International Monetary Fund

Sierra Leone and the IMF

Press Release:
IMF Executive Board Completes Third and Fourth Review of Sierra Leone's Arrangement under the Extended Credit Facility, and Approves US$46.14 Million Disbursement
November 16, 2015

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

October 30, 2015

Letter of Intent

October 30, 2015

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

Dear Madame Lagarde:

1. The Sierra Leone economy has suffered tremendous hardship in 2014 and 2015 because of the adverse impact of two significant exogenous shocks: the Ebola epidemic and a severe crisis in the iron ore sector. The shocks have eroded some of the progress we made in recent years in social and economic areas, and have generated new challenges for policy implementation and economic prospects.

2. As of end-September 2015, more than one year after the onset of Ebola, 8,704 people were infected and 3,589 died; the number of vulnerable persons increased as many lost their source of income, or labor force for their businesses. The non-iron ore economy slowed significantly in both 2014 and 2015. The adverse impact of Ebola has been compounded by the crisis in the iron ore sector, set off by the collapse in global prices that exacerbated the financial difficulties facing our iron ore companies. The crisis resulted in the cessation of production, at end-March 2015, for the two companies operating in the sector; and the bankruptcy of African Minerals Limited (AML), which accounts for 80 percent of the market. In mid-April, through a bidding process, Shandong Iron and Steel Group (SISG—the second investor in AML), became the sole shareholder. However, SISG has not confirmed a timeline for the resumption of production. Consequently, total real GDP is projected to decline by more than 20 percent in 2015.

3. Despite the tremendous challenge posed by the Ebola epidemic, the Government, in cooperation with donor partners, has made significant progress in curtailing the virus, and has set the country on a solid path to becoming Ebola-free. For the first time since the start of the epidemic, the state of emergency has been eased.

4. The implementation of actions to fight Ebola, including through the National Ebola Response Center (NERC), has benefitted from the continued support of our development partners, including the International Monetary Fund (IMF) through two augmentations of the current Extended Credit Facility (ECF) arrangement and debt relief. This invaluable support has been instrumental in addressing balance of payments and budget financing needs generated by the Ebola epidemic, and in fighting the disease. The Government is hopeful that the declining trend being observed in recent months will be sustained, and lead to an "Ebola-free" Sierra Leone by the end of the year.

5. As the epidemic is brought under control, the Government has put in place a Post Ebola Recovery Strategy (ERS) that aims to put the economy back on the track of economic growth and stability. Broadly, the strategy focuses on three elements: (i) getting and staying at zero new cases; (ii) implementing immediate recovery priorities; and (iii) transitioning back to the Agenda for Prosperity Plan (A4P) in the medium to long-run. The estimated cost of the plan is US$1.3 billion. The Government had an opportunity to present its plan to a UN conference held in July.

6. Program implementation has become very challenging as the Government was faced with the adverse impact of these two exogenous shocks, both of which have lingered longer than expected at the time of the second review of our ECF arrangement. At end-December 2014, program performance was weaker than anticipated, mainly because of Ebola-related factors as explained in the attached Memorandum of Economic and Financial policies. In 2015, program performance was back on track as all end-June performance criteria were observed. Only the end-June target for poverty related spending was missed. The end-June performance target for gross reserves was met. However, this relatively strong program performance has come at the cost of weak budget implementation, as expenditures across all categories were curtailed to meet program targets, including poverty related spending. The Government is requesting a waiver of nonobservance of performance criteria for the breach of the ceiling on net domestic bank credit to the central government, on net domestic assets of the central bank, and on the floor for gross foreign reserves of the central bank for end-December 2014. In addition, in light of the more severe shocks than previously anticipated, the government is requesting an increase of access equivalent to 45 percent of quota (distributed in three tranches starting from this review) to take advantage of the new access norms. We would request that all three tranches be on lent to the budget to ease financing constraints in 2015 and 2016. This additional financing would be complemented on our side by greater adjustment than previously anticipated, with non-wage, non-interest spending (excluding foreign financed investment projects), declining by 0.5 percent of GDP in 2015, relative to 2014. In addition, we will introduce measures in 2016 to increase revenue collection, including

limitations on import duty waivers granted to Ministries Departments and Agencies. We will also seek to increase the top tax rate personal income tax from 30 to 35 percent, in line with regional average. Finally, we will eliminate implicit subsidies for petrol consumption, which have been executed through varying the excise rate to keep consumer pump prices constant. These measures should provide approximately 0.6 percent of non-iron ore GDP in 2016.

7. The Government believes the policies and reforms presented in the attached MEFP are adequate to achieve the program's objectives. However, it stands ready to take any additional measures that may become necessary for this purpose. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters.

8. The Government requests the completion of the third and fourth combined reviews of Sierra Leone's program supported by the IMF under the ECF arrangement, the augmentation of access under the program by 15 percent of quota for each of the fourth, fifth and sixth reviews, and a rephasing of the fifth disbursement so that it becomes available immediately upon the completion of the IMF Executive Board meeting and the rephasing of the 6th disbursement from June to April 2016. .

9. In line with our commitments to transparency in government operations, we authorize publication of this letter, the Memorandum of Economic and Financial Policies, as well as the Technical Memorandum of Understanding attached to it; and the staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

/s/	/s/
Kaifala Marah	Momodu Kargbo
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understandings

Attachment 1. Memorandum of Economic and Financial Policies

Freetown, October 30, 2015

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated February 12, 2015. It reports on performance under Sierra Leone's economic and financial program supported by the International Monetary Fund (IMF) through the Extended Credit Facility (ECF), and outlines key policies and reform measures for 2015 and 2016. These policies aim to address the impact of the Ebola and iron ore crises, with the goals of rebuilding the economy, supporting macroeconomic stability, and generating sustainable poverty reduction and broad-based economic growth for the medium-term.

2. In 2014, the Sierra Leone economy was hit by two severe shocks: the Ebola epidemic and the sharp drop in iron ore prices, which contributed to the shutting down of both iron ore mining companies.

3. Although well under control, the Ebola epidemic is not over. While the last Ebola patient has been released, Sierra Leone still faces the challenge of maintaining zero new cases to be declared officially Ebola-free; complacency, therefore, is unwarranted. Many have lost their sole source of income, as business and farm activities have been disrupted. In addition, the exposure rate to neglected but prevalent diseases such as malaria has increased.

4. The implementation of the Ebola response plan has been continuing, with much appreciated support from Sierra Leone's development partners. It is clear we will have to deal with the impact of this disease for years to come because, even after the country is declared Ebola-free, there will still remain many Ebola affected people to care for, including Ebola survivors, orphans, widows, widowers and other vulnerable groups. There is also the urgent need for economic activity to be restored—a task that will be made more challenging by the financial difficulties businesses incurred as a result of the epidemic—and the entire healthcare system to be rehabilitated. The post-Ebola Recovery strategy we have prepared builds on the Government's poverty reduction strategy (*Agenda for Prosperity*), with a special focus on the following areas for quick-wins: health, education, water and sanitation, social protection, agriculture and private sector development. We are hopeful that continued financial support from Sierra Leone's development partners will help the Government in the implementation of this strategy.

RECENT ECONOMIC DEVELOPMENTS

5. Real GDP growth decelerated significantly in 2014. Many sectors were adversely affected by the Ebola outbreak in the second half of the year, including agriculture, construction, tourism, transport, and manufacturing. The impact of Ebola on these sectors was exacerbated by the closing of borders with neighboring countries to contain the spread of the disease, and a reduction in investment-related spending as a number of foreign-financed investment projects were halted or scaled-down. As a result, growth in the non-iron economy was limited to 0.8 percent, compared with a 5.4 percent expansion in 2013. However, as the Ebola Virus Disease (EVD) is receding in the second half of 2015, a gradual recovery is underway in the non-iron sectors.

6. Unfortunately, the continuing crisis in the iron ore sector has severely impacted overall growth prospects in the near to medium term. For 2015, with only minimal iron ore production in the first quarter, and none in the rest of the year, total GDP is expected to contract by 21.5 percent. For 2016, prospects for the iron ore sector remain uncertain, in light of the continued low prices. Therefore, to be cautious, we have made our economic plans for 2016 based on the assumption that iron ore production will not resume until at least 2017. On that basis, with the continuing gradual recovery in the rest of the economy, total GDP is projected to grow by only 0.1 percent.

7. The consumer price index rose 9.8 percent in 2014, compared with 8.5 percent in 2013, reflecting the exchange rate depreciation, reduced food supply due to lower agriculture production, and disruptions in cross border trade with Liberia and Guinea. The suspension of periodic markets and travel restrictions contributed to a reduction in trade of basic food commodities such as rice, palm oil, gari, ground nut, onions and other essential goods. However, inflation seems to be stabilizing in the first half of 2015 due to lower food prices. As of August 2015, headline inflation stood at 8.9 percent.

8. The fiscal position weakened significantly in 2014 relative to 2013. Revenue was roughly 5 percent below the projected level, with shortfalls in personal income tax (PIT), excises and mining revenue from iron ore, mostly driven by the economic impact of the Ebola epidemic and lower revenue collection from the iron ore sector. Revenue from excises on petroleum products was below projections because of a drop in sales volumes, while non-tax revenue was lower than projected because of the general slowdown in economic activity. However, goods and services taxes, corporate taxes and Import duties performed well, largely due to increased collection efforts and administrative reforms. Total expenditures was lower than anticipated because of the significant scaling back of externally-financed investment, as many projects were stopped due to Ebola-related restrictions. However, there were overruns in current spending, reflecting Ebola-related outlays, and

higher than budgeted spending on wages and salaries, mostly due to higher than budgeted recruitments; in goods and services; and in domestically-financed public investment. The poor revenue performance and delays in the receipt of budget support led to the accumulation of unpaid bills amounting to Le 200 billion at end-June. They were cleared in the second half of the year through expenditures reallocation and additional external financing. The domestic primary deficit is estimated to have been 5.6 percent of non-iron ore GDP. External budget support (loans and grants) totaled Le 656 billion, significantly higher than budgeted, reflecting increased support from Sierra Leone's development partners to help address the impact of Ebola on the government budget. Government borrowing from the securities market amounted to Le 417 billion, compared with Le 208 billion projected. The additional amount helped cover the shortfall in revenue, and higher than expected redemption of securities held by nonbank financial institutions.

9. The budget continues to be under pressure in 2015. As of mid-2015, due to delays in budget support and less than anticipated domestic financing, the government had to curtail expenditures in goods and services, and domestically financed investment. On the other hand, notwithstanding the continued shutdown of the iron ore sector, the gradual recovery in the non-iron ore sectors and improvement in administrative measures in the second quarter helped domestic revenue remain in line with program projections. For the year as a whole, however, we are facing increased pressure on two fronts: first, on capital spending, where resumption of previously approved projects that had been suspended by Ebola has been more rapid than anticipated; and second, on meeting poverty related spending targets, which were set based on more optimistic macroeconomic projections. Overall, we now target a 2015 fiscal deficit of 4.8 percent of GDP, up slightly from the 4.6 percent targeted at the time of the second review.

10. One area where budget pressures have been felt particularly hard is in poverty-related spending, which recorded a shortfall of about Le 172 billion relative to program. This was due mainly to the impact of Ebola-related restrictions, as a result of which the key sectors that account for the bulk of our pro-poor expenditure were not able to deliver services as expected. Schools reopened only in early April; most hospitals were operating at below capacity; agricultural activities slowed down; and most of the infrastructure projects in roads, water supply and energy resumed only by the second quarter of the year. In addition to the direct impact of Ebola, revisions to the program during the third review due to the deterioration in economic conditions were not reflected in the target on poverty related expenditure, which were set in December 2014. While total expenditure was cut by over Le300 billion to close the implicit financing gap under the program for 2015, the initial program target of Le570 billion for poverty related expenditure was not revised downwards. Implementing it as programmed would have led to a breach of the QPC on net domestic financing

of the budget for end June 2015. Going forward for the rest of the year, we will make efforts to meet the program target for end December 2015.

11. Monetary sector developments in 2014 and so far in 2015 have also been heavily influenced by the economic impact of the Ebola epidemic. Currency in circulation increased significantly, particularly in the second half of 2014, reflecting disruptions and uncertainties engendered by the rapid spread of the disease. Ebola-related capital inflows contributed to a sharp increase in net foreign assets. Meanwhile, credit to the private sector rose only 5.4 percent, slowing further to 4.2 percent annual rate in the first half of 2015, consistent with the economic slowdown. Reserve money grew by 30 percent in 2014, well-above the targeted rate of 12.7 percent, before slowing to 23 percent as of end-June 2015, due in part to the late arrival of significant external assistance. Broad money (M2) accelerated by more than 20 percent in 2014, slowing to 17 percent as of mid-2015. The Monetary Policy Rate was kept at 10 percent in 2014, but was reduced to 9.5 percent in March 2015, in order to support the post-Ebola recovery.

12. Pressures on the Leone emerged in the second half of 2014: the average exchange rate to the US dollar depreciated by 13.8 percent, reflecting mostly demand pressures generated by Ebola-related imports. To meet the additional demand, the BSL increased its weekly interventions in the foreign exchange market from US$500,000 to US$3 million in the second half of 2014. Pressures on the exchange rate have continued in the first half of 2015, with the Leone depreciating 10 percent in the year to end-August. Weekly sales have been reduced to US$1 million, to preserve reserves. Since March, all BSL sales of foreign exchange have been conducted using the wholesale auction system, as opposed to the invoice-based auction system, as part of the process of moving to a full-fledged interbank foreign exchange market system.

13. At end-2014 most banks complied with prudential norms. However, compared with 2013, the number of banks that were non-compliant with the minimum liquidity; capital adequacy, and non-performing loan (NPL) ratios increased. Loan concentration remains high with international trade, construction, and services accounting for about three quarters of total loans. Non-performing loans (NPLs) have grown significantly, reaching 39.6 percent of gross loans at end-June 2015, a problem that the BSL is addressing with urgency, as discussed below. Nonetheless, banks remain profitable and liquidity high, primarily in the form of treasury bills.

14. Total goods exports declined from US$1,543 million in 2013, to US$1,304 million in 2014 because of the decline in international prices for Sierra Leone’s key mineral products (accounting for almost 77 percent of exports), in particular prices for iron ore. With the halt in iron ore production, for 2015 exports are projected to decline sharply to $586 million. Total imports rose by 35 percent in

2014, reflecting mainly Ebola-related goods and services that more than compensated for the decline in imports of fuel products, food and machinery. As a result, the trade deficit in goods increased from US$28 million in 2013, to US$339 million in 2014. For 2015, the collapse in iron ore exports will be partially offset by a more than 15 percent decline in goods imports, as Ebola-related and iron ore-related imports decline; nonetheless, the trade deficit is projected to grow to US$813 million.

PROGRAM PERFORMANCE

15. The implementation of policies and reforms under the ECF-supported program continued in 2014, despite the very difficult environment generated by the rapid spread of the EVD. At end-December, performance criteria (PC) on domestic bank credit to the central government, net domestic assets of the central bank, and on gross foreign exchange reserves of the central bank were missed. The PC on net domestic bank credit to the central government was breached by Le 314 billion; the PC on net domestic assets of the central bank was breached by Le 219 billion; and the PC on gross foreign reserves of the central bank was missed by $6.9 million. The continuous ceilings on new non-concessional external debt, on short-term external debt owed or guaranteed by the public sector, and on external payment arrears of the public sector were all observed. Spending on poverty-related expenditure reached Le 1,236 billion, exceeding the indicative target by Le 91 billion. However, the targets on domestic government revenue and on the domestic primary balance were missed because of the impact of Ebola on both revenue and expenditure (Table 1).

16. We have taken strong corrective measures to get the program back on track. A slowdown in the sales of foreign exchange by the BSL has helped bring gross foreign exchange reserves back in line with program objectives. On the fiscal side, we have greatly strengthened tax administration (closer scrutiny of medium-sized taxpayers, closer monitoring of excise revenue, sub-contractors audits and continued efforts at goods and services taxation). We have also significantly strengthened cash management and more closely monitored expenditures, while tightly restraining non-priority spending. As a result, for 2015, all PCs and indicative targets for end-March and end-June were met, except for the end-March indicative target on BSL gross foreign exchange reserves and the end-June target for poverty related spending.

17. On structural benchmarks, there was limited progress in the implementation of measures programmed for the second half of 2014. The monthly rolling Treasury cash flow table consistent with the revised 2014 budget, the semi-annual report on the execution of the public investment program, the quarterly report on external debt commitments, agreements and disbursements were prepared; and a three-year Public Investment Program integrated with the budget process and the

revised Medium-term Expenditure Framework for 2015–17 were completed. Pilots of the wholesale foreign exchange auction were held starting in September 2014, and have been used exclusively since [March 2015]. The remaining structural reforms programmed for the second half of 2014 (Table 2) have yet to be implemented, largely due to delays in Technical Assistance due to the EVD. For 2015, the PFM bill was introduced to Parliament in August 2015, (Table 3) only slightly later than called for in the program. We request below to rephase the remaining structural benchmarks, progress on which was again hindered by delays in Technical Assistance.

ECONOMIC OUTLOOK AND POLICIES FOR THE REMAINDER OF 2015 AND 2016

Economic Outlook

18. The short-term economic outlook remains very difficult, as the government battles to make the country Ebola-free despite significant progress in containing the epidemic, while the crisis in the iron ore sector persists. Real GDP is expected to decline in 2015 by 21.5 percent, reflecting the collapse in iron ore production. For 2016, assuming iron ore production does not restart, real GDP growth is expected to be largely unchanged, due to the expected modest recovery in the non-iron ore sector.

19. The leading iron ore mining company (African Minerals Limited–AML), which shutdown in December 2014, following extended board disagreement, including a lawsuit, is now fully owned by Shandong Iron and Steel Company. However, with the continuing low prices, it is not clear when production will resume. Production from AML accounts for almost 80 percent of total iron ore mining in Sierra Leone. The smaller company, TIMIS Mining Corporation (TMC), depends on access to rail and port services owned by a subsidiary of AML. An interim Access Agreement expired on March 18, 2015, and TMC consequently was forced to halt operations on April 2, 2015. The Government is facilitating discussions between TMC and AML.

20. Overall activity in the non-iron sectors is forecast to grow by 1 percent in 2015. Moderate recovery is expected in agriculture, supported by the provision of agricultural inputs, including an improved variety of seed rice to farmers and the reduction in the rental price of tractors by the Government. Trade and construction are also showing early signs of recovery, manufacturing, however, is expected to decline in 2015, due to constraints imposed by Ebola. Tourism is also performing poorly, while transport and other services have been adversely impacted by the iron ore crisis. For 2016, agriculture, construction, and trade are expected to be key sectors contributing to growth, as concerns about Ebola are increasingly in the past. Inflation is projected to rise from 8.3 percent in 2014 to about 10 percent in 2015, before declining modestly in 2016. The trade

balance is projected to worsen significantly in 2015, because of the crisis in the iron ore sector. However, the current account deficit is projected to improve from 25 percent of non-iron ore GDP in 2014, to 13.1 percent in 2015, and recover to 13 in 2016, due mainly to improvements in current transfers and reduction in iron-ore related imports of goods and services.

21. The implementation of the Government's post-Ebola Recovery Strategy (ERS), if it goes as planned, could boost growth in the non-iron sectors relative to the above projections. The ERS was presented at a UN conference in July. The key elements of the strategy comprise quick win measures to alleviate suffering and jump start the economy in the short-term while medium- to long-term measures will be integrated into the Agenda for Prosperity. Some of the short term measures are restoration of health services; enhancement of social services to the most vulnerable; improved water and sanitation services; and supporting private sector development including agriculture. To date, however, we have had only limited success in generating donor support to fund this plan.

Fiscal Policy

22. The government curtailed budget execution across all categories in the first half of 2015 as lack of activity in health and education placed certain fiscal activities on hold. The government also wanted to maintain reserves in case the Ebola Virus spiked again. Expenditure on goods and services and domestically financed capital in particular were scaled back. However, some revenue sources picked up in the first half of the year, as the non-iron economy showed signs of recovery and as iron-ore companies paid PAYE taxes they owed to NRA from last year. For the year as whole, domestic revenue is projected to decline from 11.1 percent of GDP in 2014 to 9.8 percent in 2015, mainly because of the drop in revenue from the iron ore sector and its upstream activities.

23. Expenditures for 2015 are projected to be 20.0 percent of GDP, somewhat higher than in the budget, thanks to additional commitments from Sierra Leone's development partners, including the IMF, with much of this concentrated on poverty-reducing spending, including Ebola recovery. Current spending is projected at 12.7 percent of GDP, taking into account the budgeted increase in the wage bill of about 11 percent, due to both recruitment in priority sectors and a 15-percent salary increase that started in July. These measures were introduced in parliament with the 2015 budget, when the macroeconomic outlook was based on optimistic assumptions for the containment of the Ebola epidemic, and prior to the acute crisis that affected the iron ore sector.

24. The domestic primary deficit is projected at 5.5 percent of GDP, down slightly from 2014, as non-essential expenditures will continue to be managed through tighter cash management. Despite our best efforts at fiscal restraint, the combined Ebola and iron or shocks have had such a significant

impact on our budget that we have been unable to fully finance this deficit. Thus we propose to use the first tranche of our requested increased access (15 percent of quota) to help finance the 2015 budget.

25. For 2016, fiscal challenges will continue to be severe. Revenues will be further adversely impacted by the crisis in the iron ore sector, as 2015 saw several months of modest iron ore production and related revenues, and the one time payment of iron ore-related PAYE arrears, neither of which will be repeated in 2016. We will take strong measures to enhance revenue collection. In addition to continuing our efforts to strengthen tax administration and enforcement, we will make three tax policy changes. First, waivers and exemptions from the GST and customs duties cost the budget significant revenue. We will eliminate exemptions worth Leone 30 billion, or 0.12 percent of GDP. In addition, given the large proportion of waivers and exemptions accounted for by government agencies, to contain future exemptions and waivers, the 2016 budget will include language mandating Ministries, Departments and Agencies (MDAs) to make provision for import duty for any dutiable goods or services to be imported. The budget will also include language eliminating the power to approve discretionary exemptions without the prior approval of Parliament. Second, we will increase the top PAYE rate from 30 percent to 35 percent. We expect this will generate Leone 5 billion. Finally, in 2016, the government will apply the existing commercial fuel price mechanism regime to retail pump prices as well, making the two prices equal and having a full pass-through from the international prices. The additional excise revenue collected from this effort is estimated to be approximately Leone 104 billion, or 0.42 percent of GDP. Submission to parliament of a budget consistent with these commitments will be a prior action for Board consideration of this review.

26. On the expenditure side, wages will be kept nominally flat through 2016, except for a modest adjustment for the judiciary, and will decline from 7.2 percent of GDP in 2015 to 6.7 percent in 2016. Notwithstanding this wage restraint, we will continue our efforts to recruit and train health workers to prevent an adverse impact on post-Ebola recovery; these efforts will be offset by hiring restraints for other government positions. In addition to this wage restraint, nonwage, non-interest outlays, including domestically financed investment, are set to decline by 0.5 percent of GDP with respect to 2015. Budget execution will continue to be closely monitored by the Cash Flow Management Committee.

27. Despite these revenue and expenditure measures, the combination of expenditure pressures and declining external budget support means we will need to mobilize significant financing for 2016. We propose to temporarily increase domestic financing from the 2 percent of non-iron ore GDP ceiling we have previously adhered to 3 percent of non-iron ore GDP. Direct

financing from the central bank meanwhile will continue to be contained at 5 percent of 2015 collected revenue, as regulated under the BSL Act. Unfortunately, with available external financing, this would leave us with a residual financing gap. We propose to close this residual gap by requesting the BSL to on-lend the resources from the requested 2016 ECF augmentation to the government as budget financing. A Memorandum of Understanding (MOU) between the BSL and MoFED, regarding the on-lending of the augmented Fund resources, will be signed, in consultation with the Legal Department of the IMF.

Monetary and Exchange Rate Policies

28. Monetary policy will be geared toward price stability. In 2015, inflationary pressures continue to be driven by supply shocks, as well as the ongoing depreciation, which we believe is largely caused by the loss of iron ore export receipts. While we cannot prevent these supply shocks from increasing domestic prices, BSL will remain attentive to potential risks from second round price pressures, and will tighten monetary policy if necessary to achieve our inflation target.

29. BSL will continue to enhance the effectiveness of monetary policy operations, as well as liquidity management through more active participation in the secondary market and the use of money market operations, via lending and standing deposit facilities, that allow banks to better manage their liquidity. BSL will also strengthen its own capacity to forecast liquidity on a daily basis, with close cooperation from the Treasury. To support these efforts the Accounting General Department of MoFED will produce a daily cash flow table. In addition, BSL will request technical assistance from MCM to assist in designing a program to strengthen monetary policy operations.

30. The exchange rate will continue to be market-determined. Fluctuations in BSL interventions in the foreign exchange market will be limited to smoothing excessive volatility in the exchange rate; they will not be designed to resist market-driven trends in the exchange rate. In addition, all foreign exchange sales will be carried out through the wholesale foreign exchange auctions system. Given the difficult situation, we request a reduction in the performance criterion on the accumulation of gross foreign reserves accumulation in 2015 from $40 million to $30 million.

31. Vulnerabilities in our banking system have increased, in large part due to the pressures created by Ebola and the iron ore crisis. In particular, two large banks, Rokel Commercial Bank (RCB) and Sierra Leone Commercial Bank (SLCB), have experienced growing problems. In December 2014, BSL put these two institutions under administration due to their failure to meet the minimum capital adequacy ratio. These banks also have high NPL ratios (each more than 50 percent as of end-June

2015), due to problems in credit review, connected lending, and some delays in government payments to contractors, which resulted in these contractors being late in payments on loans.

32. As part of the resolution of the problems at these institutions, additional capital (from the National Privatization Commission (Rokel) and NASSIT (SLCB) was injected into them in December 2014. In addition, Oversight Committees were established for both banks. These committees, which consist of representatives of the Ministry of Finance and Economic Development, BSL, NCP and minority shareholders, have replaced the banks' boards. The Bank of Sierra Leone has also appointed a caretaker management team to oversee the day-to-day operations of RBC. It has in addition appointed Resident Supervisors from the Banking Supervision Department to both banks. The Resident Supervisor assesses the operations of the bank on ex-post basis and report on the compliance with the provision of the resolution regime on a monthly basis to the Director of Banking Supervision. Exception reports on issues that require immediate attention are submitted as and when necessary. The caretaker management team at RBC reports to the Oversight Committee of the bank on monthly/quarterly basis and at the end of the one year period, they are expected to produce reports on reviews of Governance/Management, Credit Portfolios, Risk Management environment and Special Investigations conducted. The Oversight Committee, at the end of the one year period is expected to come up with specific recommendations with regard to the future management and governance of RBC; with particular regard to the special investigations, risk management, credit portfolio and loan recovery. Given the importance of these two banks, we will also shortly issue tenders for independent diagnostic studies of the two institutions, with assistance of the IMF's MCM department, to give us a better understanding of the sources of the difficulties in these institutions.

33. To address the more general NPL problems in the banking system, BSL has taken several remedial regulatory and supervision actions. First, a Loan Write-Off Policy Directive has been issued to banks, which would allow banks to clean their balance sheets. The directive will take effect in December 2015. In addition, the introduction of the Lenders and Borrowers Act 2014 and the planned Collateral Registry and Credit Administration Bills will improve the standards of credits. Some supervisory actions have been also taken, such as putting a cap on lending or a temporary moratorium on lending for some banks, and ensuring adequate provisions on Non Performing Facilities.

Borrowing Policies and Financing of the Poverty Reduction Strategy

34. Although the updated Debt Sustainability Analysis (DSA) shows that the risk of debt distress remains moderate, the devastating impact of Ebola on the economy, as well as the crisis in the iron

ore sector, and the consequent deterioration in macroeconomic performance have moved Sierra Leone close to being at high risk of debt distress. Government is committed to maintaining prudent borrowing policies, and will continue to give priority to grants and concessional borrowing to finance investment projects. However, the level of public debt and the associated debt service payments are crowding out key priority expenditures necessary for supporting the post Ebola socio-economic recovery. Government will therefore seek additional debt relief from commercial creditors, as well as highly concessional financing. Only the most critical projects, for which grants and concessional financing are not available, will be undertaken with non-concessional financing, and then only after ensuring that the resultant debt will not harm the country's debt sustainability. We will ensure that the net present value of proposed external borrowing is within the program limits and consult the IMF staff before proceeding with any proposed external borrowing.

35. Borrowing from the Government securities market will be guided by the medium-term debt management strategy. The government will continue to signal its borrowing needs through the publication of a quarterly borrowing calendar. Actual borrowing will not deviate from the calendar by more than 10 percent plus or minus. In addition, we will seek to raise the share of long term securities in total borrowing, including by introducing two year treasury bonds.

STRUCTURAL REFORMS

36. Structural reforms will focus on advancing Public Financial Management reforms; deepening the transmission of monetary policy; financial sector reforms; improving our balance of payments data; and supporting private sector development. Further progress will be made in the implementation of measures originally programmed for 2014 as TA delivery gradually resumes.

37. Revenue mobilization measures include (i) reduction and improved monitoring of exemptions: the Ministry of Finance and Economic Development will enhance scrutiny of duty waiver requests, prepare a report on duty waivers granted in 2015, eliminate all exemptions and waivers that have not been approved by parliament, and include in the 2016 budget language that limits the authority to grant future waivers to parliament, eliminates all exemptions on petroleum products, and mandates MDAs to pay duty on all dutiable imports not exempted by parliamentary ratification **(structural benchmark**). This measure aims to reduce discretionary waivers and broaden the tax base. In the same context, the NRA will prepare and review, by end-December 2015, the list of consolidated tax and non-tax obligations for mining companies and their sub-contractors; establish a Treasury Single Account by end-December 2015 **(structural benchmark**) building on progress made in 2014 on the streamlining of NRA's transition accounts; and introduce a new Tax administration Act in parliament by end-December 2015**(structural benchmark**). The Act is

expected to improve compliance with tax obligations by harmonizing administrative provisions and updating them to reflect current approaches in tax administration.

38. The NRA plans to take the following measures in the second half of 2015:

- Implementation of Short-Term Revenue Improvement Project (STRIP) Phase 2 (August–December), specifically addressing GST compliance, compliance of large & medium taxpayers, Re-organization of rental income tax administration, Special & provincial audits, and Targeting top contractors;
- Set and monitor performance targets at Customs Service Department (CSD);
- Continue monitoring of CSD processes and procedures to reduce revenue leakages and correct inefficiencies;
- Work with the BSL in monitoring Telecommunication withholding taxes on payments to foreign contractors;
- Continue aggressive media sensitization of taxpayers on the law, processes and procedures to improve compliance.

39. Furthermore, the NRA will continue to strengthen implementation of administrative measures to curb fraud and tax evasion. Key actions planned for 2016–18 include the following:

- Building capacity for specialized revenue audits (especially in the extractive, financial and telecommunication sectors)
- Implementation of a small taxpayer regime to capture this "hard-to-tax" sector
- Developing and implementing a revenue accounting and reconciliation system for effective reconciliation of domestic revenue with the transit banks and the central bank
- Improving cargo clearance through construction of cargo inspection facility at the sea port
- Improving customs valuation by adopting the Indian and WCO price reference database
- Using mobile scanners for non-intrusive methods of import examination
- Improving tax collection through modern technology, including further digitization
- Tackling transfer pricing advances through increased collaboration with international bodies and MOFED to develop a transfer pricing policy.

40. On expenditures , we propose three structural benchmarks: (1) the completion of a revised medium-term wage and pay reform strategy, reflecting the revised economic projections and taking into account promotions and retirements in the civil service, by end-2015; (2) adoption by the Cabinet of the recommendations in the reform strategy by March 2016 **(structural benchmark**); and (3) quarterly publication, within 30 days of the end of the quarter, of information on all funds

received by the budget from donors for the post-Ebola recovery strategy and how they were used. We continue our commitment to prepare the monthly rolling Treasury Cash Flow Table consistent with the budget and the semi-annual report on PIP execution **(structural benchmark)**. In addition, we have submitted a new PFM law to parliament, including provisions for the establishment of a Natural Resource Fund by end-December 2015, in line with advice received from the IMF's Fiscal Affairs Department **(structural benchmark**). We recognize that effective implementation of the new law will require a strong regulatory framework, and will work with FAD to introduce the necessary regulations.

41. Implementation of measures aimed at supporting financial sector development will be accelerated in 2015. Building on progress made at end-December 2014, BSL will establish a primary dealer agreement system for the government securities market by end-March 2016 **(Structural benchmark**). The system will help enhance liquidity and turnover, and support the development of a secondary market for government securities. To improve the overall effectiveness of monetary operations, BSL will in addition commence the operation of a daily liquidity forecasting framework which will be linked to daily monetary operations actions by end-March 2016 **(Structural Benchmark)**. Following the successful use of wholesale foreign exchange sales in late 2014, BSL transitioned to a wholesale foreign exchange auction system in March 2015 **(Structural Benchmark**). The BSL will also prepare operational rules to invigorate the interbank foreign exchange market by [end-June 2016 **(Structural Benchmark**). In preparation for the publication of the daily reference foreign exchange rates, the BSL will commence in 2015, a compilation of daily reference exchange rates of the Leone against the main international currencies based on the previous day's transaction rates, and develop a time series on exchange rates.

42. In the area of banking supervision, reform measures will focus on priority areas defined in the road map for the implementation of risk-based supervision completed in June 2014. They include (i) the preparation of an internal contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking sector distress, by end-June 2016 (**Structural Benchmark**); (ii) the preparation of bank-specific risk management guidelines to forestall credit, market, and technology risks; (iii) the preparation of detailed risk-based supervisory framework, including procedures for analyzing risk management systems of commercial banks; and (iv) the completion of on-site supervision for the five largest banks selected using asset size and quality indicators by end-December 2015. To complete these reforms, BSL will request the resumption of TA from IMF interrupted in 2014 because of the EVD outbreak.

43. The reform agenda for 2015 and 2016 contains three measures aimed at supporting private sector development, the setting up of registry of moveable collateral by end-March 2016

(**Structural benchmark**), which will help support increased access to financial services for small-and medium-sized enterprises, finalization of the business process reengineering for customs single clearance window by end-December 2015 (**Structural benchmark**), and begin the migration from ASYCUDA Plus Plus to ASYCUDA World by end-June 2016 (**Structural benchmark**) as the next steps toward introducing a one-stop window that will contribute to improving the business environment.

44. We are concerned by newly discovered problems in our balance of payments (BOP) data. Large revisions in our historic data, and resulting large errors and omissions, tell us that our data is inadequate for the purposes of economic policy. We have asked the Fund to provide technical assistance, as a high priority, to help us design a program to significantly strengthen our BOP data.

PROGRAM MONITORING

45. The program will be monitored on a semi-annual basis, through quantitative targets (Tables 1, 2 and 3) and structural benchmarks (Tables 3 and 4). Quantitative targets for December 2015 and end-June 2016 are performance criteria; and those end-September 2015 and end-March 2016 are indicative targets. The third and fourth reviews under the program will be completed by December 15, 2015, and the fifth and sixth reviews will be completed on or after April 15, 2016 and September 10, 2016, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2014

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2013	2014															
		Mar. 1/				Jun. 2/				Sep. 1/				Dec. 2/			
	Stock	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 3/	*Adj. Prog.*	Act.	Status	Prog. 4/	Adj. Prog.	Prel.	Status
Performance criteria																	
Net domestic bank credit to the central government (ceiling) 9/	1,240	93	201	130	Met	184	318	217	Met	194	329	567	Not Met	493	355	699	Not Met
Unadjusted target (ceiling)			93				184				194				493		
Adjustment for the shortfall (excess) in external budget support			66				47				22				-272		
Adjustment for the issuance of government securities to the nonbank private sector			42				88				112				134		
Net domestic assets of the central bank (ceiling) 9/	-297	20	86	55	Met	21	68	20	Met	-57	-35	33	Not Met	140	-132.0	129	Not Met
Unadjusted target (ceiling)			20				21				-57				140		
Adjustment for the shortfall (excess) in external budget support			66				47				22				-272		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	473.5	10	-6	13	Met	31	6	26	Met	35	31	19	Not Met	53	103	96	Not Met
Unadjusted target (floor)			10				31				35				53		
Adjustment for the shortfall (excess) in external budget support 6/			-15				-11				-5				63		
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-14				0				-14		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			0				0				1				1		
Ceiling on new nonconcessional external debt (in $ million) 5/ 6/	...	30		0	Met	30 ...		10	Met	30 ...		9	Met	30 ...		9	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 5/	...	0		0	Met	0 ...		0	Met	0 ...		0	Met	0 ...		0	Met
External payment arrears of the public sector (ceiling) 5/	...	0		0	Met	0 ...		0	Met	0 ...		0	Met	0 ...		0	Met
Indicative target																	
Total domestic government revenue (floor)	...	549		588	Met	1,247		1,171	Not Met	1,919		1,715	Not Met	2,341		2,241	Not Met
Poverty-related expenditures (floor)	...	231		267	Met	542		633	Met	809		1,008	Met	1,145		1,236	Met
Domestic primary balance (floor)		-176		-114	Met	-300		-515	Not Met	-330		-892	Not Met	-806		-1,110	Not Met
Memorandum items:																	
External budgetary assistance (US$ million) 7/	...	5		5		45		35		51		45		78		141	
Net credit to government by nonbank sector 8/	...	0		-42		22		-66		44		-69		66		-68	
ECF disbursements (US$ millions, flow)		0		0		14		14		0		0		54		40	
Exchange rate (Leones/US$)	4,334	4,334		4,334		4,334		4,334		4,334		4,334		4,334		4,334	

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

2/ End-June and end-December target are performance criteria.

3/ Refers to program of EBS/14/64

4/ Refers to program of EBS/14/116

5/ These apply on a continuous basis.

6/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

7/ Including grants and loans. Reference in EBS/14/116 to US$91.4 million was inaccurate; corrected figure US$78.3 million.

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

9/ Net domestic bank credit to Government and NDA of the central bank stock in end December 2013 were revised following BSL external audit exercise on June 2015.

Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2014

Measures	Timing	Status
Revenue Mobilization		
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-June	Not met.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics as recommended by FAD TA under the Topical Trust Fund for managing natural resource wealth.	End-December	Not met.
• Introduce a new Tax Administration Act.	End-December	Not Met.
Expenditure and Debt Management		
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	End-June	Not met.
• Prepare a monthly rolling Treasury cash flow table consistent with the revised 2014 budget.	Continuous	Met.
• Prepare a semi-annual report on PIP execution.	Continuous	Met.
• Prepare a quarterly report on external debt commitments, agreements and disbursements.	Continuous	Met.
• Complete a three-year PIP, fully integrated with the budget process and the revised MTEF for 2015–18, to be submitted to parliament with the 2015 budget.	End-October	Met.
Financial Sector Development		
• Prepare a roadmap for developing and implementing risk-based supervision.	End-June	Met.
• Establish a primary dealer agreement system for the government securities market.	End-June	Not met.
• Introduce a wholesale foreign exchange auction.	End-June	Not met.
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises.	June 2014	Met.
• Introduce a one-stop window for imports clearance.	Dec. 2014	Not met.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2014	2015								
	Est.	Mar. 1/				Jun. 2/				Sept. 1/
	Stock	Prog.	Adj. Prog.	Prel.	Status 7/	Prog.	Adj. Prog.	Prel.	Status 7/	Prog.
Performance criteria										
Net domestic bank credit to the central government (ceiling)	1939	249	281	143	Met	302	429	317	Met	447
Unadjusted target (ceiling)			249				302			
Adjustment for the shortfall (excess) in external budget support			20				99			
Adjustment for the issuance of government securities to the nonbank private sector			12				28			
Net domestic assets of the central bank (ceiling) 8/	-383	220	239	-33	Met	186	285	219	Met	190
Unadjusted target (ceiling)			220				186			
Adjustment for the shortfall (excess) in external budget support			20				99			
Gross foreign exchange reserves of the central bank, US$ millions (floor)	553.5	63	58	51	Not Met	63	29	33	Met	20
Unadjusted target (floor)			63				63			
Adjustment for the shortfall (excess) in external budget support 3/			-4				-20			
Adjustment for the shortfall in the US$ value of IMF disbursement			0				-13			
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-1				-1			
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30		9	Met	30	...	9	Met	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 3/	...	0		0	Met	0	...	0	Met	0
External payment arrears of the public sector (ceiling) 3/	...	0		0	Met	0	...	0	Met	0
Indicative target										
Total domestic government revenue (floor)	...	479		565	Met	1000		1175	Met	1556
Poverty-related expenditures (floor)	...	271		171	Not Met	570		398	Not Met	807
Domestic primary balance (floor)		-506		-295	Met	-1119		-488	Met	-1420
Memorandum items:										
External budgetary assistance (US$ million) 5/	...	24.8		20.8		62.9		29.5		68.1
Net credit to government by nonbank sector 6/	...	0.0		-12.3		10.0		-17.8		20.0
ECF disbursements (US$ millions, flow)		88.0		88.07		12.9		0.0		0.0
Exchange rate (Leones/US$)	4953	4953		4953		4953		4953		4953

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

2/ End-June and end-December target are performance criteria.

3/ These apply on a continuous basis.

4/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

5/ Including grants and loans.

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

7/ Based on data reported by the authorities, which the mission will need to confirm.

8/ End December 2014 NDA and gross foreign reserves reevaluated with the new program exchange rate Le 4953.34/US$.

Table 4. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015

Measures	Timing	Rationale
Prior Actions:		
Submission to parliament of a 2016 budget that contains: elimination of implicit fuel subsidies consistent with the application of the commercial price formula to consumer fuel prices; increasing the PIT rate for the top income bracket from 30 percent to 35 percent; and elimination of all ongoing and future discretionary waivers and exemptions from custom duties and goods and services tax.	November 2015	Generating domestic resources for the budget
Structural Benchmarks:		
Revenue Mobilization		
• Prepare a report on duty waivers granted in 2013-14, by category and by sector, specifying the legal basis for the waiver.	End-September (Met)	Enhance monitoring of tax exemptions and reduce ad hoc duty waivers.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics consistent with the new PFM Bill.	End- December	From 2014.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.	End-December	From 2014.
• Introduce a new Tax Administration Act.	End-December	From 2014.
Expenditure Management		
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2015 budget	Continuous	
• Prepare a semi-annual report on PIP execution.	Continuous	
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund.	End-September (Met in August)	From 2014.

Table 4. Sierra Leone: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2015 (Concluded)

Financial Sector Development		
• Introduce a wholesale foreign exchange auction.	End-June	Met in March.
• Issue a tender bid for a diagnostic study for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-December	Strengthening banking supervision.
Business Environment		
• Finalize the business process reengineering for custom single clearance window.	End-December	Improve the efficiency of custom clearance.

Table 5. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2015–16

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2015 Proj. Stock	2015 Dec. 1/ Prog.	2015 Dec. 1/ Rev. Prog.	2016 Mar. 2/ Prog.	2016 Jun. 1/ Prog.
Performance criteria 1/ 2/					
Net domestic bank credit to the central government (ceiling)	2672	588	733	316	556
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for the issuance of government securities to the nonbank private sector					
Net domestic assets of the central bank (ceiling)	95	202	479	119	275
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Gross foreign exchange reserves of the central bank, US$ millions (floor)	584	40	30	-15	-11
Unadjusted target (floor)					
Adjustment for the shortfall (excess) in external budget support 3/					
Adjustment for the shortfall in the US$ value of IMF disbursement					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					
Ceiling on new nonconcessional external debt (in $ million) 3/ 4/	...	30	...	...	...
Present Value of New External Debt (ceiling) 7/	...	...	70	70	70
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
External payment arrears of the public sector (ceiling) 3/	...	0	0	0	0
Indicative target					
Total domestic government revenue (floor)	...	2132	2181	619	1305
Poverty-related expenditures (floor)	...	1128	1128	281	624
Domestic primary balance (floor)	...	-1163	-1224	-305	-643
Memorandum items:					
External budgetary assistance (US$ million, cumulative flow from the start of the year) 5/	...	103.3	99	12.6	19.7
Net credit to government by nonbank sector 6/	...	19.2	-36	0.0	0.0
ECF disbursements (US$ millions, cumulative flow from the start of the year)	...	113.8	136	0.0	35.4
Exchange rate (Leones/US$)	4953	4953	4953	4953	4953

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-December and end-June target are performance criteria.

2/ End-March is an indicative target.

3/ These apply on a continuous basis.

4/ The performance criteria on the ceiling on new nonconcessional external debt is replaced by the ceiling on the Present Value of New External Debt, following the Fund's new debt limits policy that took effect from July 2015.

5/ Including grants and loans.

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

7/ Cumulative from July 1, 2015.

Table 6. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2016		
Measures	**Timing**	**Rationale**
Expenditure and Debt Management		
• Adoption by Cabinet of a revised medium-term wage and pay reform strategy reflecting the revised economic projections and taking into account promotions and retirements in the civil service.	End-March	Ensure the fiscal sustainability and improve the efficiency of civil service.
• Prepare a monthly rolling Treasury Cash Flow table consistent with the 2016 budget	Continuous	
• Prepare a semi-annual report on PIP execution.	Continuous	
Monetary Operation		
• Establish a primary dealer agreement system for the government securities market.	End-March	Reprogrammed from 2014.
• Introduce a daily liquidity forecasting framework	End-March	Improve monetary operation
• Finalize the draft of BSL's rules governing the operations of the interbank foreign exchange market.	End-June	Improve monetary operations.
Financial Sector Development		
• Complete the independent diagnostic study report for Rokel Commercial Bank and Sierra Leone Commercial Bank	End-March	Strengthening banking supervision.
• Establish a registry of moveable collateral.	End-March	Develop access to credit for small-and-medium sized borrowers.
• Prepare an internal BSL contingent manual to guide identification and step-by-step supervisory actions in the event of specific or systemic banking distress.	End-June	Strengthen banking supervision.
Business Environment		
• Begin the migration from ASYCUDA ++ to ASYCUDA World as the next step for introducing a one-stop window.	End-June	Improve the business environment.

Attachment 2. Technical Memorandum of Understanding
Freetown, October 30, 2015

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 (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2015 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4953.34/US$ and cross rates as of end December 2014.[2]

Sierra Leone: Program Exchange Rate for ECF Arrangement
Cross Rates as of December 31, 2014

Currency	Sierra Leonean Leones per currency unit	US dollars per currency unit
US dollar	4953.34	1.00
British pounds sterling	7730.64	1.56
Japanese yen	41.36	0.008
Euro	6013.44	1.21
SDR	7176.90	1.45

[1] The source of the cross exchange rates is International Financial Statistics.

[2] For calculating program targets for 2015, all end 2014 stock variables will be based on program exchange rate of Le 4953.34/US$.

QUANTITATIVE PERFORMANCE CRITERIA

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone

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* (5th 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 U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance[3]; (b) downward (upward) for any cumulative 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).

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 (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation, and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015.

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—the upward adjustment will be capped at the equivalent of US$20 million.

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[3] External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

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:

a. 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;

b. 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 BSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) ways and means; and (c) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to the augmentation of access under the ECF arrangement in 2014 and 2015; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits as well as debt relief under the CCR Trust.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall 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 1 of the LOI).

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 to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed 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 continuous performance criterion during the program period. For the purposes of this

performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring, or are under litigation. This PC will apply on a continuous basis.

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

12. **Definition**. The present value (PV) of public external debt is equal to the sum of all future debt service payments (principal and interest), discounted to the present using a discount rate of 5 percent. The PV is calculated using the IMF concessionality calculator and will be based on the loan amount contracted in a given year. Specifically, it will be assumed that all new loans contracted are fully disbursed at the time when they are contracted. For loans with a grant element of zero or below zero, the PV will be set equal to the nominal value of the loan. The ceiling on the PV of new external debt will be applied on a continuous basis from July 1, 2015.

13. New external debt is 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 of the creditor. The external debt definition 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 8, 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. For the purposes of this PC, the "public sector" is defined as in paragraph 11 above.

14. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The government's current borrowing plan is attached in Table 1.

Table 1. Summary Table on External Borrowing Program (July 2015-June 2016)

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US million 1/
Source of debt financing	**108**	**70**
Concessional debt, of which 2/	48	25
Multilateral debt	35	17
Bilateral debt	13	8
Non-concessional debt, of which 2/	60	45
Semi-concessional debt	60	45
Commercial terms	0	0
Uses of debt financing	**108**	**70**
Infrastructure	108	70
Budget financing	0	0

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Concessional debt is defined as debt with a grant element that exceeds the minimum threshold of 35 percent.

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

15. **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.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

17. **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

18. **Definition**. For program monitoring purposes, poverty-related expenditures are defined as the total of current and capital expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Current expenditures are defined as expenditures on goods and services, transfers, and other current spending. Capital expenditures are defined as domestically-financed investment. Poverty-related spending encompasses also budgetary expenditure for the Ebola Response Plan.

PROGRAM MONITORING

19. 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. Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 8 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)			
Type of Data	**Tables**	**Frequency**	**Reporting Deadline**
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