

## **Sierra Leone and the International Monetary Fund—the Poverty Reduction and Growth Facility 2006-2010**

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On July 7, 2008, IMF Executive Directors completed the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement with Sierra Leone, extending the program, initially due to end in mid-2009, for another year.<sup>1</sup> This note sketches the salient features of the current program between Sierra Leone and the International Monetary Fund.

***Sierra Leone and the IMF enjoy a long-standing engagement.*** Since becoming a member in September 1962, Sierra Leone has had a number of financial arrangements with the IMF. During the last decade alone, there were five such arrangements, three in the form of emergency assistance provided to countries emerging from conflict and two PRGFs—which are available to all of the Fund’s low income members. IMF teams also provide a wide range of technical assistance to the Sierra Leone government and central bank notably in the areas of tax and customs reform, statistical development, monetary policy and financial sector assessments. Last year, the Resident Representative office reopened in Freetown, after a decade of closure in the wake of the civil war.

***Sierra Leone continues to face enormous social and economic difficulties.*** Despite commendable growth averaging around 6-8 percent a year since 2003, social indicators are still quite weak. The country ranks at the bottom of the Human Development Index in the latest UNDP Report—with around 70 percent of Sierra Leoneans living below the poverty line, half of the population undernourished and adult literacy at just 35 percent. While progress has been made in certain areas, such as child attendance at school and

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<sup>1</sup> See IMF Press Release No. 08/166 available at <http://www.imf.org/external/np/sec/pr/2008/pr08166.htm> for further details on the second review. PRGFs are sometimes extended at the request of governments who consider a longer time frame essential to implement the program’s policies—Sierra Leone’s previous PRGF, which commenced in September 2001, had also been extended by nine months.

some aspects of health care, the social agenda remains large<sup>2</sup>. The legacy of the civil war still resonates in the need to rebuild the electricity, water and transportation infrastructure. Foreign support has helped Sierra Leone in financing social and infrastructural programs, but as this can be expected to naturally taper off in coming years, an important challenge is to reduce the country's reliance on external aid.

***The current program has already paved the way for substantial debt relief.*** The present PRGF arrangement started in May 2006 and involves funding from the IMF of about US\$ 51 million at the current exchange rate. This support is to be provided in 7 installments over the period of the arrangement (3 disbursements have been made so far) and goes to reinforce the foreign reserves at the central bank. At the first review in December 2006, Sierra Leone reached the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative, also qualifying for the Multilateral Debt Relief Initiative (MDRI) provided by the African Development Fund, IMF and World Bank. HIPC and MDRI assistance reduced Sierra Leone's external debt stock by around US\$1.6 billion in nominal terms. Funds from the MDRI are also being directed towards projects in the energy sector, such as the World Bank-supported Emergency Energy Project and Bumbuma Hydro plant.

***As its name implies, the ultimate objective of the Poverty Reduction and Growth Facility is creating the conditions for accelerating growth and reducing poverty in Sierra Leone.*** The program envisages annual growth of about 6 percent to 2010 that would be broad-based enough to open up new employment opportunities. The specific priorities of the PRGF are determined by the Sierra Leone government as expressed in its Poverty Reduction Strategy Paper (PRSP). A new PRSP is currently being drafted, presenting a golden opportunity to all stakeholders—including civil society, labor union, private sector organizations etc.—to get fully involved in the upcoming consultations before it is finalized. The IMF, and indeed the World Bank and other development partners, all look to the PRSP as the central document around which their funding to Sierra Leone is based. Consistent with the importance of poverty reduction for the IMF, a

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<sup>2</sup> See *Sierra Leone Poverty Reduction Strategy: Progress Report 2005-2007*.

little-recognized but crucial objective in the program is to safeguard social spending as much as possible—formal quarterly targets have been established for poverty-related spending, amounting to Le 327 billion for 2008.

***An important priority is fortifying and keeping order in the public finances.*** Increasing poverty-reducing and infrastructure spending while at the same time containing the fiscal deficit requires generating more domestic revenue. The adoption of a modernization plan for the National Revenue Authority represents good progress in this direction. Steps elaborated in the program towards adoption of a Goods and Services Tax and to enhance taxpayer compliance are also critical elements of the enhanced revenue mobilization effort. On the spending side, firm control is essential over expenditure commitments by ministries, departments and agencies. Care must also be taken to limit and reprofile debt commitments—by relying only on grants and highly concessional external financing and by trying to get lower rates and longer terms on domestic debt instruments.

***Reverting to single digit inflation has emerged as a major challenge.*** Surging international energy and food prices constitute an important problem for many countries, including Sierra Leone. The price of rice has more than doubled while that of petroleum has risen by around 40 percent since the start of this year alone. The inflationary consequences on Sierra Leone are already evident, with 12-month inflation reaching 16.5 percent in May 2008, the highest in several years. When it was originally drawn up, the PRGF had anticipated inflation of 7.5 percent by the end of 2008. However, in light of developments particularly the soaring world fuel and food prices, the program now projects a continuation of double digit inflation in 2008 with a return to single digit levels by 2010. In this context, the Bank of Sierra Leone will need to keep a careful eye on inflationary developments and adjust monetary policy as appropriate.

***A number of structural issues are also being tackled during the program period.*** Apart from fiscal and monetary policy, the PRGF incorporates a set of important structural reforms that would help to improve the business climate and foster growth. Three important areas are: (i) the strategy for reform of the financial sector being implemented by the central bank; (ii) plans to improve the financial viability of the power and water

public utility companies to strengthen their efficiency; and (iii) efforts to improve transparency and accountability and to assure better governance, including a strengthening of the Anti-Corruption Commission to deter and punish corruption.

*All of the government's commitments under the program are transparent.* Since the inception of the PRGF, the government has authorized the documents containing all the engagements to be put in the public domain.<sup>3</sup> Program 'conditionality' basically falls into two categories—(a) quantitative (such as on the fiscal balance, accumulation of international reserves and the above mentioned floor on poverty spending); and (ii) structural (such as steps related to introduction of the Goods and Services Tax). This spirit of transparency is indeed very welcome and I would encourage everyone to familiarize themselves with the program—our resident representative office in Freetown welcomes queries on any aspects that remain unclear.

*The IMF values its close interaction with Sierra Leone in what remains a challenging environment.* A visiting IMF mission is expected this September to conduct discussions on the third review and on broader economic policy issues as part of the regular consultations that the Fund holds with its members under Article IV of its statutes.

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<sup>3</sup> The documents are also being prepared for posting on the IMF websites ([www.imf.org](http://www.imf.org) and [www.imf.org/freetown](http://www.imf.org/freetown)) and will be available there shortly.