Sierra Leone: Letter of Intent

May 9, 2005

The following item is a Letter of Intent of the government of Sierra Leone, which describes the policies that Sierra Leone intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Sierra Leone, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
May 9, 2005

Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. de Rato:

1. In September 2001, the Executive Board approved a three-year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF). At the time of the fourth review on February 23, 2004, the arrangement was extended through March 25, 2005, owing to delays in completing the review. On November 12, 2004, the Executive Board extended the period of the PRGF arrangement further through June 25, 2005, to allow sufficient time to conclude the sixth review.

2. Economic growth in 2004 remained robust, reflecting expansion of activity in key areas of the economy. Continued political and economic stability, albeit still fragile, has bolstered public confidence. Inflation has stabilized but remains at a high level, reflecting external factors, such as the high cost of imported fuel, and underlining the need for continued pursuit of prudent fiscal and monetary policies. Going forward, government policies are aimed at promoting sustainable economic growth while improving the delivery of public services. The government has identified several key developmental areas in the recently completed Poverty Reduction Strategy Paper (PRSP), which is also guiding the country’s efforts in moving toward the Millennium Development Goals (MDGs).

3. Performance under the PRGF-supported arrangement at end-December 2004 was mixed. The government met most quantitative performance criteria except the target on the domestic primary fiscal deficit, which was missed by a small margin. This was for the most part due to an increase in wage and salary payments in the fourth quarter beyond what was envisioned under the program, caused by rising salary payments to foreign missions (due to exchange rate depreciation), and clearance of backlog payments to the National Social Security and Insurance Trust (NASSIT). The outcome reflects, in part, continued capacity constraints on the part of the government to adequately manage payroll and other outlays. To strengthen payroll management and the budget process, the DFID is extending technical assistance, under a three-year program. While progress was made in implementing structural measures under the program, the reconciliation of fiscal and monetary data for 2000–02, which is a structural performance criterion subject to the sixth review, was not completed by end-November 2004 as envisioned. It now appears that a full reconciliation is virtually impossible, reflecting the more limited coverage of actual fiscal data compared to monetary survey data. Therefore, the government reconciled fiscal and monetary data for 2001–04 on the basis of a narrower definition of government than was originally intended. This is a prior action subject to the sixth review. Going forward, the government is revamping the fiscal and monetary reporting system with technical assistance from the Fund, in order to facilitate a full reconciliation of fiscal and monetary data.
4. Furthermore, the government has completed three other measures as prior actions subject to the sixth review, reflecting their importance for the program. First, urban and suburban schools, except mission-operated primary schools, have opened individual bank accounts for the payment of teachers’ salaries. Second, identification cards have been issued to all civil servants. And, third, the government has taken a definitive cabinet decision regarding clearance of the outstanding large domestic arrears.

5. In view of the foregoing, the government of Sierra Leone requests for waivers on the nonobservance of the end-December 2004 quantitative performance criterion on the domestic primary budget deficit, and on the nonobservance of the structural performance criterion related to the completion of the reconciliation of fiscal and monetary data for 2000–02. The government of Sierra Leone requests the completion of the sixth review under the PRGF arrangement and the release of the final disbursement, in the amount of SDR 14 million.

6. The government is resolute in maintaining the current cooperation with the IMF and to initiate discussions for a new PRGF-supported program after the completion of the sixth review. It has agreed with Fund staff on quarterly indicative targets for 2005. The government would like to request for an advance of the additional interim HIPC assistance for the period up to December 2005. This additional interim assistance is needed because Sierra Leone’s external position remains fragile and the assistance would help smooth out the obligations falling due to the Fund. The previous Fund interim assistance committed under the HIPC Initiative expired on March 20, 2005.

7. The full Poverty Reduction Strategy Paper, completed in February 2005, was sent to you and the management of the World Bank on February 9, 2005. A Consultative Group meeting with donors is scheduled for early June 2005 in Paris, during which the government plans to seek financing for the PRSP activities, including the filling of the financing gap that has emerged as a result of the government’s commitment to raise the share of poverty-related outlays in the budget.

8. The government authorizes the publication of this letter by the Fund, including the posting of the document on the IMF website, subsequent to Executive Board approval.

Sincerely yours,

/s/
Joseph B. Dauda
Minister of Finance
Freetown, Sierra Leone

Attachments
### Table 1: Sierra Leone: Quantitative Performance Criteria and Indicative Targets

**Under the Poverty Reduction and Growth Facility Arrangement (January-December 2004)**

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

<table>
<thead>
<tr>
<th>Performance Criteria</th>
<th>Adjusted</th>
<th>Met or Not met</th>
<th>Indicative Targets</th>
<th>Adjusted</th>
<th>Met or Not met</th>
<th>Indicative Targets</th>
<th>Met or Not met</th>
<th>Performance Criteria 17/</th>
<th>Adjusted</th>
<th>Met or Not met</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 16</td>
<td>June 16</td>
<td>September 16</td>
<td>December 17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Performance criteria

- **Not domestic bank credit to the central government (ceilings)**
  - Unadjusted target (ceiling): -25,000
  - Adjusted target (ceiling): -5,000
  - Met or Not met: Not met
  - Gross foreign exchange reserves of the central bank (in millions of U.S. dollars (floors))
    - Unadjusted target (floor): 18.31
    - Adjustment for the shortfall (excess) external budget support: -10.85
    - Met or Not met: Not met

- **Subsidies to National Power Authority (ceilings)**
  - Met or Not met: Met

- **Domestic primary budget balance of the central government (floors)**
  - Met or Not met: Not met

- **External budgetary assistance**
  - Met or Not met: Met

- **Net credit to the central government by nonbank private sector**
  - Met or Not met: Met

#### Indicative targets

- **Total domestic government revenue (floors)**
  - Met or Not met: Not met

- **Government wage bill (ceilings)**
  - Met or Not met: Not met

- **Poverty-related expenditures (floors)**
  - Met or Not met: Not met

#### Memorandum items:

- **External budgetary assistance**
  - Met or Not met: Met

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**Sources:** Sierra Leonean authorities; and IMF staff calculations.

1/ Variables are based on definitions in the technical memorandum of understanding (TMU) of October 2004.

2/ The ceilings will be adjusted downward by the amount of any excess in programmed external budgetary assistance (as defined in the TMU; see footnote 16). The ceiling will also be adjusted upward by up to 50 percent of the amount of any shortfall in external budgetary assistance (as defined in the TMU; see footnote 16).

3/ Excluded from this performance criterion are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

4/ Excluded from this performance criterion are those debts subject to rescheduling arrangements.

5/ Excluded from this performance criteria are disbursements from the Fund and rescheduling arrangements.

6/ Included in the definition of the net foreign assets of the central bank are official reserves and the externally financed DDR program.

7/ In the event of an excess (shortfall) in external budgetary assistance (as defined above), the floor will be adjusted upward (downward) by the amount of the excess (shortfall).

8/ This performance criterion applies to debt as defined in Annex 1 of the TMU of October 2004.

9/ Defined as claims on government (net) in the monetary survey. To be adjusted downward (upward) by any net issues of government securities to the nonbank private sector up to the ceiling on net domestic bank credit to the central government.

10/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the externally financed DDR program.

11/ Defined as the difference between the net foreign assets of the central bank (valued at the program exchange rate) and reserve money.

12/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the externally financed DDR program.

13/ Excluded from this performance criteria are disbursements from the Fund and rescheduling arrangements.

14/ Excluded from this performance criteria are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

15/ Excluded from this performance criteria are normal import-related credits.

16/ Excluded from this performance criteria are normal import-related credits.

17/ Excluded from this performance criteria are those debts subject to rescheduling arrangements.

18/ Including program grants and program loans.

19/ Excluded from this performance criteria are those debts subject to rescheduling arrangements.

20/ Excluded from this performance criteria are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

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23/ Including program grants and program loans.

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54/ Excluded from this performance criteria are those debts subject to rescheduling arrangements.
Prior Actions and Structural Benchmarks

<table>
<thead>
<tr>
<th>Prior action</th>
<th>No.</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>A limited reconciliation of fiscal and monetary data for 2001-04 has been completed.</td>
<td>1</td>
<td>December 31, 2004</td>
</tr>
<tr>
<td>All urban and suburban schools, except for mission-operated primary schools, have opened individual bank accounts for the payment of teachers' salaries.</td>
<td>2</td>
<td>October 31, 2004</td>
</tr>
<tr>
<td>Terms and conditions for securitization of all remaining verified domestic arrears have been announced publicly.</td>
<td>3</td>
<td>Continuous</td>
</tr>
<tr>
<td>Identification cards have been issued to all civil servants.</td>
<td>4</td>
<td>Continuous</td>
</tr>
<tr>
<td>Specific measures have been elaborated to strengthen the Auditor General's Office, including the use of private accounting firms to expedite audits of government ministries and agencies.</td>
<td>5</td>
<td>December 31, 2004</td>
</tr>
<tr>
<td>The Budgeting and Accountability Act has been presented to parliament.</td>
<td>6</td>
<td>August 31, 2004</td>
</tr>
<tr>
<td>The Establishment Secretary's Office (ESO) database of civil servants and teachers is updated monthly and used to update the payroll database of the Accountant General's Office.</td>
<td>7</td>
<td>December 31, 2004</td>
</tr>
<tr>
<td>Employment ceilings for individual schools will be published in the government gazette at the beginning of each school year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diagnostic studies and reforms have been completed in six key ministries to rationalize structure, functions, and staffing in these ministries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A medium-term budgetary framework incorporating all major mineral revenues has been formulated and discussed with development partners.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project has been launched to convert the ESO into a personnel management office.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF
### Table 3. Sierra Leone: Indicative Targets for 2005

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

<table>
<thead>
<tr>
<th>Indicative targets</th>
<th>March</th>
<th>June</th>
<th>September</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicative targets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net domestic bank credit to the central government (ceiling) 2/ 3/</td>
<td>15,375</td>
<td>21,180</td>
<td>36,403</td>
<td>12,356</td>
</tr>
<tr>
<td>Net domestic assets of the central bank (ceiling) 2/ 4/ 5/</td>
<td>31,474</td>
<td>65,255</td>
<td>103,432</td>
<td>70,503</td>
</tr>
<tr>
<td>Domestic primary budget balance of the central government (floor) 6/</td>
<td>-13,259</td>
<td>-24,960</td>
<td>-46,571</td>
<td>-57,878</td>
</tr>
<tr>
<td>Subsidies to National Power Authority (ceiling)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Gross foreign exchange reserves of the central bank, in million U.S. dollars (floor) 7/</td>
<td>-10.66</td>
<td>-4.25</td>
<td>-15.64</td>
<td>-1.88</td>
</tr>
<tr>
<td>Contracting or guaranteeing of nonconcessional external debt by the public sector (ceiling) with maturities of one year or more 8/ 9/ 10/</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 11/ 12/</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>External payment arrears of the public sector (ceiling) 13/</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic government revenue (floor)</td>
<td>93,919</td>
<td>209,750</td>
<td>321,459</td>
<td>434,982</td>
</tr>
<tr>
<td>Government wage bill (ceiling)</td>
<td>48,532</td>
<td>104,606</td>
<td>161,794</td>
<td>222,982</td>
</tr>
<tr>
<td>Poverty-related expenditures (floor)</td>
<td>32,031</td>
<td>71,549</td>
<td>123,041</td>
<td>167,471</td>
</tr>
<tr>
<td>Memoranum item:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External budgetary assistance 14/</td>
<td>28,348</td>
<td>57,848</td>
<td>115,521</td>
<td>174,949</td>
</tr>
<tr>
<td>Net credit to government by nonbank private sector 15/</td>
<td>23,063</td>
<td>31,771</td>
<td>32,105</td>
<td>18,534</td>
</tr>
</tbody>
</table>

Sources: Statistics Sierra Leone; and IMF staff estimates.

1/ Variables are based on definitions in the TMU of October 2004.
2/ The ceilings will be adjusted downward by the amount of any excess in programmed external budgetary assistance (see footnote 16). The ceiling will also be adjusted upward by up to 50 percent of the amount of any shortfall in external budgetary assistance (as defined in the TMU; see footnote 16).
3/ Defined as claims on government (net) in the monetary survey. To be adjusted downward (upward) by any net issues of government securities to the nonbank private sector relative to the program target, up to the ceiling on net domestic bank credit to the central government.
4/ The benchmarks for January-December 2005 are valued at the exchange rate of Le 2.950 per US$ 1.
5/ Defined as the difference between the net foreign assets of the central bank (valued at the program exchange rate) and reserve money.
6/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the externally financed DDR program.
7/ In the event of an excess (shortfall) in external budgetary assistance (as defined above), the floor will be adjusted upward (downward) by the amount of the excess (shortfall).
8/ This performance criterion applies to debt as defined in Annex 1 of the TMU of October 2004.
9/ Excluded from this performance criterion are disbursements from the Fund and rescheduling arrangements.
10/ Excluded from this performance criterion are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRks).
11/ The term “debt” has the meaning set forth in Annex 1 of the TMU of October 2004.
12/ Excluded from this performance criterion are normal import-related credits.
13/ To be applied on a continuous basis. Excluded from this performance criterion are those debts subject to rescheduling arrangements.
14/ Including program grants and program loans.
15/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the non-financial private sector.