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**Sierra Leone:** Letter of Intent, Memorandum of Economic and  
Financial Policies, and Technical Memorandum of Understanding

June 4, 2009

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.

## LETTER OF INTENT

June 4, 2009

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Strauss-Kahn:

The attached Memorandum of Economic and Financial Policies (MEFP) supplements the one attached to my letter to you dated December 5, 2008. It describes recent economic developments and progress in the implementation of the PRGF-supported program during the second half of 2008 as well as the policies planned for the remainder of 2009.

Program implementation during 2008 was uneven. All end-December quantitative performance criteria (PCs) were met, except the one on domestic government revenue. Shortfalls in domestic revenue resulted from the impact of the global economic downturn on mining and customs revenues towards the end of the year and difficulties in implementing two of the corrective measures described in our December 2008 MEFP. Also on the structural front, the end-December PC on the adoption of an implementation decree for the Goods and Services Tax (GST) was not observed. This was caused by delays by parliament in approving the legislation for the introduction of the GST due to a congested calendar.

Since then, we have taken corrective actions. The President has signed a clearance memorandum for the transfer of all off-budget revenue collected by ministries, departments, and agencies (MDAs) to the Consolidated Revenue Fund and Cabinet approval is expected next week. The Parliament approved the legislation on the GST in June and the implementing regulations were adopted by the Cabinet. Also, the vehicle registration fee was reinstated in early 2009.

In light of the above, the Government of Sierra Leone (GoSL) requests waivers for the non-observance of the PCs related to domestic revenue and the adoption of an implementation decree for the GST, and that the fifth disbursement be made available upon completion of the fourth review under the PRGF arrangement.

Since the third review of the PRGF arrangement was approved by the IMF Executive Board in December 2008, the Sierra Leonean economy has been more severely affected by the global economic downturn than anticipated. This is manifested mostly by a precipitous decline in demand for export and lower economic growth. As a result, prospects for 2009 have changed. To help Sierra Leone to adjust to the external shocks it is experiencing and to

maintain a level of foreign reserves that would foster market confidence, the GoSL requests an augmentation of access under the PRGF arrangement of 10 percent of quota, bringing total access to 50 percent of quota.

The GoSL believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of its program for 2009, but stands ready to take any further measures that become necessary for this purpose, in close consultation with the Fund. The GoSL will also continue to provide the staff of the IMF the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. The fifth and sixth reviews shall take place in November 2009 and April 2010, respectively. Furthermore, the GoSL will continue to consult with the IMF on its economic and financial policies, in accordance with the IMF's policies on such consultations.

The GoSL agrees, in line with its commitment to transparency and accountability, to the publication of this letter, its attachments, and the related staff report.

Very truly yours,

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/s/  
Samura M. W. Kamara  
Minister of Finance and Economic Development

Attachments

## ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### I. INTRODUCTION

1. This memorandum updates the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of December 5, 2008 (IMF Country Report N° 09/2). It reviews recent performance under the program through 2008 and outlines the macroeconomic policies and structural reforms that the Government of Sierra Leone (GoSL) will pursue during the remainder of 2009.

### II. RECENT ECONOMIC DEVELOPMENTS

2. **Economic growth in 2008 was lower than projected but inflation decelerated.** During the last quarter of 2008, the economy came under pressure from slowing global demand and falling export prices, particularly for diamond and bauxite. Real GDP is estimated to have reached 5.5 percent in 2008, compared to a projection of 6.4 percent. On the positive side, growth was solid in agriculture and the service sector. Inflation remained in the double digits with average CPI inflation reaching 14.8 percent in 2008, fueled notably by higher international food and fuel prices. However, inflationary pressures subsided toward the end of the year due to the steep decline in import prices (mainly for oil), leading to a fall in end-period inflation to 12.2 percent, compared with 15.7 percent programmed.

3. **Budget execution during 2008 suffered from shortfalls in domestic revenue and delays in the disbursement of external budgetary assistance.** The revenue shortfall reached Le 30.6 billion (0.5 percent of GDP) for the year cutting across all main revenue categories except on income tax. Two main factors contributed to the shortfalls. First, two revenue-enhancing measures, namely the transfer of all off-budget revenue collected by ministries, departments, and agencies (MDAs) to the Consolidated Revenue Fund (CRF) and the reinstatement of a vehicle license fee that had been suspended in early 2008, were not implemented as planned. Second, the global economic slowdown, which led to a fall in commodity prices and lower exports and imports, impacted negatively on customs and mining revenues. External budgetary support fell short of the programmed assistance by about 40 percent. Delays in disbursements resulted from fiduciary concerns by some donors and difficulties in meeting some performance-related benchmarks.

4. **Monetary policy continued to be guided by the broad objective of containing inflation and maintaining financial stability.** The realization of this objective was challenged by fiscal imbalances, higher world food and oil prices, and the global economic downturn. Nonetheless, reserve money growth was contained below the program level. The issuance of Le 47.5 billions of treasury bills, which were converted from BSL's holding of noninterest-bearing government securities, contributed to slower reserve money growth.

5. **Rising food and fuel imports combined with lower exports contributed to a deterioration in the external current account deficit.** However, with higher than

anticipated private financing inflows, gross international reserves reached US\$209 million at end-2008, well above the US\$180 million program target. After remaining fairly stable over the past three years, the leone has been gradually depreciating since the beginning of the fourth quarter of 2008. By the end of the first quarter of 2009, it had depreciated against the U.S. dollar by about 6 percent, reflecting a drop in the availability of foreign exchange as export receipts and remittances continued to decline. In response, the BSL gradually increased its offer in the weekly auction from \$0.5 million in August 2008 to \$1.2 million in November 2008.

6. **Bank credit to the private sector continued to grow strongly.** The entry of three new banks in mid-2008, increased competition among banks, and the accompanying fall in lending rates are the main reasons for this growth. The new banks also increased the demand for already oversubscribed government securities, which helped push interest rates down. The average effective yield on Treasury bills fell from 21.3 percent at end-2007 to about 9 percent at end-2008.

7. **The quality of the loan portfolio remains a problem.** While nonperforming loans (NPLs) relative to gross loans declined by 8.4 percentage points in 2008 to 23.3 percent, the nominal value of NPLs increased by 16 percent. The BSL pursued the strengthening of its banking supervision capacity, notably by transferring staff to the Banking Supervision Department and providing training to all staff of the department. Banks continued to maintain adequate provisions for bad loans.

8. **Program implementation in the second half of 2008 was mixed.** All quantitative performance criteria (PCs) were met, except the one on domestic government revenue. On the structural targets, the continuous structural PC on the monthly meeting of the newly constituted Monetary Policy Committee was observed. However, the structural PC on adoption of an implementation decree for the goods and services tax (GST) and the structural benchmark on adoption of a comprehensive tariff policy for the electricity sector were missed, the former due to a congested parliamentary calendar.

### III. MEDIUM-TERM STRATEGY

9. **Our medium-term policy agenda will focus on reducing poverty by stimulating economic growth while preserving macroeconomic stability.** The policies to achieve these objectives are elaborated in the second-generation Poverty Reduction Strategy Paper (PRSP), which was finalized and endorsed by Parliament in May this year. While maintaining macroeconomic stability, including through improving domestic revenue mobilization and avoiding unsustainable domestic and external debt burden, the strategy outlines policies to:

- *Ensure energy security* by providing a reliable power supply, which will be met through expanding electric generating capacity and the distribution network,

- improving management and regulation of the sector, and strengthening revenue collection.
- *Develop the national transportation network* to enable the movement of goods and people and thereby encourage investment and economic activity.
  - *Enhance productivity in agriculture* by promoting commercial agriculture, through private sector participation, and subsistence farming by providing inputs to encourage intensified production, and improved extension delivery and resource management systems.
  - *Improve human development* through enhanced investment in public services such as health and education.
  - *Consolidate governance* by enforcing the implementation of the anti-corruption agenda and expanding access to justice.

10. **The medium-term macroeconomic framework has been updated to reflect the impact of the global recession.** Weaker global demand is expected to slow growth in the mining and service sectors as the drop in export prices, worker remittances, and foreign direct investment feeds into domestic economic activity. However, output growth should continue to benefit from improved supply of energy, ongoing public initiatives to increase agriculture productivity and intensification, and higher public investment in basic infrastructure. Real GDP growth is projected to decline to 4 percent during 2009-10 and then gradually increase to 6 percent in 2012. Lower commodities prices should continue to ease inflation pressure. Inflation is projected to decline from 12.2 percent during 2008 to 9 percent during 2009 and remain in single digits thereafter. The external current account deficit, excluding transfers, is projected to rise to 12.3 percent of GDP in 2009, reflecting a decline in exports. The external position is expected to improve beyond 2010 in line with the projected improvement in the global environment and a rebound in mining production following the expected reopening of the Koidu diamond mine.

11. **Steadfast implementation of the poverty reducing strategy, coupled with improved transparency and accountability in the use of public funds, will help in securing additional financing.** The new PRSP was presented to the donor community in May 2009. The government plans to organize sector roundtables and Consultative Group meetings during the second half of 2009 to mobilize additional external financing for its poverty reduction strategy and to broaden the donor base.

#### IV. POLICIES FOR THE REMAINDER OF 2009

12. **The government is determined to strengthen the macroeconomic framework and implement its structural reform agenda to place the economy on a path of strong and sustainable growth.** To this end, the government will pursue efforts underway to coordinate

fiscal and monetary policies, improve the delivery of public services, reduce the cost of doing business, and raise productivity and employment throughout the economy.

### **Fiscal policy**

13. **Notwithstanding a narrower fiscal space, fiscal policy will aim to raise capital spending while safeguarding macroeconomic stability.** The revised revenue projection presents a shortfall of about Le 99 billion or 1.5 percent of GDP, mainly due to the negative impact of the global economic downturn on domestic economic activity and external trade. It takes into account several revenue-enhancing measures, including a transfer of all off-budget revenue collected by MDAs to the CRF, a raise in excises on petroleum products in April 2009 (with an estimated revenue impact of 0.5 percent of GDP), and a reversal of the presumptive import duty on a per-container basis that was adopted in early 2009 in lieu of applying the tariff code. An increase in projected budget grants (0.7 percent of GDP) compared to the program will contribute to covering the shortfall in tax revenue. Moreover, on the expenditure side, savings have been identified amounting to about 0.4 percent of GDP. These include cuts in nonpriority expenditures on goods and services and lower domestic interest payments due to a decline in interest rates. As result, the overall fiscal deficit, including grants, is now projected to widen to 4 percent of GDP from 3.5 percent of GDP in the program, with domestic financing increasing by a similar magnitude. However, compared to 2008, the overall fiscal deficit, including grants, is still expected to decline by 0.8 percentage point of GDP.

14. **The government will step up efforts to improve tax administration and broaden the tax base.** Measures include (i) accelerating the introduction of the taxpayer identification number and establishment of the domestic tax department; (ii) enforcing the provisions in the existing tax legislation with the aim of eliminating tax evasion and ad-hoc tax exemptions; (iii) intensifying field audits and enforcement of the payment of tax arrears (with interest and penalties on under/late payment of tax); and (iv) adopting a new, modern customs act and associated customs regulations. Moreover, the introduction of the GST is scheduled for September 1, 2009 following Cabinet adoption of the implementing regulations.

15. **Public financial management (PFM) reforms will continue to ensure greater transparency, accountability and efficiency in the use of public resources.** A new PFM reform program is under negotiation with support from our development partners to consolidate the progress made in the first phase. This program seeks to deepen reforms and strengthen capacity for effective and efficient delivery of basic public services. Key activities that will be undertaken this year include (i) a review of the legal and regulatory framework for PFM; (ii) improving budget planning and budget execution to ensure that funds are directed to national poverty reduction priorities and that the budget process is participatory, transparent, and accountable; (iii) extending coverage of the integrated financial management system, and (iv) strengthening public procurement.

## Monetary and exchange rate policies

16. **Money growth will continue to be restrained to further reduce inflation.** The aim is to reach single-digit inflation in 2009. To achieve this, reserve money is targeted to grow by about 15 percent, which, given the government's domestic financing requirement, would allow for adequate expansion in private sector credit and a small buildup of international reserves. To enhance the BSL's ability to conduct open market operations (OMOs) the government will convert an additional Le 60 billion of noninterest-bearing, nonmarketable government securities into marketable ones in 2009. The BSL has already converted Le 10 billion during the first quarter of the year. The Monetary Policy Committee (MPC) will continue to meet on a monthly basis.

17. **The Government will examine the need to extend the monetary policy instruments available to the BSL.** It will explore the possibility of providing the BSL with the authority to change the reserve requirement ratio at its discretion and introducing central bank bills for OMOs. Currently, any change to the reserve requirement ratio requires parliamentary approval. The BSL will continue to focus on developing the interbank market, and will introduce a new monetary operations framework during the second quarter of 2009. This will include the closing of the existing rediscount window. The commercial banks and discount houses will have to use the interbank market as their primary source of short-term liquidity needs. Those who cannot meet their liquidity needs through the interbank market will be able to access, as a last resort, the BSL's new Lombard window. The Lombard window will be an overnight collateralized loan that carries a penalty of 200 basis points over the average yield of the most recent 91-day treasury bills auction. The Government is actively considering the introduction of long term government securities to support medium to long term infrastructure investment.

18. **Exchange rate flexibility will be maintained.** The BSL will continue to seek to balance treasury bill sales and foreign exchange auctions for an optimal monetary policy mix. Its offers on the foreign exchange market will also be dictated by the need to meet its foreign exchange reserves target.

## Other structural reforms

19. **The structural reform program complements the medium-term macroeconomic framework.** The program will continue to focus on strengthening the financial sector, restoring the financial viability of the power and water public utility companies, and improving governance and accountability in the use of public resources. The support of our development partners remains critical to implementing the structural reforms envisaged in each of these areas.

20. **Reforms in the financial sector will be actively pursued to deepen financial intermediation and ensure strong and competitive financial sector.** The BSL has undertaken actions to strengthen banking supervision, particularly by increasing and training



staff in the Banking Supervision Department. New off-site surveillance guidelines for banks, consistent with the requirements of the revised Banking Act and Other Financial Services Act are being prepared and will be adopted by end-September 2009. Preparations are advancing for establishing a credit reference bureau (CRB) as well as an efficient payments system, including a Real Time Gross Settlement System (RTGS). To reduce the vulnerability from NPLs, the BSL will enforce the minimum capital requirement for all banks of Le 15 billion by end-2009. The Anti-Money Laundering (AML) Act 2005 will be revised to include provisions for combating the financing of terrorism (CFT) and regulations in line with international standards will be developed to enhance the AML/CFT compliance program. The BSL Act of 2000 is under review with the intention of providing greater flexibility for monetary policy operations.

21. **Steps are being taken to accelerate the restructuring of the National Power Authority (NPA) and improve its finances.** The National Commission for Privatization is supervising preparation of a comprehensive tariff study, which will be completed by end June. This study will provide inputs for a comprehensive electricity tariff policy, which will be adopted by end-December 2009. To improve oversight of the finances and technical operations of the NPA, a financial controller, a billing/commercial manager, and a supervisory engineer will be recruited in 2009. Under the Emergency Power Project (EPP) partly funded by the World Bank and the GoSL using MDRI resources, the NPA was to be making a monthly payment of Le 2 billion starting April 2008 and reimbursing Le 1.9 billion in respect to a soft loan extended by the government to NPA in 2006. Up to March 2009, NPA had paid only Le 7 billion, out of Le 25.9 billion due. However, the government also owes NPA Le 11.8 billion of unpaid electricity bills in 2008. A memorandum between the Ministry of Finance and Economic Development and NPA for the settlement of cross debt has been signed by the two parties and its implementation will be strictly observed.

22. **Tackling corruption will remain a top priority for the government.** In 2008, the government launched the national Anti-Corruption Strategy (ACS) for 2008–13 and enacted into law a revised Anti-Corruption Act that strengthens the powers of the Anti-Corruption Commission (ACC). To date, several cases have been brought before the court and prosecuted by the ACC. Workshops on the ACS were conducted nationwide for the media and civil society. The ACC will intensify public education and outreach activities to enhance public awareness of corruption. It will also conduct semi-annual assessments of the national ACS to monitor progress in its implementation and take remedial actions as needed.

23. **The Government will continue to implement reforms to improve the investment climate in order to foster sustainable economic growth.** Going forward, the focus will be on increasing access to finance, and improving business regulatory environment especially in areas where the country is ranked poorly in the Doing Business Report as well as improving physical infrastructure.

24. **There are risks that may affect implementation of the 2009 program.** First, the global recession may deepen further, leading to higher revenue shortfall and deeper slowdown of domestic activity, linked particularly to falling remittances and export receipts. Second, the ongoing financial crisis could impact negatively on the profitability and balance sheet of commercial banks, thus constraining credit availability. The BSL will monitor closely developments in the financial sector using a set of early warning indicators, and will take necessary measures to prevent a credit crunch in the economy. Finally, the Government will ensure that the 2009 budget is shielded from potential liabilities of the contract with the second independent power provider.

#### **V. PROGRAM MONITORING**

25. The program will be monitored based on quantitative PCs for end-June 2009 and end-December 2009 and quantitative indicative targets for end-September 2009 (Tables 1). The program will also be monitored based on structural benchmarks for 2009 (Table 2).

**Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2009**  
(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) <sup>1</sup>

	2009						
	March	June		September		December	
	Est.	Performance criteria		Indicative targets		Performance criteria	
		Prog. <sup>2</sup>	Rev. prog.	Prog. <sup>2</sup>	Rev. prog.	Prog. <sup>2</sup>	Rev. prog.
<b>Performance criteria</b>							
Net domestic bank credit to the central government (ceiling)	29,482	8,409	80,906	48,396	124,104	100,212	122,664
Net domestic assets of the central bank (ceiling)	18,366	-84,445	93,701	-33,238	215,847	-69,583	156,678
Domestic primary fiscal balance of the central government (floor)	-25,077	-71,596	-120,887	-96,924	-179,290	-116,142	-216,213
Subsidies to National Power Authority (ceiling) <sup>3</sup>	0	0	0	0	0	0	0
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	-3.3	26.6	-22.2	24.2	-20.2	39.3	8.6
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) <sup>3</sup>	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) <sup>3</sup>	0	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) <sup>3</sup>	0	0	0	0	0	0	0
Total domestic government revenue (floor)	155,242	386,640	342,992	602,667	533,177	824,030	724,664
<b>Indicative target</b>							
Poverty-related expenditures (floor)	61,389	180,993	178,715	256,398	267,155	330,623	337,474
<b>Memorandum items:</b>							
External budgetary assistance <sup>4</sup>	74,194	121,275	115,900	121,275	115,900	188,201	225,211
Net credit to government by nonbank private sector <sup>5</sup>	-16,110	-272	-4,981	7,056	3,223	7,328	7,300
PRGF disbursements (US\$ millions)	0.00	11.34	0.00	11.34	26.42	22.68	37.05

Sources: IMF staff projections.

<sup>1</sup> The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> EBS/08/148 (December 9, 2008)

<sup>3</sup> These apply on a continuous basis.

<sup>4</sup> Including program grants and program loans.

<sup>5</sup> Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

**Table 2. Sierra Leone: Structural Conditionality for 2009**

<b>Measures</b>	<b>Timing</b>	<b>Macro Rationale</b>
<b>Prior Actions</b>		
<ul style="list-style-type: none"> <li>Adoption by the cabinet of a decision to transfer all off-budget revenue collected by ministries, departments, and agencies to the Consolidated Revenue Fund.</li> </ul>	Expected to be met by June 10	
<ul style="list-style-type: none"> <li>Adoption by the cabinet of the implementation decree for the Goods and Services Tax (GST).</li> </ul>	Met	
<b>Structural Benchmarks</b>		
Macroeconomic policy coordination		
<ul style="list-style-type: none"> <li>Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast.</li> </ul>	On a continuous basis	To strengthen liquidity management and enhance monetary and fiscal policy coordination.
Tax administration and policy		
<ul style="list-style-type: none"> <li>Adoption by the Cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue.</li> </ul>	End–June	To enhance the collection of import duties and thus create more fiscal space to preserve priority spending.
<ul style="list-style-type: none"> <li>Adoption by the Cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation.</li> </ul>	End–September	To improve revenue collection by extending the tax base.
<ul style="list-style-type: none"> <li>Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional.</li> </ul>	End–December	To improve efficiency of revenue collection efforts.
<ul style="list-style-type: none"> <li>Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO).</li> </ul>	End–December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.
Public financial management		
<ul style="list-style-type: none"> <li>Recruit and assign budget officers to MDAs that have IFMIS 'rolled out' and ensure their budget committees are fully operational.</li> </ul>	End–September	Improve spending efficiency by enhancing public financial management and budget execution.
Financial supervision		
<ul style="list-style-type: none"> <li>Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines.</li> </ul>	End–September	Financial deepening which is vital to achieve the growth objective of the program.
Public enterprise reform		
<ul style="list-style-type: none"> <li>Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority.</li> </ul>	End–December	To improve financial viability of the public electricity. This will ensure an efficient and sustainable power supply, critical for the growth objectives of the program.

## ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

June 4, 2009

### I. INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria (PCs) and benchmarks for the remainder of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 2 of the Memorandum of Economic and Financial Policies (MEFP) of the Government of Sierra Leone (GoSL) for 2009.
2. **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 shown in the box below and the market exchange rate against the US\$ in effect on March 31, 2009 (as published in *International Financial Statistics*) for transactions in currencies other than the U.S. dollar, the euro, the pound sterling, and the Special Drawing Rights (SDR).

Leone/US\$	3,150
US\$/euro	1.33
US\$/pound sterling	1.43
US\$/SDR	1.49

### II. QUANTITATIVE PERFORMANCE CRITERIA

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

3. **Definition.** Unless otherwise noted, gross foreign exchange reserves of the Bank of Sierra Leone (BSL) are defined as reserve assets of the BSL. Reserve assets are defined in the IMF's *Balance of Payments Manual* (5<sup>th</sup> ed.) and elaborated in the reserve template of the Fund's *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*. They exclude foreign assets not readily available to, or controlled by, the monetary authorities.

#### **Adjustment clauses.**

4. 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—the downward adjustment will be capped at the equivalent of US\$20 million while the upward adjustment will be equal to the amount—if any, exceeding US\$20 million;<sup>1</sup> (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-denominated liabilities (to residents and nonresidents)

5. In case that Sierra Leone participates in any SDR allocation(s) between June 30, 2009 and the test date, this target will be adjusted upwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation (s) up to the test date, measured at program exchange rate.

### **B. Net Domestic Assets of the BSL**

6. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation and deposits of commercial banks with the BSL. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit.

7. **Adjustment clauses.** The ceiling on the NDA of the BSL will be adjusted upward by the amount of the shortfall in the external budgetary assistance at the test dates, up to a maximum of US\$20 million. In the event of an excess in the external budgetary assistance greater than US\$20 million, the NDA ceiling will be adjusted downward by the amount exceeding US\$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates.

8. In case that Sierra Leone participates in any SDR allocation(s) between June 30, 2009 and the test date, this target will be adjusted downwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation (s) up to the test date, measured at program exchange rate.

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

9. **Definition.** NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as follows:

- the net position of the government with commercial banks, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer

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<sup>1</sup> External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

- the net position of the government with the BSL, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer bonds; and (c) ways and means; less (a) central government deposits; and (b) HIPC and MDRI relief deposits.

10. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward (downward) by up to the amount of the shortfall (excess) in external budgetary assistance. The upward adjustment will be capped at the equivalent of US\$20 million while the downward adjustment will be equal to the amount—if any, exceeding US\$20 million. 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 2 of the MEFP).

11. **Data source.** The data source for the above will be the series “Claims on Government (Net)” submitted to the IMF 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).

12. **Definition of Central government.** Central government is defined for the purposes of this memorandum to comprise the central government and those special accounts that are classified as central government in the BSL statement of accounts. The National Social Security and Insurance Trust and public enterprises are excluded from this definition of central government.

#### **D. Domestic Revenue of Central Government**

13. **Definition. The floor on total domestic central government revenue** is defined as total central government revenue, as presented in the central government financial operations table, excluding external grants.

#### **E. Domestic Primary Fiscal Balance of Central Government**

14. **The floor on the domestic primary fiscal balance** of the central government is defined as domestic revenue minus total expenditure and net lending, excluding interest payments, and externally-financed capital expenditure.

### **F. Subsidies to the National Power Authority (NPA)**

15. **Definition.** The term “subsidy” refers to any government financial support (i.e., unrequited transfers) to the NPA. It does not include the government’s on-lending of external loans for capital expenditure of the enterprise. The subsidy is to be reduced by the amount of arrears accumulating in regard to the charges for government’s electricity consumption. This PC will apply on a continuous basis.

### **G. External Payment Arrears of the Public Sector**

16. **Definition.** External payment arrears of the public sector are defined as the stock of new external overdue debt-service payments by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BSL. **The nonaccumulation of external arrears is a performance criterion during the program period.** Excluded from this PC are those debts subject to rescheduling. This PC will apply on a continuous basis.

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

17. **Definition.** Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector.<sup>2</sup> This PC applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the “public sector” is as defined in ¶ 14 above. This PC will apply on a continuous basis.

### **I. External Short-Term Debt Contracted or Guaranteed by the Public Sector**

18. **Definition.** External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in ¶ 14 above. This PC will apply on a continuous basis.

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<sup>2</sup> Debt is considered concessional if it has a grant element equivalent to 35 percent or more. Calculation of the degree of concessionality of new external borrowing is based on the last 10-year average commercial interest reference rate (CIRR) of the Organization for Economic Cooperation and Development (OECD) for loans with maturities of at least 15 years and on the last six-month average CIRR for loans maturing in less than 15 years.



### III. QUANTITATIVE INDICATIVE TARGET

#### Poverty-Related Expenditures

19. **Definition.** Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document (EBS/02/30). These budgetary expenditures include but are not limited to those sub-components that are financed by drawdown from the MDRI Relief Account at the BSL.

### IV. PROGRAM MONITORING

20. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoFED, the BSL, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. In addition, the Net Domestic Financing Technical Committee shall provide the IMF 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.