

## International Monetary Fund

[Sierra Leone](#) and the  
IMF

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

**Press Release:**  
[IMF Executive Board  
Completes Fourth  
Review Under ECF  
Arrangement for  
Sierra Leone and  
Approves US\\$6.9  
Million Disbursement](#)  
September 17, 2012

September 4, 2012

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## SIERRA LEONE: LETTER OF INTENT

September 4, 2012

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Madame Lagarde:

1. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated November 18, 2011. It summarizes recent economic developments in Sierra Leone and reviews progress in implementing the Government of Sierra Leone's ECF-supported program approved by the IMF Executive Board on June 4, 2010. It also sets out macroeconomic policies and structural reforms that the government will pursue in the remainder of 2012.
2. Program implementation in the second half of 2011 was challenging but we met all but one of the quantitative targets as of end-December. The continuous ceiling on the contracting and guaranteeing of nonconcessional external debt was not met because of a nonconcessional loan that became effective in November 2011. As explained in the attached MFEP, we have taken corrective measures to enhance monitoring of all the stages of a loan agreement process, to re-assess in consultation with IMF staff concessionality for new loans prior to signature and to improve debt data recording.
3. In the fiscal area, domestic revenue mobilization was strong and higher than programmed. On the expenditure side, higher-than-envisaged spending on infrastructure projects, wages, and goods and services resulted in the overall fiscal balance exceeding the target. Delays in processing project completion certificates by contractors meant that some bills were not paid at the end of the year. Our strict adherence to the limit on central bank financing of the budget enabled us to meet the central bank net domestic assets ceiling by a wide margin. At the same time, the end-December 2011 floor for gross foreign exchange reserves of the Bank of Sierra Leone (BSL) was exceeded. On July 30, in reply to your June 26 letter, I explained that the contracting or guaranteeing of nonconcessional external debt by the public sector was unintentional. On the basis of the remedial actions outlined in the attached MEFP, I requested a waiver of non-observance of the performance criterion under the ECF arrangement.

4. Two of three structural benchmarks for end-2011 were met, albeit with delays. Publication of regulations for the public investment plan was completed in June 2012, and the integration of the GST administration within the Large Taxpayer Office was completed in March 2012. The implementation of a small taxpayer regime (end-December 2011) is incorporated in the revised Finance Bill soon to be considered by parliament.

5. The government took decisive actions in early 2012 to restore integrity of budget execution and strengthen public financial management. It established a high-level Cash Management Committee (CMC) in March 2012 to help synchronize weekly spending priorities with available financing. At the same time, payment arrangements with infrastructure project contractors have been revised to ensure alignment of payment certificates with budgetary resources. Further, and consistent with the mandate and operations of the CMC, the government's expenditure commitment procedures have been tightened to contain non-priority spending.

6. In support of its policies, the government requests the completion of the fourth review of Sierra Leone's ECF arrangement and the fifth disbursement under the ECF of SDR 4.44 million upon completion of the review.

7. In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report, including placement of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's conclusion of the review.

Very truly yours,

/s/

Samura M. W. Kamara

Minister of Finance and Economic Development

/s/

Sheku S. Sesay

Governor of Bank of Sierra Leone

Attachments

## SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2012

Freetown, September 4, 2012

*This memorandum updates that of November 18, 2011. It summarizes the government's assessment of the current economic situation as well as performance of the economy through June 2012 and discusses the projections and policy objectives for the remainder of the year. It also outlines macroeconomic policies and structural reform measures for the remainder of 2012.*

### I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

- 1. The economy continued to recover in 2011.** Real GDP<sup>1</sup> growth is estimated at 6 percent, mainly driven by expansion in the agricultural, construction, and services sectors, as well as the scaling up of infrastructure investments. In 2012, the same growth drivers combined with downstream activities from iron ore production are expected to support a 6.3 percent non-iron ore economic growth; while the onset of iron ore production is expected to boost total real GDP growth, but at a slower pace (21.3 percent) than originally anticipated (51.4 percent).
- 2. Exogenous shocks and expansionary monetary policy towards end-2010 fueled inflationary pressures during the first half of 2011.** However, they receded in the second half of the year, thanks to the combination of a tighter monetary policy stance and stability in the exchange rate. The annual average inflation rate stood at 16.9 percent at end-2011, down from 18.4 percent in 2010. June 2012 data indicates that the declining trend is continuing, with year-on-year inflation at 14.1 percent.
- 3. The external position improved in 2011, mainly reflecting surge in foreign direct investment in the mining sector.** Exports increased marginally, while imports more than doubled, partly because of mining projects. As a result, the current account deficit widened to 52.3 percent of non-iron ore GDP, up from 19.3 percent in 2010. Sizeable capital inflows, notably foreign direct investment in the mining sector, financed the deficit and contributed to reserves build up. It also supported stability in the exchange rate: the Leone depreciated only by 4.3 percent against the U.S. dollar in 2011, after falling by 8.9 percent in 2010. The external position is expected to improve further in 2012 on account of the projected improvement in terms of trade and the onset of iron ore exports, increased mining exports, and a decline in imports growth. The latter reflects the completion in 2011 of the

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<sup>1</sup>Statistics Sierra Leone revised National Accounts statistics in 2011, based on the recommendations of IMF TA missions. The revision resulted in a 30 percent upward adjustment in the nominal GDP.

construction phase for the iron ore mining projects. As a result, gross reserves are forecast at about 2.6 months of imports.

4. **Broad money expanded by 20 percent in 2011.** Net foreign assets of the BSL increased by 17 percent, in relation with improvement in the external position, while net domestic assets decreased by 30 percent reflecting a deceleration in government borrowing from the banking system in the second half of the year; partly due to the implementation of the new regulation on government financing from BSL. Credit to the private sector grew by 21.8 percent compared to 31.5 percent in 2010. Interest rate on six-month treasury bills spiked in late 2010 and remained high in 2011.

5. **Risks to economic growth are on the horizon in 2012, but macroeconomic stability would strengthen.** The iron ore sector has fallen behind relative to production and export plans, and the shortfall may impact adversely on the sector's expected contributions to real GDP growth and government revenues. Exports of iron ore slowed in the first half of 2012 on account of a couple of derailment accidents and labor unrest at a major iron ore mine.

### **Program Implementation**

6. **Efforts to meet program objectives continued.** At end-December 2011, all but one performance criteria and two of three structural benchmarks were met (Table 1). However, there were delays in implementing some reform measures, one performance criterion was missed, and budget execution was challenging as the overall budget deficit was substantially higher than programmed leading to the accumulation of unpaid bills.

7. **All quantitative performance criteria, except one, were met with comfortable margins.** However, although net domestic bank credit to central government was below the program ceiling, the overall fiscal deficit before grants was higher than anticipated. Domestic revenue exceeded the program target, reflecting a robust economic activity, increased production in the mining sector, and measures to increase efficiency in tax administration. Strong performance was particularly noted in personal income tax, royalties, tax on goods and services, and import duties. Total expenditure rose to Le 2,752 billion in 2011, higher than anticipated under the program, mostly because of overruns in the wage bill, one-off spending on goods and services, and capital outlays. Expenditure on wages and salaries exceeded the programmed level because of the higher-than-expected cost of the pay reform, adjustment to pensions, and higher payments to the pension Fund. These developments, combined with a shortfall in budget aid, contributed to accumulation of unpaid bills amounting to Le 167 billion. In addition, envisaged reduction in the stock of domestic payments arrears did not materialize. The performance criterion on contracting or guaranteeing of new nonconcessional external debt by the public sector was not observed because of a nonconcessional loan with Exim Bank China. The loan which was in discussion

since 2008, had a grant element of about 40 percent at the beginning of the negotiations, but it declined to below 35 percent by the time the loan became effective November 2011. On the basis of the remedial actions outlined below, in a July 30 letter the government requested a waiver of nonobservance of the performance criterion under the ECF arrangement.

8. **On the structural front, despite delays most measures were implemented** (Table 2). To enhance efficiency in tax collection, the National Revenue Authority integrated the GST taxpayer services, filing and returns processing, and coordinated audit operations with the Large Taxpayer Office, and transferred all eligible taxpayers to the Medium Taxpayer Office. The technical work for the implementation of the new small taxpayer regime was completed. The new regime will become effective once the amended Finance Act, recently adopted by Cabinet, is passed by Parliament. The regulations to implement a Public Investment Plan (PIP) were published in June 2012, with TA from the World Bank (**Prior action**).

## II. CORRECTIVE POLICY MEASURES

9. **Budget execution in 2011 translated into sizeable unpaid bills that constrained the resource envelope coming into 2012.** The unpaid bills mainly comprise delayed payments to contractors at various stages of contract execution. The policy challenges posed by the expenditure overrun are qualitatively different from those experienced in early 2011 on two fronts. First, interest rates on Treasury bills remained stable, mainly because the government did not borrow from the markets as much as it did in late 2010. Second, inflationary pressures slacked somewhat as food and oil price pressures abated and resort to central bank financing was constrained by a more independent and assertive monetary policy stance. The policy challenges relate, this time around, to public financial management.

10. **The government took measures to finance bills carried over from 2011, arrest expenditure overruns, and to bring the program and economic policies back on track.** To enhance expenditure and treasury cash flow management, the government established a high-level Cash Management Committee (CMC) in March 2012. The Committee is operational, and has prepared a monthly cash flow statement for the revised 2012 budget (**Prior action**), reflecting spending priorities and available financing. Payment arrangements with infrastructure project contractors have been revised to ensure that the submission of payment certificates is aligned with budgetary resources (April 2012). In addition, wage increases in 2012 have been frozen, pending the assessment of savings from implementation of the pay reform with World Bank support. At the same time, and consistent with the mandate and operations of the CMC, the government's expenditure commitment process has been tightened to contain non-priority spending and to better synchronize spending with resource availability. As a result of these corrective measures, budget integrity and execution have been restored. Budget execution in the first half of 2012 has constrained spending overruns and calmed the Treasury bill market, with the 91-day bill settling below 23 percent as of end-June.

### III. POLICIES FOR THE REMAINDER OF 2012

#### A. Fiscal Policy

11. **The fiscal policy stance will be consistent with macroeconomic stability and medium-term fiscal and debt sustainability.** Revenue mobilization efforts will be enhanced while expenditure and treasury cash flow management will be strengthened. In the same vein, to reduce borrowing costs in the domestic securities market, domestic financing will be limited to Le 166 billion.

12. **Budgetary resources are expected to be higher than anticipated in the original 2012 budget.** Domestic revenue is forecast to increase by 24 percent to Le 1,826 mainly reflecting higher revenue from the iron ore sector for personal income tax; and signature bonuses from oil exploration licenses granted to eight companies in June 2012. Budget support is projected to exceed original projections partly because of the delayed disbursement of some 2011 budget grants. Furthermore, resources from the repayment of the loan granted by the government in 1994 to Sierra Rutile, with a grant from the EU, are expected to be released in 2012, in agreement with the EU. The Government has decided to use the additional budgetary resources to finance the higher cost of the 2011 pay reform, support fuel price stability in April-December 2012, if needed, clear unpaid bills for the 2011 budget, and accelerate settlement of domestic payment arrears. Therefore, expenditure targets for 2012 have been revised. In the new budget framework, current expenditure will increase by Le 116 billion and capital expenditure will be scaled down to compensate for the accelerated project execution in 2011. The higher level of current spending is mainly due to the higher wage bill and subsidies and transfers. The upward revision in the wage bill reflects the full year impact of the salary increase in the public service granted in the fourth quarter of 2011; the higher than anticipated cost of the pay reform; higher pensions payment, as well as contributions to the Pension Fund.

13. **The government remains committed to the implementation of the automatic fuel pricing mechanism adopted in 2011.** In the second half of the year, the change in landed costs generated by rising global oil prices remained below the 5 percent trigger for retail price adjustment under the mechanism. However, landed costs at end-March 2012, showed that the implementation of the fuel price adjustment mechanism would have required a 12.5 percent increase in fuel retail prices to contain the budgetary cost. Out of concern for social stability in a pre-election period, the Government decided to suspend implementation of the mechanism temporarily, and to use a portion of additional budget resources expected in 2012 to finance subsidies to petroleum products and offset the loss of revenue from the elimination of excises and import duties on these products. However, to protect resources for road maintenance, road-user charges were not reduced. The Government is aware of the high budgetary cost of subsidies on fuel products, and moved swiftly to restore excises and import duties on petroleum products when petroleum prices slackened in early May. The

Government plans to resume implementation of the automatic the fuel pricing mechanism in 2013.

14. **The overall budget deficit is projected at Le 286 billion.** It will be financed with net external borrowing, domestic bank financing, and privatization receipts. The ceiling on domestic financing will be Le 166 billion as anticipated in the original program, while the ceiling on Ways and Means, projected as 5 percent of previous year's domestic revenue will be higher than budgeted, thanks to the strong revenue performance in 2011. This would help lower borrowing from the securities market, and contain interest costs on the budget.

15. **The Government intends to make an efficient use of the Cash Management Committee** to monitor budget execution taking into account priorities defined in the treasury cash flow statement and available financing.

### **B. Monetary and Exchange Rate Policies**

16. **Monetary policy will remain appropriately tight, in support of price stability.** The central bank intends to use its money market instruments more actively to achieve its liquidity targets. The new regulations on BSL financing for the Government budget, adopted in late 2011 prevent its participation in the primary securities market. This provides an opportunity for the BSL to increase its T-bills transactions in the secondary market, thus supporting its development. In 2012, the BSL plans to purchase T-bills in the secondary market, to provide opportunities for market participants to increase the volume of transactions in the primary market. Through these operations, the BSL will be able to roll over in the secondary market its stock of securities maturing in 2012.

17. **Growth in monetary aggregates will be contained to anchor inflation expectations.** Accordingly, reserve money is forecast to grow by 13.9 percent, with broad money growth at 20.4 percent. Credit to the private sector is projected to increase by 15.7 percent. Absent additional exogenous shocks, and given the government's commitment to sound fiscal and monetary policies, inflationary pressures are expected to remain at bay and drive end-December 2012 inflation rate to below 12 percent.

18. **The BSL remains committed to a flexible exchange rate system.** The BSL will seek to address challenges expected to arise from the increase in foreign currency denominated government revenue in 2012. In this regard, it will be more responsive to developments in the foreign exchange market.

### **C. Debt Policies and Management**

19. **The Government is aware that medium- to long-term debt sustainability requires prudent borrowing policies.** To this end, measures will be taken to enhance the monitoring of external debt commitments to ensure that new loans are contracted or guaranteed on highly concessional terms.

20. **Efforts to enhance debt management capacity will continue.** A comprehensive Medium-Term Debt Management Strategy (MTDS) will be prepared in 2012–13 with assistance from the World Bank. Preparatory work is also underway to link the Debt Recording and Management System (CS-DRMS) with the financial information system (IFMIS). In line with the Public Debt Management Act of 2011, a procedure manual will be finalized before the end-2012. In addition, the measures below will be introduced:

- Re-assessment of the grant element of any loan prior to signing, and in consultation with the Fund staff;
- Steadfast adherence to the procedures for recording all stages of external loan contracting;
- Preparation of a quarterly report on the stock of debt outstanding, and loan agreements under discussion; and
- Improved coordination and information sharing between all government agencies involved with external debt contracting.

#### IV. STRUCTURAL REFORMS

21. **The implementation of fiscal reforms continued in 2011.** To curb tax evasion and strengthen revenue collection, the following measures were taken: (i) the application of penalties for failure to file tax returns, and underestimation of quarterly installment payments; and (ii) levying and collection on interests on late payment of taxes. Also, following the introduction of IFMIS in 13 MDAs, training for users has been initiated to ensure that the system is used properly and is effective in monitoring budget execution.

22. **The Government plans to introduce a resource rent tax on extractive industries before end-2012** to increase tax revenue when profitability increases in the resources sector. The tax will be part of a comprehensive Extractive Industries Revenue Act to be introduced in Parliament before the end of the year. On the expenditure side, preparatory work on the review of the GBAA is advanced. These amendments will clarify provisions related to supplementary budgets and contingency funds (structural benchmark for end-September 2012). In addition, building on regulations issued in June 2012, the Government will prepare a three-year public investment plan; in time to inform the 2013 budget.

23. **On civil service reforms,** the implementation of the pay reform initiated in 2011 focused on re-aligning incentives to attract qualified personnel to fill the missing middle-class levels in the public sector. Measures planned for 2012 include: (i) completion of the teacher biometric verification exercise; (ii) a civil service remuneration survey; and (iii) strengthening the Public Service Commission.

24. **In the financial sector, progress was made in bringing the prudential guidelines in line with the Banking Act.** To ensure that the revised guidelines will be issued by

September as planned, the BSL initiated the following measures: (i) the banking supervision has begun drafting new prudential guidelines; and (ii) the Financial Sector Development Plan secretariat has prepared terms of reference to recruit consultants specialized in banking supervision. On the setting up of the payment system, preparations are ongoing in the context of the regional project supported by the African Development Bank. At end-2011, significant progress had been achieved in the establishment of the core banking application, real time gross settlement, the automatic check processing and automatic clearing house, and the script less securities settlement system. However, there were some delays in meeting infrastructure requirements by commercial banks. The central bank is contracting consultants for required expertise in drafting regulatory texts and to build logistical and supervisory capacity.

## V. PROGRAM MONITORING

25. **The program will be monitored on a semi-annual basis**, through quantitative and structural objectives (Tables 1 to 4). Quantitative targets for end-June 2012 and end-December 2012 will be performance criteria, while those for end-March 2012 and end-September 2012 will be benchmarks. To better assess fiscal performance, staff agreed with the authorities to introduce a domestic primary balance target in the program.<sup>2</sup>

26. **The government believes that the policies and measures included in this memorandum are adequate to achieve the objectives of the revised economic program for 2012**, but stands ready to take any further measures that may become necessary for this purpose. It will consult with the IMF at its own initiative or at the request of the IMF Managing Director prior to adopting any additional measures or in the event of changes to policies contained in this memorandum. The fifth and sixth reviews under the current program are expected to take place in between November 15 and end-December 2012 and May 15 and June 3, 2013, respectively.

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<sup>2</sup> The fiscal program is predicated on the complete elimination of unpaid bills at end-year; the indicative target includes a margin of 45 billion leones (equivalent to one-quarter of the stock of accumulated bills at end-2011) for December 2012 to accommodate a modest end-year float.

**Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2011 1/**  
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	2011												
	Dec. 2010 6/					2011							
	Stock	Jun.			Status	September 2/				December			
Prog.		Adj. Prog.	Act.	Prog. 6/		Adj. Prog.	Prel.	Status	Prog.	Adj. Prog.	Prel.	Status	
<b>Performance criteria</b>													
Net domestic bank credit to the central government (ceiling)	897.6	106.6	146.7	76.5	Met	137.6	209.3	99.4	Met	73.6	142.5	66.6	Met
Unadjusted target (ceiling)			106.6				137.6				73.6		
Adjustment for shortfall (excess) in external budget support			46.0				79.8				79.8		
Adjustment for issuance of government securities to the nonbank private sector			-5.8				-8.1				-10.9		
Net domestic assets of the central bank (ceiling)	-207.5	112.8	123.8	-93.0	Met	146.6	170.5	-71.0	Met	87.3	115.6	-60.2	Met
Unadjusted target (ceiling)			112.8				146.6				87.3		
Adjustment for shortfall (excess) in external budget support			46.0				79.8				79.8		
Adjustment for exchange rate depreciation (appreciation)			-35.0				-55.9				-51.5		
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	336.4	-14.8	-36.1	-0.6	Met	-24.7	-54.9	7.8	Met	0.0	-23.3	31.6	Met
Unadjusted target (floor)			-14.8				-24.7				0.0		
Adjustment for shortfall (excess) in external budget support 3/			-11.5				-20.0				-20.0		
Adjustment for shortfall in the US\$ value of IMF disbursement			-7.0				-7.0				0.0		
Adjustment for increase (decrease) in BSL short-term foreign currency liabilities			-2.8				-3.2				-3.3		
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) 3/	...	0.0		42.0	Not Met	0.0	0.0	42.0	Not Met 7/	0.0	0.0	57.9	Not Met 8/
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0.0		0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
External payment arrears of the public sector (ceiling) 3/	...	0.0		...		0.0	0.0	...		...	0.0	...	
<b>Indicative target</b>													
Total domestic government revenue (floor)	...	549.7		666.3	Met	831.8		1,103.2	Met	1,425.7		1,462.1	Met
Poverty-related expenditures (floor)	...	271.0		274.7	Met	382.5		433.8	Met	537.7		537.7	Met
<i>Memorandum items:</i>													
External budgetary assistance (US\$ million) 4/	...	31.3		19.8		42.5		20.6		71.2		49.5	
Net credit to government by nonbank sector 5/	...	18.2		24.1		25.9		34.0		43.2		54.1	
ECF disbursements (SDR millions)		4.4		0.0		4.4		0.0		8.9		8.9	
Exchange rate (Leones/US\$)	4198	3,990		4,355		3,990		4,423		3,990		4,378	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).

2/ Indicative targets.

3/ These apply on a continuous basis.

4/ Including grants and loans. For 2011, World Bank budget support was overestimated by \$3.5 million at the time of the 3rd review due to cancellation of a disbursement that was inadvertently omitted.

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

6/ Staff Report, November 19, 2010

7/ The non-observance of this PC was waived by the Executive Board of the IMF at the December 2011 Board meeting.

8/ Includes \$42 million in nonconcessional loans waived by the Executive Board of the IMF at the December 2011 Board meeting and a \$15.9 million nonconcessional loan, for which a waiver has been requested in a separate staff report on misreporting on a noncomplying purchase under the ECF arrangement.

**Table 2. Sierra Leone: Prior Action and Structural Benchmarks for 2011**

<b>Measures</b>	<b>Timing</b>	<b>Macro Rationale</b>	<b>Status</b>
<b>Prior Action (second and third review):</b>			
<ul style="list-style-type: none"> <li>Submit to parliament amendments to the Bank of Sierra Leone Act, to formally cap annual direct credit from the BSL to the Government to 5 percent of previous year's domestic revenue.</li> </ul>		Limit the monetization of the fiscal deficit in order to facilitate price stability.	Met.
<b>Structural Benchmarks:</b>			
<ul style="list-style-type: none"> <li>Submit to parliament amendments to the BSL and Banking Acts to increase operational independence of the BSL and improve regulation and supervision of the financial sector.</li> </ul>	End-June	Facilitate efficient financial intermediation by improving the efficiency of the financial regulatory system.	Met with delay.
<ul style="list-style-type: none"> <li>Develop a pay reform plan for public servants.</li> </ul>	End-June	To improve the quality of civil services by providing competitive wages.	Not met. A plan is in process of being completed, with salary adjustments consistent with the program.
<ul style="list-style-type: none"> <li>Transfer all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with MTO.</li> </ul>	End-September	To improve efficiency of revenue collection efforts.	Met.
<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.	Met with delay.
<ul style="list-style-type: none"> <li>Implement new small taxpayer regime.</li> </ul>	End-December	To improve voluntary compliance and raise tax revenue.	Not met.
<ul style="list-style-type: none"> <li>Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process.</li> </ul>	End-December	To improve efficiency of public investments and achieve medium-term growth targets.	Met with delay as a prior action.

**Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2012 1/**  
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2011	2012							
		Stock	Prog.	Adj. Prog.	Prel.	Status	Program		
			Mar. 2/				Jun.	September 2/	December
<b>Performance criteria</b>									
Net domestic bank credit to the central government (ceiling)	1133.5	35.4	17.0	-12.5	Met	24.8	11.6	132.8	
Unadjusted target (ceiling)			35.4						
Adjustment for the shortfall (excess) in external budget support			1.1						
Adjustment for the issuance of government securities to the nonbank private sector			-19.5						
Net domestic assets of the central bank (ceiling)	-258	-43.1	-33.8	-54.5	Met	-54.8	-46.7	-19.4	
Unadjusted target (ceiling)			-43.1						
Adjustment for the shortfall (excess) in external budget support			1.1						
Adjustment for exchange rate depreciation (appreciation)			8.2						
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	345.2	15.5	11.2	8.8	Not Met	34.6	31.9	25.9	
Unadjusted target (floor)			15.5						
Adjustment for the shortfall (excess) in external budget support 3/			-0.3						
Adjustment for the shortfall in the US\$ value of IMF disbursement			0.0						
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-4.01						
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) 3/	...	0.0		0.0	Met	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) 3/	...	0.0		0.0	Met	0.0	0.0	0.0	
External payment arrears of the public sector (ceiling) 3/ 7/	...	0.0		0.0	Met	0.0	0.0	0.0	
<b>Indicative target</b>									
Total domestic government revenue (floor)	...	365.2		457.2	Met	798.9	1,222.9	1,606.9	
Poverty-related expenditures (floor)	...	142.0		142.0	Met	282.2	421.6	569.6	
Domestic primary balance (floor) 6/				...		...	...	-322	
<i>Memorandum items:</i>									
External budgetary assistance (US\$ million) 4/	...	37.8		37.5		65.1	66.4	67.2	
Net credit to government by nonbank sector 5/	...	12.4		31.9		18.2	25.9	33.2	
ECF disbursements (SDR millions)		0.0		0.0		4.4	4.4	8.9	
Exchange rate (Leones/US\$)	4400	4,400		4,400		4,400	4,400	4,400	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).

2/ Indicative targets.

3/ These apply on a continuous basis.

4/ Including grants and loans.

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

6/ The fiscal program is predicated on the complete elimination of unpaid bills at end-year; the indicative target includes a margin of 45 billion leones (equivalent to one-quarter of the stock of accumulated bills at end-2011) for December 2012 to accommodate a modest end-year float.

7/ Includes \$42 million in nonconcessional loans waived by the Executive Board of the IMF at the December 2011 Board meeting and a \$15.9 million nonconcessional loan, for which a waiver has been requested in a separate staff report on misreporting on a noncomplying purchase under the ECF arrangement.

**Table 4. Sierra Leone: Structural Benchmarks for 2012**

Measures	Timing	Macro Rationale	Status
<b>Prior Action (fourth review):</b>			
<ul style="list-style-type: none"> <li>Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process.</li> </ul>		To improve efficiency of public investments and achieve medium-term growth targets.	Met
<ul style="list-style-type: none"> <li>Establish a high-level cash management committee under the leadership of Ministry of Finance and Economic Development in collaboration with the Accountant General and the Bank of Sierra Leone to take decisions on cash ceilings, short-term borrowing requirements, and placement of temporary cash surpluses.</li> </ul>		Improve short-term liquidity management and budget execution with a view to avoid accumulation of payments arrears, and limit short-term borrowing from the BSL.	Met
<ul style="list-style-type: none"> <li>Prepare a monthly treasury cash flow statement for the 2012 budget</li> </ul>		To adequately monitor the treasury's cash flow.	Met
<b>Structural Benchmarks:</b>			
<ul style="list-style-type: none"> <li>Privatize Rokel Bank by selling all Government shares in the bank.</li> </ul>	End-June	Enhance competition and efficiency in the banking system and increase fiscal space for infrastructure investment.	Met with a delay; shares of the bank were sold via the stock exchange in August 2012.
<ul style="list-style-type: none"> <li>Introduce a resource rent tax on mining operations.</li> </ul>	End-June	Increase tax revenue in case of higher than normal profitability in the mining sector.	Delayed.
<ul style="list-style-type: none"> <li>Submit amendments to the GBAA to the Parliament. The amendments will clarify provisions related to supplementary budgets and contingency funds.</li> </ul>	End-September	Strengthen budget preparation and execution.	
<ul style="list-style-type: none"> <li>Issue revised prudential guidelines in line with Banking Act.</li> </ul>	End-September	Improve regulation and supervision of the financial sector.	
<ul style="list-style-type: none"> <li>Implement new small taxpayer regime.</li> </ul>	End-December	To improve voluntary compliance and raise tax revenue.	Delayed from 2011; to be passed with new Fiscal Act
<ul style="list-style-type: none"> <li>Complete a three-year public investment plan, fully integrated with the budget process, to be submitted with the 2013 budget.</li> </ul>	End-December	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.	

**SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING**  
Freetown, September 4, 2012

**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 performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) 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 3 of the Memorandum of Economic and Financial Policies (MEFP).
2. **Program exchange rates.**<sup>1</sup> For the purpose of the program, foreign currency denominated values for 2012 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4400/US\$ and cross rates as of end September 2011.<sup>2</sup>

**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.
4. **Adjustment clauses.** The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance<sup>3</sup>—the downward adjustment will be capped at the equivalent of US\$20 million; (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

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<sup>1</sup> The source of the cross exchange rates is International Financial Statistics.

<sup>2</sup> For calculating program targets for 2012, all end 2011 stock variables will be based on program exchange rate of Le4400/US\$.

<sup>3</sup> External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

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

5. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector. 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. For program purposes, foreign liabilities exclude SDR allocation.

6. **Adjustment clauses.** The ceiling on changes in NDA of the BSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance at the test dates—the upward adjustment will be capped at the equivalent of US\$20 million.

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

7. **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; (b) treasury bearer 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 and bonds, excluding holdings of special bonds provided by Government to cover the BSL losses; (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) the difference between converted NNNIBS into treasury bills and proceeds from their sales; (d) ways and means; and (e) any other type of direct credit from the BSL to the Government; less (a) central Government deposits; and (b) HIPC and MDRI relief deposits.

8. **Adjustment clauses.** The ceiling on changes in NCG will be adjusted (a) upward (downward) by up to the leone value of the shortfall (excess) in external budgetary assistance—the upward adjustment will be capped at the equivalent of US\$20 million; (b) 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 assumption (as specified in the memorandum items in Table 3 of the MEFP).

9. **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.

10. **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. External Payment Arrears of the Public Sector**

11. **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 non-accumulation 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.

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

12. **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 (see paragraph 11 for definition of public sector) based on the residency criterion. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416-(09/91)) 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 paragraph 11 above. This PC will apply on a continuous basis.

13. Any external debt of which the net present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. For debt with a maturity of more than 15 years, the average of the ten-year commercial interest reference rates (CIRRs) published by the OECD is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs. The Government will report any new external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the Government.

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

14. **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 (see paragraph 11 for definition of 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 paragraph 11 above. This PC will apply on a continuous basis.

### **III. QUANTITATIVE INDICATIVE TARGET**

#### **A. Domestic Primary Balance**

15. **Definition.** Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

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

16. **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.

#### **C. Poverty-Related Expenditures**

17. **Definition.** Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document.

### **IV. PROGRAM MONITORING**

18. 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. The committee will provide monthly reports to the IMF on progress in implementing the program's quantitative targets and structural benchmarks.

**ANNEX I. IMPLEMENTATION OF THE REVISED GUIDELINES ON PERFORMANCE  
CRITERIA WITH RESPECT TO FOREIGN DEBT**

The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, which reads as follows: “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt”. (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements.”

### Sierra Leone: Summary of Data Reporting to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net Government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash bases	Monthly	End of month + 6 weeks
	Petroleum product prices and tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the Government	Monthly	End of month + 6 weeks
	BSL monitoring sheet of treasury bills and bonds holdings	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of Government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks

**Sierra Leone: Summary of Data Reporting to IMF Staff** (concluded)

<b>Type of Data</b>	<b>Tables</b>	<b>Frequency</b>	<b>Reporting Deadline</b>
Monetary and financial data			
	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cash flow table	Monthly	End of month + 3 weeks
	Revised balance of payments data	Monthly	When revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by Government on new borrowing, including the associated concessionality calculation (percentage) for each new loan.	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor, including and excluding new disbursements in the debt recording system. Also, including and excluding HIPC relief.	Monthly	End of month + 4 weeks
	Report on the stock of debt outstanding, and loan agreements under discussion	Quarterly	End of month + 3 months
HIPC initiative and MDRI monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks