerate governance and other structural reforms, which will enhance transparency and accountability and improve the regulatory environment, and commended the authorities' initiatives to strengthen public financial management. They cautioned against the use of tax incentives to stimulate activity and encouraged, instead, the adoption of a rules-based and predictable fiscal regime that will apply uniformly to all companies. In light of the public perception of widespread corruption, Directors welcomed the authorities' commitment to implement reforms in several critical areas in the context of the Improved Governance and Accountability Pact, and to ensure the full implementation of the Extractive Industries Transparency Initiative.

Directors encouraged the authorities to address financial sector reforms to foster domestic savings and spur investment and growth. In this connection, they urged the authorities to set up a timetable for adopting and implementing a comprehensive strategy to reform the financial system drawing on the recommendations of the 2006 Financial Sector Assessment Program, and carry through with the implementation of the Anti-Money Laundering Act.

Directors stressed that vigilance will be needed to ensure the containment of inflation and welcomed the decision to provide government securities to the Bank of Sierra Leone (BSL), which will help strengthen the monetary framework. They also stressed that more flexible exchange rates would facilitate economic adjustment to exogenous shocks, and recommended that interventions by the Bank of Sierra Leone in the foreign exchange market be limited to achieving targeted international reserves and smoothing excessive short-term volatility. A few emphasized that increased flexibility would need to be phased in as the supporting infrastructure and administration are strengthened.

Directors observed that following the provision of debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), Sierra Leone's debt ratio will decline significantly, lowering the risk of debt distress and providing much-needed resources for reducing poverty and meeting the MDGs. They welcomed the authorities' commitment to use freed up resources for poverty-reducing spending and their intention to rely on grants and limit new borrowing to highly concessional loans in order to avoid an unsustainable accumulation of debt. Directors encouraged non-Paris Club creditors to grant debt relief in line with the HIPC framework, and emphasized the need for a close monitoring of external and domestic debt in the post-MDRI era. Looking forward, they underscored the importance of the international community's continued support for the authorities' reform efforts.

Directors expressed concern at continued data weaknesses and underscored the need to improve, in particular, the timeliness and quality of national accounts and financial data. They urged the authorities to provide adequate resources to Statistics Sierra Leone in this endeavor.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Sierra Leone: Selected Economic and Financial Indicators, 2003–06

	2003	**2004**	**2005** Est.	**2006** Proj.
	(Annual percentage, unless otherwise indicated)			
National Income and Prices				
Real GDP	9.3	7.4	7.3	7.4
Nominal GDP	18.3	24.6	21.1	24.2
Consumer prices (end of period)	11.3	14.4	13.1	10.1
Consumer prices (annual average)	7.5	14.2	12.1	12.2
Money and credit				
Broad money	26.2	18.9	32.8	3.9
Velocity (level)	4.9	5.1	4.7	5.6
Domestic credit 1/	13.2	-1.1	1.0	-55.8
Government 1/	8.9	-6.5	-2.2	-71.5
Private sector 1/	64.5	45.2	17.8	11.2
Reserve money	22.4	12.6	24.3	0.5
Treasury bill rate (end of period; in percent)	20.2	28.0	16.9	...
External sector				
Exports (in millions of U.S. dollars)	27.4	17.3	11.1	28.7
Imports (in millions of U.S. dollars)	15.6	-11.8	32.0	7.7
Terms of trade (- deterioration)	-1.9	-4.6	-2.3	-9.4
Real effective exchange rate (- depreciation; end of period)	-18.2	-8.0	20.9	...
Exchange rate (leones per U.S. dollar, average)	2,348	2,701	2,890	2,961
	(In percent of GDP)			
Gross domestic saving	-7.4	-1.7	-0.6	1.8
Government	-3.2	-1.2	-1.6	0.1
Private	-4.2	-0.5	1.0	1.7
Gross domestic investment	13.9	10.7	17.4	15.1
Government	4.8	4.6	5.8	5.0
Private	9.0	6.1	11.5	10.1
Current account balance, including official transfers	-7.6	-4.9	-7.7	-5.4
Overall balance of payments 1/	-4.6	1.4	-0.2	9.0
Net present value of debt-to-exports ratio	588.0	413.6	364.3	35.9
Government domestic revenue	12.4	12.3	11.9	12.5
Total expenditure and net lending	26.9	24.8	24.6	21.4
Overall fiscal balance (including grants and MDRI) 1/	-6.7	-3.5	-2.7	11.4
Domestic primary fiscal balance 2/	-5.6	-2.8	-3.1	-1.5
Domestic financing 1/	4.3	-0.1	1.2	-11.7
	(In millions of U.S. dollars, unless otehrwise indicated)			
External current account balance, excluding official transfers	-139.7	-123.6	-177.3	-151.6
Gross international reserves	59.4	124.9	168.3	169.0
(in months of imports of goods and services)	1.8	3.1	3.8	3.4
GDP (in billions of leones)	2,323.6	2,898.6	3,510.2	4,361.2

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ The numbers for 2006 reflect the impact of MDRI relief from IMF (as a stock of debt relief).
2/ Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure and disarmament, demobilization, and reintegration (DDR) program.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under PRGF Arrangement for Sierra Leone and Approves US$6.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Sierra Leone's performance under an SDR 31.1 million (about US$46.7 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release 06/94). With the completion of this review, Sierra Leone would be able to draw the equivalent of SDR 4.4 million (about US$6.6 million), bringing the amount disbursed under the arrangement to the equivalent of SDR 9.1 million (about US$13.7 million).

The Board agreed to waive the nonobservance of the end-June 2006 structural performance criterion on the updating and auditing of the civil service database, as this measure has been implemented as a prior action for completion of the first review.

Following the Executive Board's discussion on Sierra Leone, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, said:

"The Sierra Leonean authorities are to be commended for their progress in consolidating peace and macroeconomic stability, which has supported continued robust and broad-based growth and a recent moderation in inflation. This progress places Sierra Leone, with the assistance of the international community, including the United Nations Peacebuilding Commission, in a favorable position to surmount its daunting post-conflict challenges.

"The realization of the Millennium Development Goals (MDGs) will depend on strengthened program performance, including progress towards fiscal sustainability, the avoidance of excessive debt accumulation, and strong private-sector led growth, supported by significant external financial assistance. In order to create fiscal space for poverty reduction, the Sierra Leonean authorities will need to increase the domestic revenue-to-GDP ratio, and rationalize public expenditure. A key policy measure will be civil service reforms, which should improve the quality of public services while also helping to bring the wage bill under control.

“Financial sector reforms will be important for fostering domestic savings and spurring investment and growth. Implementation of a comprehensive strategy to strengthen the financial system according to a firm timetable will be a crucial element of the reforms. A further important element will be sustained implementation of the Anti-Money Laundering Act.

“Vigilance will be needed to ensure the containment of inflation. In this regard, the decision to provide government securities to the Bank of Sierra Leone (BSL), which will help strengthen the monetary framework, is welcome. The authorities appropriately aim to pursue a flexible exchange rate policy which will facilitate economic adjustment to exogenous shocks.

“The acceleration of governance and other structural reforms will enhance transparency and accountability, and improve the regulatory framework. The authorities’ commitment to critical reforms in the context of the Improved Governance and Accountability Pact, and to the full implementation of the Extractive Industries Transparency Initiative is welcome.

“The provision of debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) will lead to a significant decline in Sierra Leone’s debt ratio, lowering the risk of debt distress. The authorities’ commitment to using freed up resources for poverty-reducing spending and their intention to borrow only on highly concessional terms are commendable. Non-Paris Club creditors are encouraged to grant debt relief in line with the HIPC framework,” Mr. Portugal said.

Statement by Peter Gakunu, Executive Director for Sierra Leone and Joseph T. Kanu, Senior Advisor to Executive Director December 15, 2006

Introduction

1. On behalf of our Sierra Leonean authorities, we thank staff, Management and the Executive Board for the continued support provided to Sierra Leone, including technical assistance, throughout the past years. They recognize the hard work and fruitful dialogue that has taken place between them, the IMF and the World Bank in the preparation of the current PRGF and HIPC Initiative Completion Point documents. These developments are an important achievement and also serve as evidence of the effective engagement of the international community in Sierra Leone. The authorities recognize the many challenges going forward into the medium-term, and count on the continued engagement of the international community to address them. In particular, expanding and improving social and economic infrastructure remains fundamental in the fight against poverty, given that the lack of these fundamentals has constituted an important impediment to growth and severely eroded the quality of life of the citizenry.

Recent Economic Developments

2. While much progress has been made in the implementation of the successor PRGF arrangement, approval of the completion point under the enhanced HIPC Initiative will strengthen the authorities' resolve. The authorities remain committed to sound macroeconomic management of the economy, promoting sustainable growth, and working towards reducing the pervasive poverty. Economic growth in the first half of 2006 was robust, supported by strengthened fiscal performance. This also resulted in improvements in the country's liquidity position, which has further led to net repayments to the central bank. This positive development led to a considerable reduction in the growth of net domestic assets of the banking system. However, developments in net foreign assets dominated growth in broad money during the period 2005-2006. Considerable foreign aid inflows greatly supported growth in credit to both government and the private sector. On the other hand, broad money growth declined to levels below program targets in 2006 due to continuous policy adjustment, namely an increase in government deposits and partial sterilization of domestic liquidity by the central bank in the foreign exchange auction.

3. Resumption of exports in rutile and bauxite led to an improvement in the external current account despite a deterioration in 2005 caused by higher import prices of oil products. Gross foreign reserves rose to about 3.6 months of import cover supported by the gradual reduction of refurbishing-related exports. Reforms were also undertaken to strengthen governance, particularly in public financial management, in order to develop the capacity of the public sector, supported by the donor community. This has resulted in

improvements in budget preparation, budget execution, and public procurement. Efforts have also been made to limit the level of central bank financing of the budget deficits, control public expenditures, and improve service delivery through more frequent and focused public expenditure tracking surveys (PETS).

Surveillance

4. Given the high reliance on external assistance, a key challenge for the authorities' going forward is to ensure that higher economic growth and rapid progress toward achieving the MDGs are sustained. In addition to making adequate use of the available mineral potential, the agricultural sector will be developed, as outlined in the SL-PRSP pillars, which include ensuring the consolidation of peace and macroeconomic stability; and fostering an enabling environment to promote private sector activities. The authorities continue their strive to mobilizing additional domestic resources and directing these resources towards meeting the objectives of poverty reduction and growth. In order to attract needed FDI, the authorities are providing tax incentives in a transparent manner and in the context of the private sector development program currently under implementation with assistance from DfID, UK. Efforts are also being made to implement a comprehensive strategy in order to streamline the regulatory environment and strengthen property rights. In view of this, the Bankruptcy Act is being revisited; the Securities Act is under preparation; while a new Companies Act is in the process of being introduced.

5. Implementation of a crawling peg exchange rate in 2005 resulted in a sharp appreciation of the exchange rate, which led to a reversal of gains in competitiveness from the previous depreciation. In view of high vulnerability to external shocks and the benefits that will arise from pursuing a more flexible exchange rate policy, the central bank's ongoing activities have ensured limited interventions in order to achieve program objectives on international reserves. The authorities reiterate that they currently have no target exchange rate path and are, therefore, not supportive of a reclassification of the de facto exchange rate regime as a crawling peg, given that the exchange rate has been stable over extended periods.

Fiscal Policy

6. Preservation of fiscal sustainability largely depends on prudent and better mobilization of domestic revenues, which will facilitate meeting the huge poverty reduction expenditures and improvement in infrastructures needed to support growth. The low rate of tax compliance has enabled efforts to strengthen the National Revenue Authority (NRA) and current policy priorities in this regard include undertaking reforms in broadening the tax base and eliminating tax exemptions consistent with the recommendations of the IMF study. Other measures include creating the large taxpayers unit (LTU), intensifying collection of tax arrears, and adopting an integrated approach for the computerization of tax procedures. Additional efforts are on-going to revise bilateral agreements with private sector entities to

ensure maximization of government revenue, including equal treatment of potential investors, and eliminating discretionary tax and duty waivers.

7. On expenditures, the authorities realize the enormous benefits that will arise from controlling the wage bill and ensuring improvements in the level of expenditures. Their main objective is to develop and implement a credible wage management system in certain key ministries given the challenges faced, especially in the management of a post conflict wage bill, as Ministries have had a compelling need to reinstate displaced civil servants as they showed up. Accelerated reconstruction of education and security sectors have also led to increased recruitment of teachers and police personnel respectively, leading to a rising wage bill. Measures are, however, being taken to sunset these activities to avoid recurrent wage bill overruns. In this respect, the authorities have, with the assistance of donor partners, undertaken to create a Senior Executive Service (SES) aimed at generating a competent leadership for all Ministries, Departments and Agencies (MDAs).

8. The authorities believe that obtaining debt relief under the HIPC and MDRI will facilitate a sustainable public external debt burden over the medium-term. They are committed to continued implementation of sound macroeconomic policies that would include pursuit of a prudent external financing strategy. The authorities will also undertake a prudent borrowing policy and ensure strengthening of debt management capacity in order to eliminate any build up of unsustainable debt. In this regard, they are committed to accessing more grant financing and concessional loans from their development partners, in addition to ensuring tighter controls on expenditures to prevent the emergence of domestic arrears.

Transparency and Accountability

9. The authorities are aware that enhanced transparency and accountability will help prevent misappropriation and waste of public resources, a key factor in stimulating economic development and reducing poverty. They are implementing the Institutional Governance and Accountability Pact (IGAP) agreed with donors. They are committed to undertaking and completing critical governance and accountability reforms by mid 2007. There are ongoing efforts to strengthen the Anti Corruption Commission (ACC), including the establishment of a Law Reform Task Force to review and amend the ACC Act of 2000. While continuing to strengthen public financial management, the authorities have also introduced the new Integrated Financial and Management Information System (IFMIS) to facilitate expenditure control and accounting. The IFMIS will be rolled-out to key MDAs in the first half of 2007, and will be extended to all other government institutions and local councils at a later stage.

Financial Sector Reform

10. Developing the financial sector remains a key priority for the authorities, with expectations that this will help promote savings and generate investment growth. To buttress

their commitment, the authorities intend to adopt a comprehensive financial sector strategy in the last quarter of 2007 in line with FSAP recommendations. This will, in addition to other measures, address vulnerabilities, especially on issues relating to undercapitalization and credit quality of the commercial banks. Financial intermediation will also facilitate restoration of confidence within the banking system that includes ensuring efficiency in the payments and settlements system. The administrative and regulatory structures will also be set up to kick start stock market activities within the economy. Finally, in addition to the ratification of the United Nations Convention for the Suppressing of Financing of Terrorism, the Anti-Money Laundering (AML) Act will be implemented, and with technical assistance, the Financial Intelligence Unit (FIU) will be created to boost efforts towards combating AML and Combating the Financing of Terrorism (CFT).

PRGF Program Implementation

11. Implementation of the current PRGF program has been satisfactory with all quantitative performance criteria met with the exception of the structural performance criteria and benchmark. The authorities reiterate their position that delays in implementation of the above measures was due to existing constraints on capacity. Going forward, the authorities have completed the audit of the civil service database and are devising an action plan to address identified weaknesses. A plan has already been adopted to reduce the number of tax exemptions, resulting in the structural performance for end-September 2006 being observed. Given their renewed commitment towards achieving the targets for the second half of the year, they continue to emphasize that full financing of the program largely depends on the timely disbursement of donor resources. Although increases in expenditure will raise the fiscal deficit, prompt delivery of donor assistance will help bring down inflation and sustain it at single digit levels. The increase in the level of exports will also result in a substantial reduction in the current account deficit. The authorities are fully aware of the major downside risks that may arise to the above developments especially if there is a sluggish disbursement of resources. They therefore call on the donor community to ensure timely release of budgetary support.

Medium-Term Outlook

12. Going forward into the medium-term, real GDP growth is expected to remain at 6.5 percent over the period 2007-09 as a result of robust developments in agriculture and mining. The macroeconomic framework anticipates an increase in the primary fiscal deficit to 2.7 percent of GDP to facilitate an increase in poverty-related expenditures under the HIPC and MDRI. Although there is a possibility for the overall deficit to increase to 12.2 percent of GDP in the event of a shortfall in external budgetary support, this will be offset by the significant level of increase in private savings. This will eventually culminate in the external current account remaining unchanged in comparative terms. As regards fiscal policy, efforts will be directed at the mobilization of domestic revenue to attain the level of

13.2 percent of GDP, an increase of 0.7 percent, and to ensure targeting of capital expenditures and increase them to 8.6 percent by 2007. The authorities will ensure that poverty-related expenditures are also consistent with the World Bank's policy focus.

13. Monetary policy on the other hand, is geared towards ensuring that program objectives are achieved and allowing modest increases in credit to the private sector. Efforts will be made to achieve single digit inflation that will be consistent with overall growth in the economy. Reserve money will continue to serve as the primary intermediate policy target and will be enhanced by provision of additional government securities to the central bank. The central bank will maintain its prudent management of monetary aggregates and involvement in the foreign exchange market will be limited. Steps will also be taken to increase the efficiency and diversity of monetary policy instruments, including promoting growth of credit to productive activities. Projected inflows from debt relief will be sterilized and interventions in the foreign exchange market are to be limited to a weekly basis in order to meet reserve program targets.

14. The authorities expect to stabilize the external position by 2007 subject to the availability of adequate financing. In this regard, requests for debt relief from Paris Club creditors in relation to HIPC completion point following completion of the first review of the PRGF program will be undertaken on a timely basis. The authorities have requested an IDA debt reduction facility to address the remaining commercial debts. Meanwhile, negotiations continue with commercial creditors and goodwill payments made to avoid litigation. The authorities stress that a key determinant for the successful implementation of their medium-term program will be donors' timely disbursement of committed funds and prompt delivery of promised technical assistance.

15. Key challenges of the structural reform program will be addressed commencing 2007, while those in the financial sector are to be guided by recommendations outlined in the FSAP report. In this regard, adequate measures have been taken by the authorities through an MOU between the Ministry of Finance and Bank of Sierra Leone to address shortages in Treasury bills in the central bank portfolio. This will provide additional monetary instruments in mopping excess liquidity. Following completion of the safeguards assessment in the first half of 2006, the central bank will seek to strengthen its supervisory capacity, ensure its financial viability and strengthen its administrative and financial autonomy. Procedures have been implemented to restore compliance with the central bank Act through provision of securities to ensure meeting the minimum paid-up capital. Other measures to be implemented include guaranteeing the production of reliable data for program monitoring, such as the revision of procedures in the production of monetary statistics and the automation of such processes. Recapitalization of the central bank is being achieved primarily through the securitization of the bank's longstanding claims on the Treasury.

16. The authorities recognize the program risks which relate to the difficulty in enforcing fiscal discipline. Adequate political assurances have been offered in this regard, with indications that execution of the 2007 budget will not be affected by the forthcoming general elections. The creation of the Multi-Donor Budget Support (MDBS) has also lent credence to this assertion, given that both donors and the authorities are in agreement for streamlining and harmonizing program conditionality, and monitoring and evaluation systems, consistent with the PRSP framework. The authorities and the participating donors have successfully completed the first joint review of performance under the MDBS, based on an agreed number of public financial management benchmarks.

Conclusion

17. Sierra Leone's performance in meeting the conditions for reaching the completion point under the enhanced HIPC Initiative has been broadly satisfactory. The reform agenda for poverty reduction remains broad and well placed within the macroeconomic framework. In addition, the track record of performance under the PRGF supported program is also satisfactory and there has been considerable progress in the implementation of the structural reform agenda. Governance reforms have been undertaken with particular focus on fighting corruption, improving public financial management, and decentralization of the public service delivery system. The authorities are confident that with enhanced HIPC and MDRI assistance, they will be able to achieve a debt profile below the HIPC threshold, given assurances from creditors participating in the enhanced HIPC Initiative and MDRI. In this regard, the NPV of debt-to-exports ratio would be reduced to about 46 percent in 2006.

18. Considerable momentum has been exhibited by the authorities in program implementation. They remain cognizant of the benefits that may arise to them in carrying the program forward, especially after reaching completion point. Corrective action has been taken on the missed structural performance criteria and prospects for meeting all end-December targets are favorable. In addition, full implementation of 11 out of the 13 Completion point triggers has been achieved, with those relating to the tracking of development expenditures and the number of teachers trained for secondary schools being partially completed. In light of the foregoing, the authorities are requesting waivers for the missed performance criteria in addition to the nonobservance of the end-June 2006 structural performance criterion, and completion of the first PRGF review to enable them reach HIPC completion point.