

Letter of Intent



BANK OF SIERRA LEONE

GOVERNMENT OF SIERRA LEONE

May 27, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

Widespread disruptions from the global COVID-19 pandemic to global health and stability are having a severe impact on Sierra Leone. Across the world, case numbers are rising, and Sierra Leone is no exception. Since recording our first COVID-19 case on March 31, Sierra Leone has all too quickly surpassed 700 confirmed cases. The sharp contraction in external demand is already deteriorating external and fiscal accounts, opening up large financing gaps, and our proactive measures to contain the spread of the crisis have dampened economic activity.

Even with the legacy of the Ebola health crisis, the scale of the current pandemic is an unprecedented setback. It threatens our hard-won economic recovery and macroeconomic stabilization efforts of the recent years, and jeopardizes the path towards Sierra Leone's sustained development.

We expect economic pressures to intensify over 2020. We estimate real GDP will contract sharply, by about 3 percent, a downward revision of more than 7 percentage points compared to the pre-COVID outlook, and implying a per capita GDP decline of about 5 percent. Trade and tourism would be affected most severely, while supply chain disruptions that hamper imports of intermediate goods would dampen manufacturing and construction activity. Falling commodity prices and social distancing constraints are set to depress mining activity, a major source of foreign exchange, while dampened global sentiment and activity would limit FDI and remittances, creating pressure on the balance of payments. We expect a revenue shortfall of around 1¾ percent of GDP, reflecting the drop in external and domestic economic activity, and delayed revenue administration gains on the back of necessary social distancing and a more challenging technical assistance environment.

Our health response has been decisive. Building on the lessons from the Ebola health crisis, it is being designed and executed in close collaboration with the World Health Organization. Key measures to contain the contagion, include periodic nation-wide lockdowns, border closures, flight suspensions, restrictions on movements, and requiring the use of masks in public spaces. Through our *Public Health Emergency Operations Center*, all structures are in place for dedicated call centers, contact tracing, disease surveillance, testing, isolation, and treatment. The budgetary cost of scaling up these structures for an appropriate response is estimated at about US\$40 million.

Our *Quick Action Economic Response Plan* (QAERP) aims to shield livelihoods from the crisis. It targets ensuring a stable supply of essential commodities, including to address food security concerns; ramping up social protection; and providing support to the private sector, in particular to affected small and medium enterprises. Within the context of the QAERP, the Bank of Sierra Leone (BSL) has already introduced measures to mitigate the economic impact on businesses, including reducing the policy rate and creating a Le 500 billion special credit facility to support production, procurement and distribution of essential goods. To continue to ensure an accurate picture of loan quality, we will continue to apply asset classification and prudential and IFRS 9 provisioning requirements to restructured loans and loans covered by any moratoria.

The direct effects of the crisis, together with our policy responses, will carry a large fiscal and external cost. We estimate the budgetary cost of measures to address the shock—health and containment, and economic and social support—will approach US\$130 million. Where possible, we are reprioritizing expenditures that are not essential to tackling the immediate crisis, and we allowed the exchange rate to serve as a buffer. Even so, the costs of measures and loss of revenue, and associated external effects leave us with large external and fiscal financing gaps in the order of US\$210 million.

We welcome commitments already made by development partners for higher-than-budgeted concessional financing, as well as the Catastrophe Containment and Relief Trust (CCRT) the debt service relief from the IMF approved in mid-April. We are also seeking temporary relief under the recently announced Debt Service Suspension Initiative, supported by the G20 and Paris Club. These efforts will cover a substantial portion of our financing gaps.

However, to address the remaining urgent balance-of-payment need, the Government of Sierra Leone requests a disbursement of SDR 103.7 million, equivalent to 50 percent of quota, under the Rapid Credit Facility. To address urgent fiscal needs, the BSL would on-lend the disbursement to the Treasury, based on a forthcoming Memorandum of Understanding that will establish a framework clarifying the responsibilities for timely servicing of the financial obligations to the IMF ahead of the RCF Board date. Notwithstanding pressures on countries around the world, we are hopeful that IMF support for our country will help catalyze further support from development partners.

The Government of Sierra Leone remains committed to responsible stewardship of the economy. Though our revenue mobilization momentum has been interrupted by this crisis, we continue to emphasize the vital role of revenue-mobilization and plan to re-start reform implementation as quickly as possible. We do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We will comply with the provisions of the IMF's *Articles of Agreement*, including those related to the imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

Following our experience during the Ebola health crisis, we recognize the paramount importance of the transparency and accountability of all our COVID-19 related interventions, ensuring that above all they effectively support the health and well-being of all Sierra Leoneans. To that end, we immediately established a coordination mechanism to engage development partners and other stakeholders to develop a policy response that is sustainable, and implemented efficiently and in keeping with good governance practices. In addition to ongoing reforms to strengthen our AML/CFT and anti-corruption frameworks, we will be putting in place strong and targeted measures to ensure the proper use of emergency financing.

More precisely, we are introducing mechanisms for regular monitoring and reporting on the use of funds. Our Anti-Corruption Commission launched the *COVID-19 Response Transparency Taskforce* to ensure integrity, accountability and transparency in the use and management of funds. The Government also established a COVID-19 account to focus on delivering effectively our emergency response. In this regard, we have already begun regular reporting on the use of these emergency funds. We intend to further refine the coverage of these reports, and follow best practices in the management, reporting, and oversight of these accounts with the benefit of ongoing TA from IMF's Fiscal Affairs Department and AFRITAC West 2. In addition, the Audit Service Sierra Leone will audit the management of the COVID-19 Fund and COVID-19 response, and publish its report online, within 12 months of the end of the fiscal year as required under the Constitution and laws of Sierra Leone, including the PFM Act 2016. Finally, we also plan to publish on the Government's website large public procurement contracts related to crisis mitigation, the names of the companies awarded contracts, their beneficial owners, and ex-post validation of delivery.

Even in the face of this global crisis, we remain guided by the goals of our National Development Plan and our economic policies supported by the Extended Credit Facility. In particular, our commitment to develop human capital and curb corruption are stronger than ever. Working closely with IMF staff, we will also endeavour to maintain broad macroeconomic stability during the current global pandemic and in the post-pandemic recovery period. However, should the pandemic related shock prove deeper or more protracted than currently estimated, we may need to seek additional emergency support from the IMF. In line with the IMF's safeguards policy, we also commit to undergoing an update safeguards assessment ahead of any subsequent new arrangement with the IMF, and to finalise the FY2018 audit as soon as possible.

We authorize the IMF to publish this letter and all staff Board documents related to this request.

Very truly yours,

_____/s/_____

Jacob J. Saffa
Minister of Finance

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Kelfala M. Kallon
Governor of Bank of Sierra Leone