



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

SIERRA LEONE

Governance and Corruption Diagnostic Report

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High-Level Summary Technical Assistance Report
Legal Department

Sierra Leone: Governance and Corruption Diagnostic Report

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

Abstract: *At the request of the Government of Sierra Leone, an inter-departmental IMF team conducted a Governance and Corruption Diagnostic (GCD). The GCD provides a detailed assessment of governance and corruption vulnerabilities in key state functions of fiscal governance, financial sector oversight, anti-money laundering and combating the financing of terrorism (AML/CFT), and rule of law. Informed by political economy analysis, the diagnostic also considered the nature and severity of corruption in Sierra Leone and the effectiveness of anticorruption laws and institutions to address corruption risks. Key challenges, including institutional weaknesses, limited enforcement of the rule of law, and vulnerabilities in public procurement, have contributed to inefficiencies in the allocation of public resources and have, at times, undermined public trust in government. These practices constrain the fiscal space, limit the effectiveness of service delivery, discourage investment and limit the potential for private sector-led growth. The GCD offers actionable recommendations to strengthen accountability, transparency, and institutional capacity that are necessary for sustainable growth and restoring public trust in institutions.*

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Background

The GCD was undertaken as part of the IMF's Framework for Enhanced Fund Engagement on Governance, which seeks to systematically address corruption and governance challenges that have macroeconomic consequences. Sierra Leone's request for this diagnostic reflects the authorities' recognition of the need to confront entrenched corruption and governance weaknesses that impede reform implementation and economic development. The exercise involved field missions, consultations with government officials, regulatory bodies, the judiciary, civil society, and private sector representatives. The diagnostic aligns with Sierra Leone's ongoing economic reform program supported by a US\$187 million Extended Credit Facility (ECF), which emphasizes fiscal sustainability, structural reforms, and institutional modernization.

Summary of Findings

The GCD found that corruption is a persistent feature of Sierra Leone's governance landscape, with significant adverse effects on economic growth, investment, and public trust. Weak independence of key governance institutions and major gaps in the legal and regulatory frameworks for managing public resources have contributed to perceptions of impunity and limited access to fair dispute-resolution mechanisms. These weaknesses have allowed informal practices to flourish and have undermined the effectiveness of formal institutions. The predominant position of the informal economy similarly poses significant corruption risks and hinders sustainable economic growth, particularly in the mining and minerals sectors. When it relates to official data, in 2023 the export value of extractives was USD 1.2 billion compared with USD 48 million in total revenues generated from the extractive sector that same year, underscoring significant domestic revenue potential that improved transparency and oversight could help unlock. Regulatory opacity concerns, perceived favoritism, and inconsistent enforcement of rules have discouraged investment and limited the potential for private sector-led growth.

Fiscal governance is characterized by systemic and structural weaknesses in the management and use of public resources and a lack of clarity in when and how the state intervenes in the economy. The revenue authority adheres poorly to the relevant law on appointments of senior officials, functions with considerable power, has limited internal integrity controls and would benefit from greater transparency. The customs administration, which is vulnerable to corruption risks, particularly in goods processing, and the involvement of private entities in its administrative function, yields a relatively low tax-to-GDP ratio. Public financial management has been undermined by large variances in budget forecasts and actual spending, together with limited procurement controls, weak capacity to track and monitor mineral revenues. Transparency is impacted by insufficient disclosure of beneficial ownership for mining companies. Financial losses in many state-owned enterprises (SOEs) create fiscal burdens and corruption risks. Wide discretion in cash management, including some transactions conducted outside of the established cash management process, and ad-hoc payment decisions heighten corruption risks in arrears clearance. Vulnerabilities in public procurement processes have affected the allocation of public resources. Fragmented project selection, with investment choices often influenced by factors outside of economic rationale, undermine public investment governance.

Weak rule-of-law institutions continue to undermine legal certainty and the security of property and contractual rights, constraining private-sector development. Unclear land registration, limited progress on digitizing property records, and the absence of a meaningful property registry fuel long-standing disputes and reliance on opaque means of resolution. Judicial integrity concerns, including limited independence of the judicial selection body, opaque case allocation, and the use of "contractual judges", call for enhancing independence and capacity of the judiciary and the Judicial and Legal Services Commission.

Governance gaps and limited capacity continue to weaken financial sector oversight. While the Bank of Sierra Leone's (BSL) legal framework is broadly adequate, its de facto independence, accountability, and use of supervisory and sanctioning powers need strengthening. Licensing and change-of-control rules, as well as requirements for banks' governance, related-party transactions, and disclosure, require

improvement. Supervisory intensity remains low and vulnerable to interference, while governance problems persist in state-owned banks and the APEX bank, and BSL's AML/CFT supervisory capacity is limited.

Accountability institutions and mechanisms lack sufficient competencies and independence to fulfill their functions effectively. Corruption vulnerabilities are reinforced by a legacy of impunity, weak enforcement, and inadequate accountability systems. Weaknesses in risk-based AML supervision, particularly for high-risk sectors further elevates corruption risks. Inadequate monitoring of politically exposed persons, weak sanctions, low levels of suspicious transaction reporting, and limited investigative and prosecutorial capacity compound these vulnerabilities.

Summary of Recommendations

The report emphasizes the need for a comprehensive and sequenced reform agenda that addresses both immediate vulnerabilities and longer-term institutional weaknesses. Improving governance and integrity would best be achieved by implementing a package of reforms to strengthen economic governance, combined with actions to advance the rule of law and the functioning of anticorruption institutions. Progress along these lines would contribute to better public sector performance and macro-economic growth and stability. The report sets out a comprehensive reform agenda comprised of short-, medium-, and long-term measures. It also identifies a small number of priority recommendations that can create a solid foundation for sustainable governance and anti-corruption reforms.

Fiscal governance reforms are essential for macro-economic stability. The reforms measures include reinforcing the independence of oversight institutions, closing legal gaps in public resource management, and increasing transparency and oversight in high-risk sectors such as mining and SOEs, including in particular the new Mineral Wealth Fund, coupled with improved disclosure of mining licensing application, evaluation and awards. Improved project prioritization and selection in public investment, and greater transparency concerning tax exemptions and procurement tenders will be important reforms. Revenue administration must also be strengthened through improved transparency, better internal controls, more limited discretionary decision-making and more effective integrity mechanisms.

Financial sector oversight requires targeted reforms. The system can be improved by addressing governance weaknesses in state-owned banks, reinforcing the de facto independence of the BSL, enhancing banking supervision, and strengthening disclosure requirements for financial statements alongside consistent use of sanctioning powers.

Strengthening the rule of law is a priority for restoring legal certainty and public trust. Judicial independence and integrity should be bolstered through more transparent selection, appointment, and oversight processes, including the abolition of 'contractual judges' and the publication of JLSC recommendations and the reasons supporting them. This will also require modernizing the procedural framework, improving case allocation transparency, clearing case backlogs, and improving monitoring of court performance through publication of case disposition data.

Improving AML/CFT effectiveness requires targeted reforms to address key supervisory and enforcement gaps. AML/CFT effectiveness will improve with a risk-based approach to supervision, including of preventive measures applying to politically exposed persons, stronger suspicious transaction reporting in particular in the banks with the lowest ratio of transactions to STRs, and strengthened beneficial ownership transparency. This should be supported by improved inter-agency coordination and greater investigative and prosecutorial capacity.

Anti-corruption efforts will benefit from stronger prevention, independence, and transparency across oversight institutions. Key steps include verification and publication of asset declarations, and publication of implementation progress reports in line with anti-corruption plans, and more merit-based appointments through a new independent recommendation body.