

Sierra Leone: Second and Third Reviews Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria, Request for Modification of Performance Criteria, and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone.

In the context of the discussion of the second and third reviews under the three-year arrangement under the Extended Credit Facility for Sierra Leone, Sierra Leone's request for waivers of nonobservance of performance Criteria, request for modification of performance Criteria, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the second and third reviews under the three-year arrangement under the Extended Credit Facility, request for waivers of nonobservance of performance criteria, request for modification of performance criteria, and financing assurances review prepared by a staff team of the IMF, following discussions that ended on September 25, 2011 with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release, summarizing the views of the Executive Board as expressed during its December 7, 2011, discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Sierra Leone.

The documents listed below have been or will be separately released.

- Letter of Intent sent to the IMF by the authorities of Sierra Leone*
- Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
- Technical Memorandum of Understanding*

*Also included in Staff Report.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

SIERRA LEONE

Second and Third Reviews Under the Three-year Arrangement Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria, Request for Modification of Performance Criteria, and Financing Assurances Review

Prepared by the African Department
(In consultation with other departments)

Approved by Seán Nolan and Dominique Desruelle

November 18, 2011

IMF relations. The Executive Board approved on June 4, 2010 a three-year ECF arrangement in an amount equivalent to SDR 31.11 million (30 percent of quota). Two disbursements of SDR 4.44 million each have been made.

Staff team. The mission comprised Mr. Mikkelsen (head) and Messrs. Palmason, Stepanyan, and Koulet-Vickot (all AFR). It was assisted by Mr. Kumah (Resident Representative). Mr. Tucker (OED) participated in several meetings.

Discussions. Discussions were held in Freetown, March 2–15, 2011; in Washington, April 16–20, 2011; in Freetown, August 23–September 6, 2011; and in Washington, September 20–25, 2011. The mission met with President Koroma, Finance Minister Kamara, Central Bank Governor Sesay, other senior government officials, and representatives of civil society and donors.

Contents	Page
Abbreviations and Acronyms	3
Executive Summary	4
I. Recent Economic Developments and Policy Implementation.....	5
A. Macroeconomic Policy Slippages.....	5
B. Policy Corrections.....	5
II. Discussions on Economic Policies.....	7
A. Macroeconomic Outlook.....	7
B. Fiscal Policy	9
C. Monetary and Exchange Rate Policies.....	11
D. Administrative and Other Reforms.....	11
III. Program Modalities and Capacity to Repay the IMF	12
IV. Staff Appraisal	13
Boxes	
1. Economic Impact of Tonkolili Iron Ore Project, 2012–14	8
2. Debt Sustainability Update	9
Figures	
1. Real and External Sectors, 2007–12	15
2. Fiscal Sector, 2007–12.....	16
3. Monetary Sector, January 2008–July 2011.....	17
4. Financial Sector, January 2007–July 2011	18
Tables	
1. Selected Economic Indicators.....	19
2. Fiscal Operations of the Central Government (Billions of Leone).....	20
3. Fiscal Operations of the Central Government (Percent of GDP)	21
4. Monetary Accounts.....	22
5. Balance of Payments.....	23
6. Indicators of Capacity to Repay the Fund.....	24
7. Actual and Proposed Disbursements Under the ECF Arrangement, 2010–13	25
8. Millennium Development Goals.....	26
9. Financial Soundness Indicators of the Banking System, 2005–10.....	27
Appendix	
I. Letter of Intent	28
Attachment I. Memorandum of Economic and Financial Policies.....	30
Attachment II. Technical Memorandum of Understanding.....	47

Abbreviations and Acronyms

AML	African Minerals
BSL	Bank of Sierra Leone
DSA	Debt Sustainability Analysis
DTD	Domestic Taxpayer Department
EU	European Union
FAD	Fiscal Affairs Department
FSDP	Financial Sector Development Plan
GBAA	Government Budgeting and Accountability Act
GDP	Gross Domestic Product
GST	Goods and Services Tax
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
LTO	Large Taxpayer Office
MDAS	Ministries, Departments, and Agencies
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MTDS	Medium-Term Debt Management Strategy
MTO	Medium Taxpayer Office
MMA	Mines and Minerals Act, 2009
MNRW-TTF	Topical Trust Fund for Managing Natural Resource Wealth
MOFED	Ministry of Finance and Economic Development
MTEF	Medium Term Expenditure Framework
NEER	Nominal Effective Exchange Rate
NRA	National Revenue Authority
PC	Performance Criterion
PIP	Public Investment Plan
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
TMU	Technical Memorandum of Understanding

Executive Summary

- **Economic activity is expanding and the medium-term outlook is favorable.** Real GDP growth picked up to about 5 percent in 2010–11, while the commencement of an iron ore megaproject in 2012 is expected to boost GDP and exports substantially. However, inflation will likely remain in double digits longer than anticipated owing to exogenous price shocks and last year’s expansionary monetary policy; consumer price inflation stood at 17 percent in the 12 months to September 2011.
- **The program’s fiscal and monetary policy targets were not met at end-2010.** Higher fiscal spending towards the end of 2010, reflecting an ambitious acceleration in infrastructure investments, was financed primarily by direct central bank credit. As a result, the December ceilings on net credit to government and net domestic assets of the central bank were exceeded by sizeable margins. Subsequent monetary tightening led to sharply increased interest rates on treasury bills.
- **The authorities took corrective action in early 2011 to bring the program back on track.** Fiscal tightening, through strengthening of revenue collection and containing domestically financed capital spending, along with reduced central bank direct credit to government, ensured that program ceilings for net credit to government and net domestic assets were met by substantial margins in June 2011. Policies for the remainder of 2011 envisage continued tightening as compared to the original program for the year.
- **The government has taken action to strengthen fiscal discipline.** An amendment to the Bank of Sierra Leone (BSL) Act to formally cap annual direct credit from the BSL to government at 5 percent of previous year’s domestic revenue was submitted to parliament. In addition, the government adopted a fuel pricing mechanism aimed at containing the drain of fuel subsidies on future budgetary resources.
- **The 2012 budget is premised on receipts of new mining revenues, continued investment in infrastructure development, and containment of domestic financing.** Fiscal space is, however, limited by revenue losses from lower fuel excises and by outlays required to fund presidential, parliamentary, and local elections in 2012. Domestic financing from banks and the nonbank financial sector is projected to remain low at 1.4 percent of non-iron ore GDP.

I. RECENT ECONOMIC DEVELOPMENTS AND POLICY IMPLEMENTATION

1. **The economy is continuing to recover, while inflation remains high (Table 1 and Figure 1).** Real GDP growth reached 5 percent in 2010, and the economy has likely continued to grow by a similar pace in 2011. This reflected steady growth in mining, manufacturing, and construction. Year-end consumer price inflation rose from 10.8 percent (year-on-year) in 2009 to 18.4 percent in 2010. Inflation remained high in 2011—edging above 20 percent by mid-year before declining to 17 percent in September—because of new import price shocks (food and fuel) and an expansionary monetary policy towards the end of 2010. The leone depreciated by 9 percent against the U.S. dollar in 2010 and an additional 5 percent since the beginning of this year.

A. Macroeconomic Policy Slippages

2. **A surge in unbudgeted fiscal spending, financed by central bank credit, led to liquidity expansion towards the end of 2010.** In particular, despite improved revenue performance, an ambitious acceleration in infrastructure investment caused a sharp increase in domestic financing (Table 2 and 3, and Figure 2). For the year as a whole, the fiscal deficit expanded and domestic financing from banks and nonbank financial institutions rose to 5.9 percent of GDP, as compared to 1.3 percent of GDP in 2009. Although most of the excess spending was financed by direct credit from the Bank of Sierra Leone (BSL), subsequent attempts to withdraw liquidity from the market triggered 10 percentage points increase in treasury bill interest rates by the end of the year. Despite these efforts, money growth by year-end was much higher than anticipated (Table 4 and Figure 3 and 4).

3. **The expansionary policy led to nonobservance of two end-December 2010 performance criteria.** The ceiling for net domestic bank credit to government was exceeded by 2.4 percent of GDP and the target for net domestic assets of the central bank was overshoot by 0.9 percent of GDP (MEFP, Table 1). In contrast, the domestic revenue target and the floor for gross foreign exchange reserves were met with comfortable margins. With the exception of the adoption of an automatic fuel pricing framework and the integration of goods and services tax (GST) administration within the large taxpayer office, structural benchmarks for 2010 were met (MEFP, Table 2), though with delays in some cases.

B. Policy Corrections

4. **The government took measures in early 2011 to put the program back on track (MEFP, ¶6–9).** Despite rising domestic fuel subsidies and higher interest payments, fiscal tightening reduced domestic bank and nonbank financing in the first half of 2011 to 1 percent of GDP, as compared with the 1.9 percent of GDP envisaged in the program approved by the Executive Board in December 2010. This was achieved through spending restraint (particularly on domestic financed capital projects) and enhanced revenue efforts, reflecting higher collection of income taxes (including one-time payments from the mining sector), GST, and import duties. In response to the policy tightening, interest rates on 91-day treasury bills fell by more than 7 percentage points to 23 percent. Concurrently, monetary policy was tightened, which was reflected in a decline in reserve money in the first half of the year.

5. **With implementation of corrective macroeconomic policies, all June 2011 performance criteria were met comfortably, except the ceiling on contracting of nonconcessional debt (MEFP, Table 3).** Progress was also made towards implementing the structural benchmarks for 2011 (MEFP, Table 4). Regarding nonconcessional debt, the government reported that two recent loans did not meet the 35 percent concessionality requirement (US\$42 million in total). As a remedy, it committed to strengthening monitoring of concessionality and to sharing all new loan contracts with IMF staff for review before signature (MEFP ¶19). The authorities have requested technical assistance on debt management from the World Bank and the IMF.

6. **To support continued tight macroeconomic policies and to strengthen budget discipline,** the authorities have implemented the following actions:

- **Limiting central bank credit to the government (prior action).** An amendment to the BSL Act, which was submitted to parliament in November 2011, sets a limit on the annual flow of direct credit to government (loans and advances) at 5 percent of actual domestic revenue in the previous budget year. It requires that such direct credit be repaid within 93 days from the end of the financial year. It further stipulates that the BSL may purchase government securities for monetary policy purposes, provided that such purchases are made only in the secondary market.
- **Increasing domestic fuel prices.** Responding to rising international oil prices, administered domestic fuel prices were increased by about 17 percent in May 2011. However, at the same time, the government lowered fuel excises and road user charges to close the remaining difference between domestic and imported fuel prices. Since the annual revenue loss is sizable (about 2 percent of GDP), staff made the case that (i) fuel excise cuts be gradually reversed, (ii) an automatic pricing formula be introduced to ensure full pass-through of international prices into domestic prices (a 2010 program benchmark), and (iii) targeted measures be introduced to protect the poorest from the adverse effect of price increases. Although the authorities agreed with staff that the revenue shortfall significantly constraints fiscal space for implementing priority infrastructure projects, they insisted that further increases in fuel prices could instigate social unrest. Consequently, the authorities have put in place an asymmetric approach in which only any additional increase in imported fuel prices above 5 percent would be passed on to consumers (lower price increases will be financed through lower profit margins by the marketing companies); and a decrease in prices would result in restoration of excises and road user charges. As a temporary measure, staff could go along with this approach, provided that upward adjustments do indeed occur should imported prices surge.
- **Clearing BSL credit to government.** The Le178 billion (2.3 percent of GDP) outstanding stock of ways and means at end-2010 was reduced to Le78 billion through government cash payments. The remaining stock was repaid through a conversion of the debt to marketable medium-term government securities.

II. DISCUSSIONS ON ECONOMIC POLICIES

A. Macroeconomic Outlook

7. **The overarching medium-term objective is accelerated growth and poverty reduction, based on a stable macroeconomic environment.** Guided by the Agenda for Change (Sierra Leone's PRSP) and a recent progress report,¹ the government plans to increase fiscal space for infrastructure investment and social services while supporting private activity. Fiscal policy is anchored by keeping domestic financing at 1–2 percent of GDP a year, consistent with macroeconomic stability and domestic financial market capacity, while monetary policy aims at returning to single-digit inflation by 2013. The balance of payments position is expected to strengthen because of a substantive increase in exports of minerals and cash crops.

8. **Extractive industries are expected to drive economic activity.** Assuming full implementation of two new iron ore mining projects, economic activity and tax revenue will increase substantially in the coming years (Box 1). A one-time expansion of real GDP of about 45 percent is projected for 2012, while exports could increase by a factor of four. To level the playing field for new mining investment and increase revenue, the fiscal regime as defined by the Mines and Minerals Act (MMA) of 2009 will be fully applied to future agreements. The government intends to implement a resource rent tax (structural benchmark for December 2012) to benefit from upside profitability, and a capital gains tax to safeguard government revenue in case of sales of lucrative lease agreements in mining and oil extraction to third parties.

9. **Activity in other sectors is also expanding.** Real non-iron ore GDP growth is expected to increase to 6 percent in 2012 and beyond. Key steps are being taken to strengthen the business environment: investment in agriculture and food security, basic infrastructure, electricity generation, and health and education.

10. **The government is committed to maintaining a sustainable external debt position.** To improve debt management, the government is requesting assistance from the World Bank and the IMF for developing a comprehensive medium-term debt management strategy (MTDS). With the advent of large-scale iron ore mining and exports in 2012, debt sustainability indicators will improve substantially (Box 2). Under the enhanced HIPC Initiative, commercial creditors are expected to deliver their share of debt relief through a debt buy-back operation, supported by the World Bank and scheduled for 2012.²

¹ A PRSP progress report was completed in June 2011. The report aptly demonstrates that significant progress has been made to implement the PRSP. Notwithstanding these achievements, it correctly identifies several challenges to complete implementation, including, among others, limited fiscal space, inadequate capacity, and delays in donor disbursements.

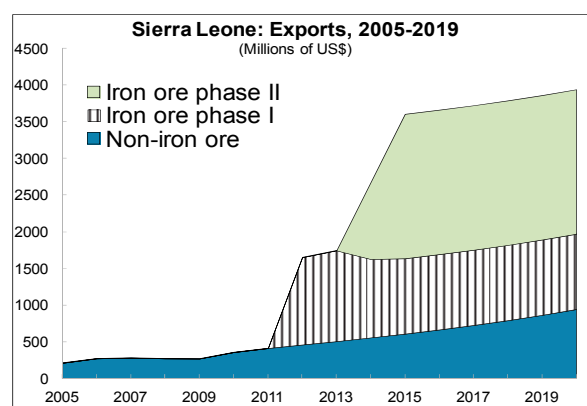
² The buy-back targets a reduction of external commercial debt (totaling US\$232 million at end-2010) by more than 90 percent.

Box 1: Economic Impact of Tonkolili Iron Ore Project, 2012–14

The discovery at Tonkolili has an estimated 10.5 billion tons of high grade iron ore deposits, one of the largest in Africa. In August 2010, the Government of Sierra Leone signed a mining lease agreement with a private, foreign mining company—African Minerals Limited (AML)—for the development and mining of the Tonkolili deposits. Although the fiscal regime of the mining agreement is similar to other iron ore projects in the region, it provides significant tax concessions to AML compared to current legislation for taxation of mining activities. The tax concessions include (i) lower corporate income tax at 25 percent vs. 30 percent in current legislation; (ii) 100 percent carry forward of losses vs. 50 percent; (iii) capital expenditures depreciation when spent vs. when production starts; (iv) full exemption from goods and services tax and import duties vs. only partial exemptions in the tax code; and (v) lower withholding tax at 5 percent vs. 10 percent.

The project, which has an estimated mine-life in excess of 60 years, is being developed in three phases. Phase I is expected to produce 12 million tons of iron ore per annum starting from 2012. The total investment of this phase is projected at about US\$ 1.4 billion (63 percent of 2011 GDP). The funding is provided by the investor through equity and issuance of debt.

Realization of phase I of the project will have a significant impact on economic activity, exports, and budget revenue in coming years (see table). A one-time upward shift in real GDP growth from 5.3 percent in 2011 to 51 percent in 2012 is projected, and total exports from Sierra Leone are expected to quadruple. The tax effect is expected to be relatively small in 2012 but increases substantially from 2013 onwards, as taxable income turns positive. Annual tax receipts are projected to be 1.5 percent of non-iron ore GDP in 2012 and 6.4 percent in 2013. Payment of corporate income taxes, which is projected to start in 2013, could be delayed by 2–3 years if investments for phase II start in 2012. In this case, however, tax revenues in the outer years of the project would be higher than under the current scenario. Phases II and III are expected to boost annual production incrementally by 23 and 45 million tons, respectively.



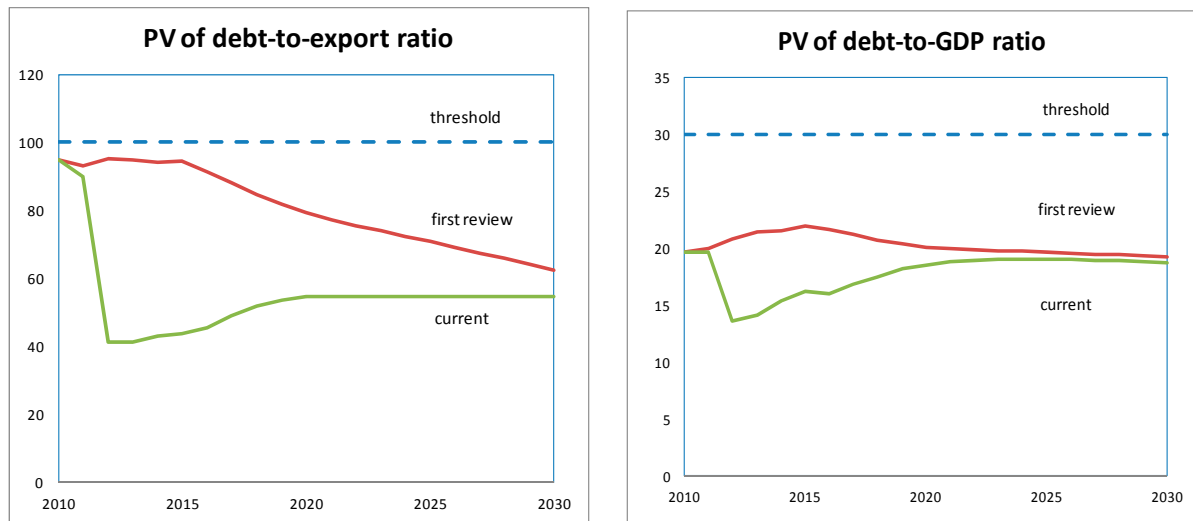
Sierra Leone: Summary of Key Indicators of Phase I of Tonkolili Iron Ore Project

	2012	2013	2014
	(Annual percentage change)		
Real GDP (including iron ore project)	51.9	10.2	4.0
Real GDP (excluding iron ore project)	6.0	6.0	6.0
	(In percent of non-iron ore GDP)		
Value added phase I (at constant prices)	43.3	49.0	46.3
Government total domestic revenues	14.9	20.0	19.6
Of which: Tonkolili project	1.6	6.4	6.1
Total Export	71.0	68.1	58.6
Of which: Tonkolili project	51.1	48.3	38.5

Sources: Government of Sierra Leone; and IMF staff estimates.

Box 2: Debt Sustainability Update

At the time of the first review, the last full DSA (IMF Country Report, No. 10/370) concluded that Sierra Leone's risk of debt distress remains moderate. Under the baseline scenario, all external debt indicators stayed below their indicative thresholds throughout the projection period.



Sources: Sierra Leonean authorities; and IMF staff projections.

With the advent of iron production in 2012, the PV ratios of debt-to-exports and debt-to-GDP are expected to improve substantially. This improvement would be driven by a doubling of GDP and a quadrupling of exports related to the first phase of a new iron ore megaproject (see Box 1). Subsequent phases of the project, scheduled for medium-term implementation, would further improve the debt situation; this, however, has not been incorporated in the current assessment as additional investment would depend on implementation of the first phase. Under the baseline scenario, the PV of debt-to-export ratio is projected to decline significantly from 90 percent in 2011 to 41 percent in 2012 and remain well below its threshold throughout the projection period. The PV of debt-to-GDP ratio would decline from 20 percent to 14 percent between 2011 and 2012 and also remain well below its threshold during the projection period.

A full DSA is to be undertaken at the time of the fourth review, scheduled to take place in March 2012. This will provide an opportunity to verify current export levels, which is critical to charting the future path of debt sustainability.

B. Fiscal Policy

Policies for the rest of 2011

11. **Tight fiscal policy will be maintained.** Domestic financing from banks and nonbank financial institutions is projected at 1.2 percent of GDP for 2011, or 1 percentage point of GDP lower than originally programmed. Despite new spending demands, this will be achieved by raising revenue collections and reprioritizing spending. The tighter fiscal stance will help contain upward pressures on interest rates.

12. **Revenue is expected to perform well.** Despite continued low fuel excises, this is achieved by new signature bonuses related to several new oil exploration licenses (1.4 percent of GDP already collected), strong performance of GST, and demonstrated efficiency gains in the collection of income taxes. As a result, domestic revenue is projected to reach 14.9 percent of GDP, or 1.6 percentage points of GDP higher than originally programmed. In addition, external budget grants are projected at 3.1 percent of GDP, or about 1 percentage point higher than programmed, reflecting additional support from Japan, the EU, and the Global Fund.

13. **Overall spending is projected at 26.7 percent of GDP, or 0.9 percentage points of GDP higher than originally programmed.** This reflects several new spending priorities: (i) advancement of salary adjustments for some public servants, as part of the pay reform; (ii) higher-than-anticipated interest payments; and (iii) higher fuel subsidies.³ To make room for these additional outlays, the government has postponed several capital projects. On the advancement of the pay reform, staff suggested postponement of salary adjustment until the reform's cost-saving measures materialize and budgetary finances have been put on a stronger footing. The authorities emphasized that a planned 30 percent salary increase for teachers, the police and the military from September 2011 was necessary because of increases in food and fuel prices and demands emerging from a more-than-doubling of compensation to healthcare workers in 2010. The estimated impact on the wage bill in 2011 is 0.3 percent of GDP.

The 2012 budget framework

14. **The budget is premised on new mining revenues, continued investment in infrastructure, and containment of domestic financing.** However, fiscal space is limited given reduced fuel excises and required spending for presidential, parliamentary, and local elections in 2012. Key elements include:

- **Sustained revenue collection, despite low fuel excises.** The contribution of royalties from the start of iron ore exports is expected to amount to 1.5 percent of non-iron ore GDP. GST is projected to remain stable relative to GDP at 3.5 percent, given the GST exemption of most mining operations. Corporate income tax is projected to continue to perform well, while personal income taxes will decline following one-off collections in 2011. Import duties should remain stable, while excises on fuel are projected to decline significantly. Overall, domestic tax revenue is expected to decline to 12.9 percent of non-iron ore GDP from 13.7 percent in 2011.
- **Broadly unchanged external budget support,** as concessional budget support loans offset loss in grants.
- **Spending moderation, in part to accommodate election costs.** Total spending is budgeted to decline to 24 percent of non-iron ore GDP from 26.7 percent of GDP in 2011. One-off costs for elections are about 1.8 percent of GDP, of which 1 percent of GDP is externally financed. The wage bill is projected to remain roughly unchanged

³ The fuel subsidies are only reflected on the spending side as transfers in the first half of 2011, since these subsidies were replaced with lower fuel excises by end-May.

relative to GDP, reflecting a modest salary increase in July and hiring of police officers. Overall capital spending is budgeted to decrease to 8.6 percent of non-iron ore GDP from 10.4 percent of GDP in 2011, reflecting a decline in foreign financed project spending, while domestically financed capital spending increases slightly.

- **Moderate increase in domestic financing.** The overall fiscal deficit is envisaged to increase slightly to 4.4 percent of non-iron ore GDP from 3.9 percent in 2011. However, domestic financing from banks and nonbank financial sector is projected to remain low at 1.4 percent of non-iron ore GDP.

C. Monetary and Exchange Rate Policies

15. **Monetary policy aims to contain inflation.** Staff estimates that the explanation for the higher-than-expected inflation in 2011 is about evenly split between exogenous shocks (food and fuel prices) and loose monetary policy. To anchor inflation expectations at a lower level, the monetary program therefore targets slower money growth than originally envisaged. Reserve money is targeted to grow by only 4 percent in 2011 while returning to an underlying path of 15 percent in 2012. This will accommodate 22–25 percent annual growth in private sector credit during the two years. The launch of an interagency cash management committee and improved debt management practices (MEFP ¶19 and ¶34) will facilitate better liquidity management and coordination between fiscal and monetary policies. In this respect, the BSL agreed to use its repo instruments more actively to achieve liquidity targets. Finally, the legal requirement to limit central bank credit to government to 5 percent of the previous year's revenue (MEFP ¶9) will enhance BSL independence and facilitate achievement of the monetary policy target.

16. **The flexible exchange rate policy will be preserved.** Foreign exchange market interventions will be guided by the need for absorbing foreign-financed budget spending, and reducing short-term market volatility. The authorities argued for using part of foreign exchange reserves to finance spending on infrastructure, but the mission advised against this approach because reserve coverage is relatively low at about three months of imports.

D. Administrative and Other Reforms

17. **Macrocritical administrative reforms are a priority.** For the rest of 2011 and 2012, the authorities will focus on strengthening tax administration, public financial management, and the financial sector (MEFP ¶28–42):

- **Tax administration.** The National Revenue Authority (NRA) will complete the transfer of eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with the MTO to improve tax collection. Moreover, the NRA will integrate GST operations with the Large Taxpayer Office, while a small taxpayer regime will also be implemented to improve tax compliance.
- **The budget framework.** A comprehensive review will consider budget execution and the procedures for un-appropriated expenditures, the use of contingency funds, and the circumstances under which presidential warrants may authorize extra-budgetary expenditures without prior parliamentary approval. The Government Budgeting and

Accountability Act (GBAA) will be amended accordingly. Also, a three-year public investment plan (PIP) will be integrated with the 2013 budget process.

- **Pay reform.** With assistance from development partners, the government will implement a multi-year pay reform plan to bring compensation of public servants to more competitive levels, with savings achieved through re-grading, right-sizing, and payroll clean-up.
- **Banking supervision.** The BSL will issue revised prudential guidelines in line with the amended banking act to enhance compliance with the Basel Core Principles.
- **Capital markets.** New guidelines regarding government conduct in the treasury bills market will be issued, a long-term bond market is to be developed, and the capital markets regulatory structure will be strengthened.
- **Privatization.** Having privatized the container terminal section of the Sierra Leone Port Authority, preparations are underway to sell the government's shares in Rokel Commercial Bank and the National Insurance Company in 2012.

18. **The government is also strengthening the capacity to collect and disseminate economic statistics.** It is seeking technical assistance from the IMF to improve the reporting and dissemination of national accounts, balance of payments, and price statistics. Moreover, it is seeking assistance under the IMF's new topical trust fund for managing natural resource wealth (MNRW-TTF).

III. PROGRAM MODALITIES AND CAPACITY TO REPAY THE IMF

19. **Waivers and modification of performance criteria.** The government requests waivers for nonobservance of performance criteria on net domestic bank credit to the central government and net domestic assets of the central bank at end-2010 and on the ceiling on contracting new nonconcessional external debt through end-June 2011. On the latter, the authorities reported that they had contracted two nonconcessional infrastructure investment loans: (i) US\$20 million for financing a street lighting project in Freetown; this loan was negotiated with the ECOWAS Bank for Investment and Development in 2009 at 36 percent concessionality, but at the time of signing in 2011 concessionality had dropped to 29 percent due to a decline in the discount rate and it could not be renegotiated; and (ii) US\$22 million from the Islamic Development Bank at 22 percent concessionality to finance the final stages of a multilateral project to bring internet connectivity to Sierra Leone; the authorities failed to identify this loan as non-concessional since it was co-financed with concessional financing from other multilateral development banks. Since the two loans only amount to about 5 percent of total public external debt, the impact of lower concessionality on debt sustainability is minor. In the future, the government will correct its procedures for monitoring concessionality before signing new loan contracts (see attached letter of intent). The government also requests modification of three performance criteria for December 2011 (net credit to government, net domestic assets of the central bank, and foreign exchange reserves of the central bank) to reflect envisaged tighter fiscal and monetary policy.

20. **Program monitoring.** The program will be monitored based on quantitative performance criteria for end-December 2011, end-June 2012, and end-December 2012, as well as structural benchmarks for 2011–12 (MEFP, Tables 1–6).

21. **Capacity to repay the Fund.** As envisaged under the HIPC initiative, the country has made good-faith efforts to honor its debt service obligations in the post-conflict era, while successive DSAs have placed Sierra Leone at a moderate risk of debt distress.⁴ Debt service to the Fund would remain modest in absolute terms, at around 0.5 percent of exports of goods and services throughout the program period. Ongoing efforts to resolve arrears to commercial creditors provide sufficient financing assurances for the IMF-supported program.⁵

IV. STAFF APPRAISAL

22. **In its pursuit of rapid progress with post-conflict reconstruction and social development, the government overstretched its finances in the second half of 2010.** Unbudgeted current and capital expenditures led to fiscal and monetary imbalances, because budget overruns could be financed only by direct central bank credit. The monetary expansion towards the end of 2010 prolonged the period of high inflation that had occurred earlier in the year as a result of one-off factors. However, the government has taken appropriate corrective actions in 2011 to return macroeconomic policies back to a sustainable path.

23. **Continued fiscal restraint will be critical to maintaining macroeconomic stability.** Spending must be kept in line with available financing to preserve hard-earned macroeconomic and debt sustainability. Infrastructure investment should be well grounded in medium-term public investment plans. It will be important to contain the wage bill while gradually raising public servant compensation to more competitive levels; this must be done in the context of a multiyear pay reform where corresponding savings are achieved through re-grading and retrenchments. To safeguard budgetary resources in the medium-term, the government should revisit the fuel pricing policy to ensure full pass-through from international to domestic prices while restoring fuel excises. Targeted measures should be adopted to protect the poor from significant fuel price adjustments.

24. **Monetary policy must be sufficiently tight to contain inflation.** Staff welcomes the BSL's resolve to bring inflation down to single digits by 2013 and to improve implementation of monetary policy. The introduction of the benchmark policy interest rate has helped to better communicate the monetary policy stance.

25. **Administrative reforms must underpin policy efforts.** The focus is appropriately on improving tax administration, strengthening public financial management, and deepening the financial sector. Such reforms will help create fiscal space for capital and social spending while encouraging private sector investment and activity.

⁴ See Debt Sustainability Analysis 2010 (IMF Country Report 10/370, Supplement 2, November 19, 2010).

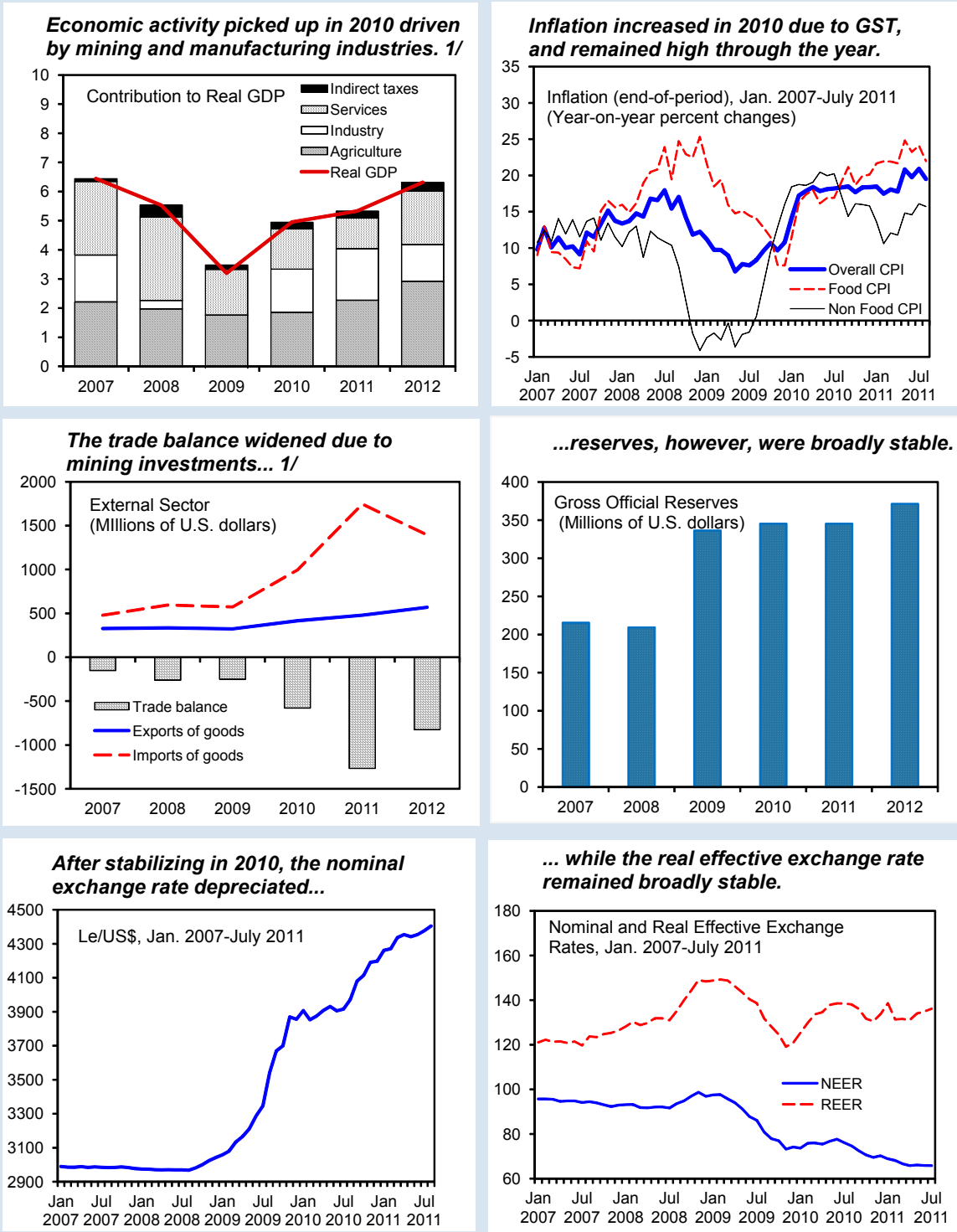
⁵ Debt to commercial creditors consists of arrears accumulated before and during the civil war. The government is making goodwill payments to commercial creditors to avoid litigation. With World Bank assistance, the authorities are preparing for a debt-buy-back operation of eligible commercial debt by end-2012.

26. **The medium-term outlook is bright.** GDP has been revised upwards by 45 percentage points in 2012 on account of iron ore production, and taxes are expected to increase significantly. There are, however, sizable tax concessions in the bilateral agreements that are inconsistent with the tax code. The MMA should be fully applied to future agreements. Adoption of a resource rent tax to benefit from upside profitability, and taxation of capital gains with respect to sales of mineral and oil leases are warranted to bolster the government's revenue take from the resource sector.

27. **As a post-conflict country, Sierra Leone still has an urgent need for improvements in infrastructure and social services while preserving macroeconomic stability.** However, financing constraints combined with national elections in 2012 pose risks to the program. Therefore, the government's firmness in resisting an acceleration of unfunded spending, including on infrastructure and wages, is key to maintaining macroeconomic stability. The authorities' commitment to adhere to the legal limit on direct BSL credit to government should help. Moreover, the fuel pricing mechanism must be implemented as agreed to preserve the fiscal position in case of rising world fuel prices. Finally, the government will need to work closely with supporting donors to ensure that the fiscal cost of the multi-year pay reform program is tightly contained.

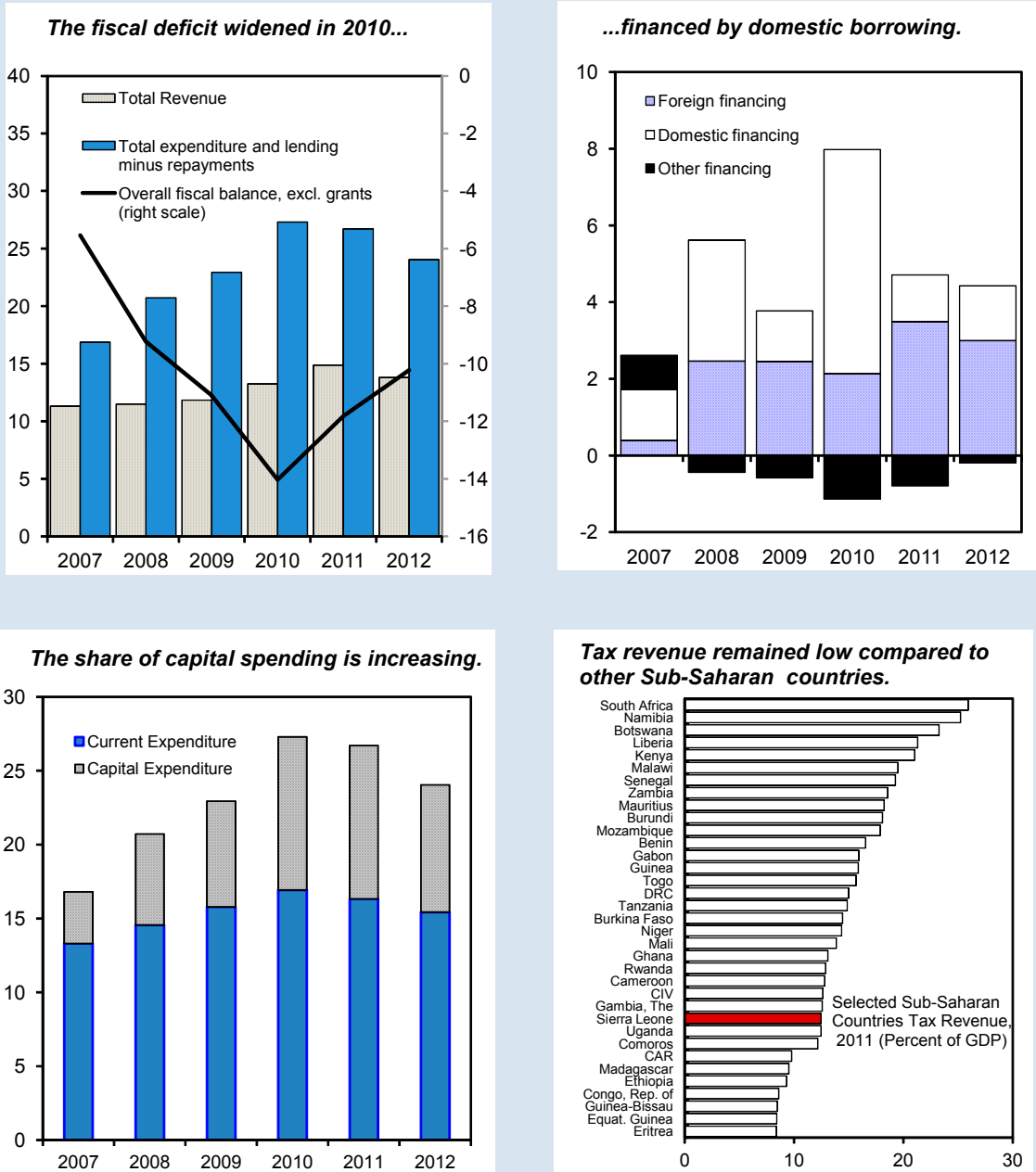
28. **Staff recommends completion of the second and third ECF reviews.** The authorities have taken appropriate measures and corrective action to restore macroeconomic stability and sustainable growth. The staff supports the authorities' request for waivers of performance criteria, modification of the end-December 2011 performance criteria, and completion of the financial assurances review. The completion of the second and the third reviews allows the release of the third and fourth disbursements totaling SDR 8.88 million.

Figure 1. Sierra Leone - Real and External Sectors, 2007–12



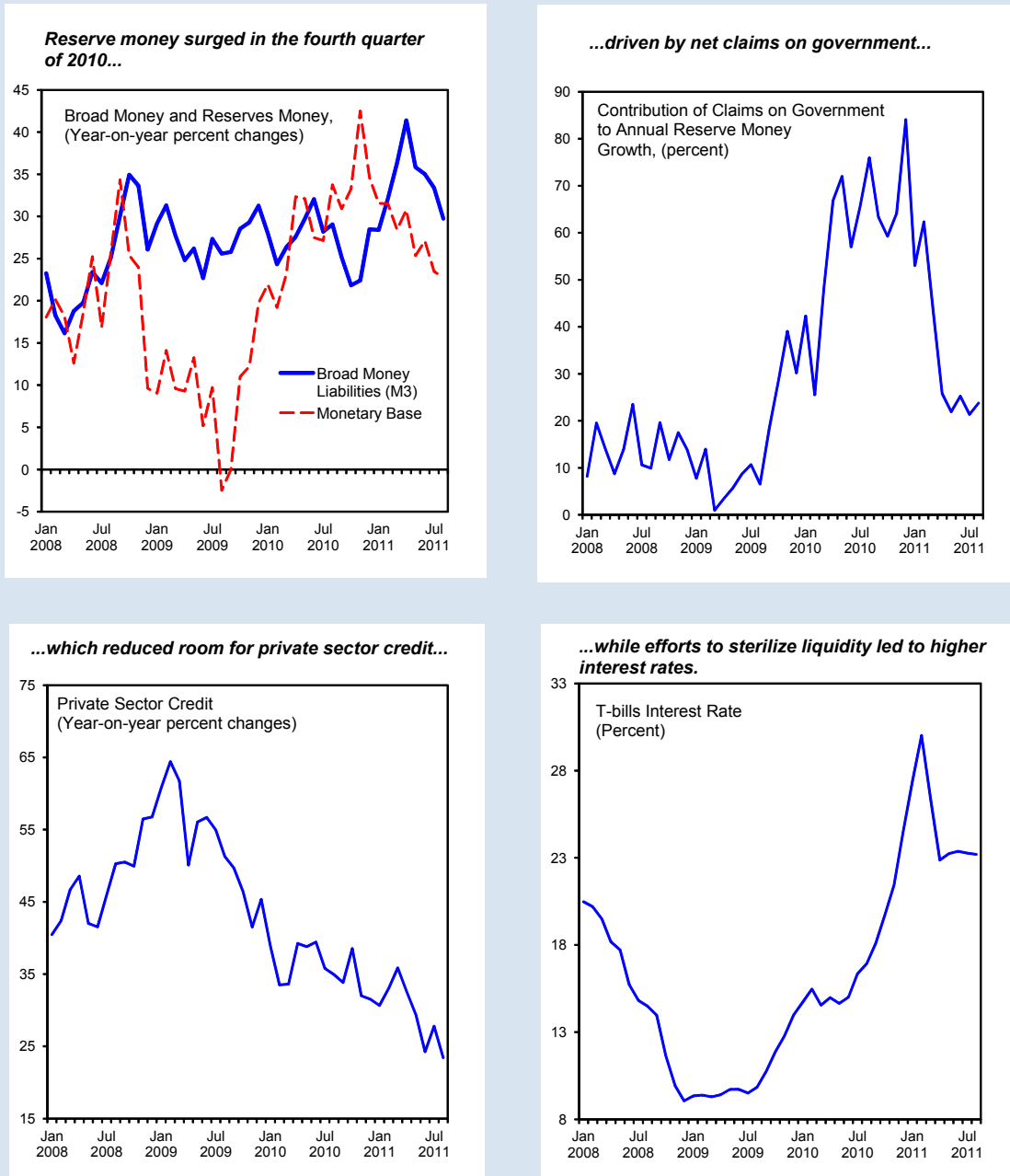
Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
 1/ Data for 2012 do not include impact of Iron ore project.

**Figure 2. Sierra Leone - Fiscal Sector, 2007–12
(Percent of GDP)**



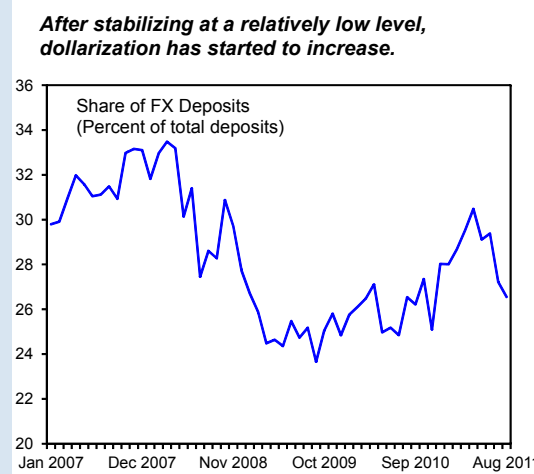
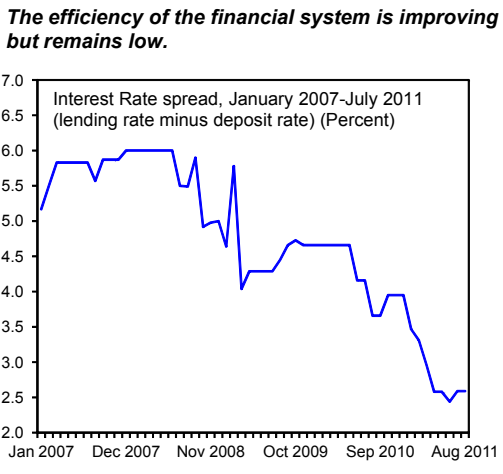
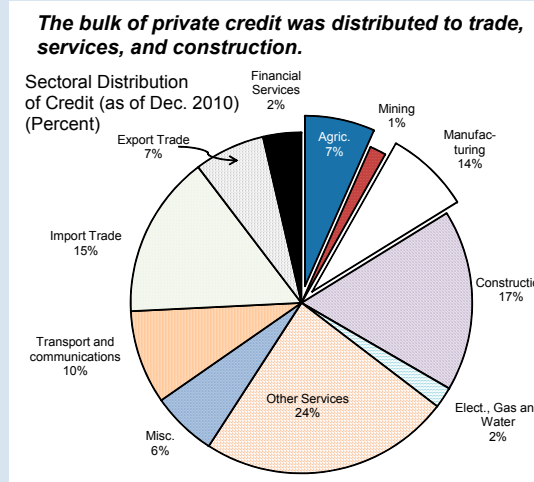
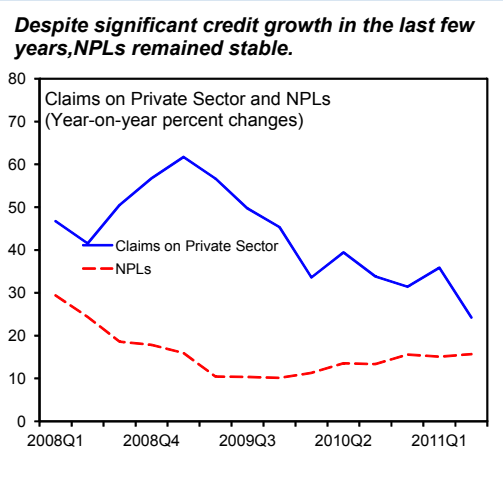
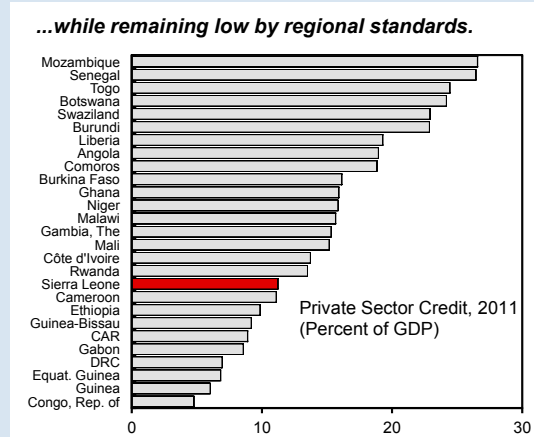
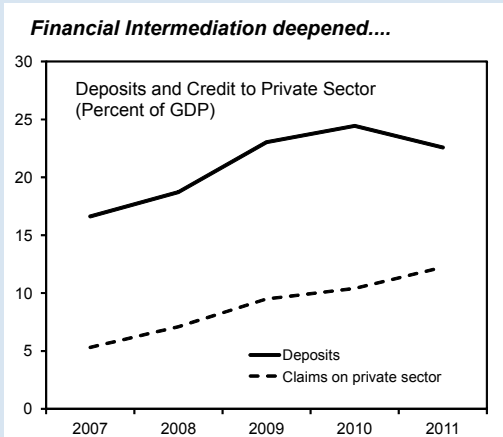
Sources: Sierra Leonean authorities; and staff estimates and projections.

Figure 3. Sierra Leone - Monetary Sector, January 2008–July 2011



Sources: Sierra Leonean authorities; and IMF staff estimates and projections.

Figure 4. Sierra Leone - Financial Sector, January 2007–July 2011



Sources: Sierra Leonean authorities; and staff estimates and projections.

Table 1. Sierra Leone: Selected Economic Indicators

	2009	2010		2011		2012 Proj. 2/	2013 Proj.
		Prog. 1/	Prel.	Prog. 1/	Rev. Prog.		
(Annual percentage change, unless otherwise indicated)							
National account and prices							
GDP at constant prices	3.2	4.5	5.0	5.2	5.3	51.4	10.2
Excluding Iron ore	3.2	...	5.0	...	5.3	6.0	6.0
GDP deflator	5.3	15.0	14.4	8.5	19.7	11.6	1.0
Consumer prices (end-of-period)	10.8	16.0	18.4	9.5	16.0	11.0	7.5
Consumer prices (average)	9.2	17.5	17.8	9.2	18.3	10.7	9.1
External sector							
Terms of trade (deterioration -)	-3.3	3.6	6.8	3.2	-2.8	-0.3	-9.6
Exports of goods (US\$)	-1.0	25.7	32.5	15.4	15.0	299.3	5.7
Imports of goods (US\$)	-2.6	18.0	49.0	8.6	91.9	-18.5	18.1
Average exchange rate (Leone per US\$)	3,410	3,990	3,988	...	...	...	...
Nominal exchange rate change (depreciation -)	-26.7	-5.0	-8.9	...	...	...	...
Real effective exchange rate (depreciation -)	-0.7	...	2.2	...	...	...	...
Gross intl. reserves, months of imports 3/	4.1	5.6	2.4	4.9	2.6	2.6	2.6
Excluding iron ore, months of imports 4/	4.1	...	5.0	...	3.3	3.0	2.9
Money and credit							
Domestic credit to the private sector	45.4	26.1	31.5	31.4	25.8	22.4	27.5
Base money	19.7	8.0	34.6	14.4	4.0	15.1	18.8
M2	28.3	11.8	21.8	20.5	11.7	20.1	20.4
91-day treasury bill rate (in percent)	14.0	...	24.5	...	...	...	...
(Percent of GDP, unless otherwise indicated)							
National accounts							
Gross capital formation	14.9	16.3	35.1	18.9	55.9	18.2	19.0
Government	7.1	8.4	10.4	10.2	10.4	6.2	7.0
Private	7.8	7.9	24.7	8.7	45.5	12.0	12.0
National savings	6.6	6.8	7.1	9.4	1.0	8.1	9.0
External sector							
Current account balance							
(including official grants)	-8.4	-9.5	-27.9	-9.5	-54.9	-10.1	-9.9
(excluding official grants)	-12.8	-12.9	-31.3	-11.6	-58.2	-11.3	-11.0
External public debt (including IMF) 5/	43.4	39.8	41.1	28.1	39.4	20.2	21.0
Central government budget							
Overall balance	-3.2	-4.7	-6.9	-5.7	-3.9	-3.1	-2.6
(excluding grants)	-11.1	-11.5	-14.0	-12.5	-11.8	-7.4	-6.2
Revenue	11.8	13.0	13.3	13.3	14.9	9.9	10.3
Grants	7.9	6.8	7.2	6.8	7.9	4.3	3.6
Total expenditure and net lending	22.9	24.5	27.3	25.8	26.7	17.4	16.5
Memorandum item:							
GDP at market prices (billions of Leone)	6,330	7,605	7,597	8,678	9,579	16,185	18,011
Excluding iron ore	6,330	7,605	7,597	8,678	9,579	11,630	13,218
In millions of US\$	1,856	1,906	1,905	2,112	2,194	3,585	3,847
Per capita GDP (US\$)	326	...	326	...	366	582	609

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ Staff Report, November 19, 2010.

2/ Iron ore mining causes a structural break in key macroeconomic variables.

3/ Refers to reserves in current year and imports in following year.

4/ Excludes import of capital goods related to the iron ore project that was financed by FDI.

5/ Debt buy-back of commercial debt was rescheduled to take place in 2012 instead of 2011 as programmed.

Table 2. Sierra Leone: Fiscal Operations of the Central Government
(Billions of leone)

	2009	2010		2011H1		2011		2012	2013
	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.
Total revenue and grants	1,250	1,505	1,551	883	995	1,748	2,183	2,304	2,498
Revenue	749	988	1,008	550	672	1,157	1,426	1,607	1,849
Tax	801	878	916	488	618	1,033	1,315	1,497	1,725
Personal Income Tax	122	148	204	80	162	175	305	313	355
Corporate Income Tax	61	76	88	40	63	88	106	131	148
Goods and Services Tax	...	250	246	147	175	299	335	408	463
Sales tax 1/	141	...	...	...	...	...	...	...	...
Excises	107	137	133	69	55	147	68	23	26
Import duties	170	204	190	108	129	229	283	344	430
Mining royalties and license	20	31	24	31	15	65	186	242	257
Other	180	32	31	14	19	30	32	37	44
Non-tax	89	110	92	61	53	124	111	110	125
Grants	500	517	544	333	323	591	757	697	649
Budget support	290	265	244	129	87	179	297	193	194
Project grants	186	232	277	194	193	392	371	348	423
Other	25	20	22	10	44	20	89	155	32
Expenditures and net lending	1,452	1,861	2,074	1,136	1,314	2,240	2,558	2,811	2,966
Current expenditures	1,000	1,219	1,286	674	765	1,356	1,564	1,810	1,711
Wages and salaries	402	515	536	283	301	566	650	798	907
Goods and services	350	366	426	171	165	359	351	361	387
Subsidies and transfer	145	186	165	134	196	258	326	391	215
Interest	103	152	159	86	104	172	237	260	202
Domestic	89	135	142	75	94	151	216	235	177
Foreign	14	16	17	11	10	22	21	25	25
Capital expenditure	452	642	787	462	549	884	995	1,001	1,256
Foreign financed	345	418	432	318	425	652	759	683	846
Domestic financed	107	224	355	144	124	232	236	318	410
Net lending	0	0	0	0	0	0	0	0	0
Overall balance									
Including grants	-202	-356	-523	-253	-319	-492	-375	-507	-469
Excluding grants	-703	-873	-1,066	-586	-642	-1,083	-1,133	-1,204	-1,117
Financing	202	356	523	253	319	492	375	507	469
External financing (net)	155	175	162	112	215	271	334	349	395
Borrowing	198	237	222	148	232	345	388	442	471
Project	160	185	155	148	232	304	388	335	423
Budget	39	52	67	0	0	41	0	107	48
Amortization	-43	-62	-61	-37	-17	-74	-54	-93	-76
Domestic financing (net)	47	181	358	142	103	221	41	158	74
Bank	109	250	414	107	76	152	74	133	53
Central bank	163	227	299	92	8	113	-103	66	26
Commercial banks	-54	23	116	14	69	39	176	66	26
Nonbank	-62	-69	-56	35	26	69	-32	25	21
Non bank financial institutions	-25	18	30	18	24	43	43	33	13
Privatization proceeds	10	8	0	29	34	49	34	35	0
Change in arrears	-59	-95	-94	-12	-28	-24	-68	-43	7
Float (checks payable)	12	0	8	0	-4	0	-41	0	0
Errors and omissions/financing gap	1	-1	3	0	1	0	0	0	0
Memorandum item:									
Total poverty expenditures	331	417	635	271	275	514	538	570	647
Domestic primary balance, including grants	-254	-304	-475	-182	-114	-259	-137	-261	-69
Public domestic debt	1,244	1,425	1,688	...	...	1,646	1,805	1,970	2,037
Bank and non-bank financing 2/	84	269	444	125	101	195	117	166	66

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ Replaced by GST on January 1, 2010.

2/ Includes bridge financing for delayed budget support, Le60 billion in H1 2011 to be reversed in H2 2011.

Table 3. Sierra Leone: Fiscal Operations of the Central Government
(Percent of GDP)

	2009	2010		2011H1		2011		2012 1)		2013	
		Act.	Prog.	Act.	Prog.	Prel.	Prog.	Proj.	GDP1		GDP2
									Proj.		Proj.
Total revenue and grants	19.7	19.8	20.4	10.2	10.4	20.1	22.8	19.8	14.2	13.9	
Revenue	11.8	13.0	13.3	6.3	7.0	13.3	14.9	13.8	9.9	10.3	
Tax	12.7	11.5	12.1	5.6	6.5	11.9	13.7	12.9	9.3	9.6	
Personal Income Tax	1.9	1.9	2.7	0.9	1.7	2.0	3.2	2.7	1.9	2.0	
Corporate Income Tax	1.0	1.0	1.2	0.5	0.7	1.0	1.1	1.1	0.8	0.8	
Goods and Services Tax	...	3.3	3.2	1.7	1.8	3.4	3.5	3.5	2.5	2.6	
Sales tax 2/	2.2	...	...	...	...	...	...	...	...	...
Excises	1.7	1.8	1.8	0.8	0.6	1.7	0.7	0.2	0.1	0.1	
Import duties	2.7	2.7	2.5	1.2	1.3	2.6	3.0	3.0	2.1	2.4	
Mining royalties and license	0.3	0.4	0.3	0.4	0.2	0.7	1.9	2.1	1.5	1.4	
Other	2.8	0.4	0.4	0.2	0.2	0.3	0.3	0.3	0.2	0.2	
Non-tax	1.4	1.4	1.2	0.7	0.6	1.4	1.2	0.9	0.7	0.7	
Grants	7.9	6.8	7.2	3.8	3.4	6.8	7.9	6.0	4.3	3.6	
Budget support	4.6	3.5	3.2	1.5	0.9	2.1	3.1	1.7	1.2	1.1	
Project grants	2.9	3.1	3.6	2.2	2.0	4.5	3.9	3.0	2.2	2.3	
Other	0.4	0.3	0.3	0.1	0.5	0.2	0.9	1.3	1.0	0.2	
Expenditures and net lending	22.9	24.5	27.3	13.1	13.7	25.8	26.7	24.2	17.4	16.5	
Current expenditures	15.8	16.0	16.9	7.8	8.0	15.6	16.3	15.6	11.2	9.5	
Wages and salaries	6.3	6.8	7.1	3.3	3.1	6.5	6.8	6.9	4.9	5.0	
Goods and services	5.5	4.8	5.6	2.0	1.7	4.1	3.7	3.1	2.2	2.1	
Subsidies and transfer	2.3	2.4	2.2	1.5	2.0	3.0	3.4	3.4	2.4	1.2	
Interest	1.6	2.0	2.1	1.0	1.1	2.0	2.5	2.2	1.6	1.1	
Domestic	1.4	1.8	1.9	0.9	1.0	1.7	2.3	2.0	1.4	1.0	
Foreign	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.1	
Capital expenditure	7.1	8.4	10.4	5.3	5.7	10.2	10.4	8.6	6.2	7.0	
Foreign financed	5.5	5.5	5.7	3.7	4.4	7.5	7.9	5.9	4.2	4.7	
Domestic financed	1.7	2.9	4.7	1.7	1.3	2.7	2.5	2.7	2.0	2.3	
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance											
Including grants	-3.2	-4.7	-6.9	-2.9	-3.3	-5.7	-3.9	-4.4	-3.1	-2.6	
Excluding grants	-11.1	-11.5	-14.0	-6.8	-6.7	-12.5	-11.8	-10.4	-7.4	-6.2	
Financing	3.2	4.7	6.9	2.9	3.3	5.7	3.9	4.4	3.1	2.6	
External financing (net)	2.4	2.3	2.1	1.3	2.2	3.1	3.5	3.0	2.2	2.2	
Borrowing	3.1	3.1	2.9	1.7	2.4	4.0	4.0	3.8	2.7	2.6	
Project	2.5	2.4	2.0	1.7	2.4	3.5	4.0	2.9	2.1	2.3	
Budget	0.6	0.7	0.9	0.0	0.0	0.5	0.0	0.9	0.7	0.3	
Amortization	-0.7	-0.8	-0.8	-0.4	-0.2	-0.9	-0.6	-0.8	-0.6	-0.4	
Domestic financing (net)	0.7	2.4	4.7	1.6	1.1	2.5	0.4	1.4	1.0	0.4	
Bank	1.7	3.3	5.5	1.2	0.8	1.8	0.8	1.1	0.8	0.3	
Central bank	2.6	3.0	3.9	1.1	0.1	1.3	-1.1	0.6	0.4	0.1	
Commercial banks	-0.9	0.3	1.5	0.2	0.7	0.4	1.8	0.6	0.4	0.1	
Nonbank	-1.0	-0.9	-0.7	0.4	0.3	0.8	-0.3	0.2	0.2	0.1	
Non bank financial institutions	-0.4	0.2	0.4	0.2	0.3	0.5	0.5	0.3	0.2	0.1	
Privatization proceeds	0.2	0.1	0.0	0.3	0.4	0.6	0.4	0.3	0.2	0.0	
Change in arrears	-0.9	-1.3	-1.2	-0.1	-0.3	-0.3	-0.7	-0.4	-0.3	0.0	
Float (checks payable)	0.2	0.0	0.1	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	
Discrepancy/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items:											
Total poverty expenditures	5.2	0.0	8.4	3.1	2.9	5.9	5.6	4.9	3.5	3.6	
Domestic primary balance, including grants	-4.0	-4.0	-6.2	-2.1	-1.2	-3.0	-1.4	-2.2	-1.6	-0.4	
Public domestic debt	19.7	18.7	22.2	...	...	19.0	18.8	16.9	12.2	11.3
Bank and non-bank financing 3/	1.3	3.5	5.9	1.4	1.0	2.2	1.2	1.4	1.0	0.4	
Nominal GDP (in billions of local currency)	6,330	7,605	7,597	8,678	9,579	8,678	9,579	11,630	16,185	18,011	

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ 2012 is a transition year for GDP: GDP1 is calculated excluding iron ore whereas GDP2 includes iron ore.

2/ Replaced by GST on January 1, 2010.

3/ Includes SDR bridge financing for delayed budget support, 0.7 percent of GDP in H1 2011 to be reversed in H2 2011.

Table 4. Sierra Leone: Monetary Accounts 1/
(Billions of leone; unless otherwise indicated)

	2009	2010		2011				2012
	Act.	Prog.	Act. 4/	June		Dec.		Prog.
				Prog.	Prel. 4/	Prog.	Rev. Prog.	
I. Monetary Survey								
Net foreign assets	1,542	1,371	1,563	1,378	1,674	1,398	1,692	2,061
Net domestic assets	337	775	851	1,088	1,039	1,174	1,055	1,238
Domestic Credit	1,286	1,752	1,939	2,065	2,077	2,099	2,227	2,583
Claims on central government (net)	654	898	1,067	1,004	1,145	1,050	1,141	1,274
Claims on other public sector 2/	31	53	54	53	42	53	52	52
Claims on private sector	601	758	790	964	860	996	994	1,217
Other items (net) 3/	-984	-977	-1,088	-977	-1,038	-968	-1,172	-1,345
Money and quasi-money (M3)	1,879	2,146	2,414	2,466	2,713	2,572	2,746	3,299
Broad money (M2)	1,442	1,608	1,755	1,858	1,903	1,938	1,961	2,356
Foreign exchange deposits	437	537	659	608	810	634	785	943
II. Bank of Sierra Leone								
Net foreign assets	1,005	815	912	761	903	743	855	1,081
Net domestic assets	-440	-207	-151	-95	-161	-48	-63	-169
Claims on other depository corporations	6	1	22	9	15	18	229	144
Claims on central government (net)	293	498	591	590	600	611	489	555
Claims on other public sector 2/	0	0	0	0	0	0	0	0
Claims on private sector	7	8	7	8	8	8	11	11
Other items (net) 3/	-751	-719	-775	-702	-792	-685	-798	-884
Reserve money	565	608	761	666	742	695	791	911
Currency in circulation	486	498	632	540	637	556	662	720
Commercial bank deposits	79	76	91	106	68	119	94	155
Other deposits		33	39	20	36	20	36	36
Memorandum items:	(Annual percentage change unless otherwise indicated)							
Reserve money	19.7	8.0	34.6	14.2	27.1	14.4	4.0	15.1
M3 (Money and quasi-money)	31.3	14.3	28.5	22.7	35.0	19.9	13.8	20.1
Credit to the private sector	45.4	26.1	31.5	39.2	24.2	31.4	25.8	22.4
Velocity (GDP/M3)	3.4	3.5	3.1	3.5	3.5	3.4	3.5	4.9
Money multiplier (M3/Reserve money)	3.3	3.5	3.2	3.7	3.7	3.7	3.5	3.6
Credit to the private sector (in percent of GDP)	9.5	10.0	10.4	11.1	9.0	11.5	10.4	7.5
Gross Reserves (in US\$ millions)	336	336	345	322	345	326	345	371
Program exchange rate (Leones/US\$)	3,856	3,990	3,990	3,990	3,990	3,990	3,990	4,400

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

1/ End of period

2/ Include public enterprises and the local government.

3/ Including valuation.

4/ Net foreign assets are presented at program exchange rate

Table 5. Sierra Leone: Balance of Payments
(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010		2011 Proj.	2012 Proj.	2013 Proj.
		Prog.	Prel.			
Current account	-155.1	-181.6	-532.3	-1,205.6	-362.1	-382.0
Trade balance	-186.6	-199.3	-322.9	-896.1	583.8	484.1
Exports, f.o.b.	271.3	341.0	359.4	413.5	1,651.1	1,744.8
Of which: diamonds	105.5	132.1	127.6	135.5	145.5	153.4
iron ore			0.0	0.0	1,189.2	1,237.6
Imports, f.o.b.	-457.9	-540.4	-682.3	-1,309.5	-1,067.3	-1,260.6
Of which: oil	-92.7	-131.8	-127.7	-200.2	-235.5	-266.3
Services (net)	-63.2	-64.9	-255.8	-370.4	-436.7	-369.3
Income (net)	-35.0	-29.9	-63.3	-64.0	-640.6	-631.3
Of which: interest on public debt	-4.2	-3.5	-3.5	-4.0	-4.5	-5.2
Transfers	129.8	112.5	109.8	124.9	131.5	134.5
Official transfers	83.3	64.8	63.4	71.2	43.2	39.8
Other transfers	46.5	47.7	46.4	53.7	88.2	94.7
Capital and financial account	263.2	141.0	500.4	1,196.6	381.3	412.2
Capital account	71.0	60.8	72.1	88.2	81.1	94.8
Of which: project support grants	56.8	58.2	69.5	85.4	78.0	276.6
Financial account	192.2	80.1	428.3	1,108.4	300.1	317.5
Foreign direct and portfolio investment	79.4	45.9	485.9	1,056.3	222.4	276.6
Other investment	112.8	34.2	-57.6	52.1	77.7	40.9
Public sector (net)	45.9	49.1	45.3	78.6	82.3	84.3
Disbursements	56.8	59.4	55.6	88.9	98.1	100.7
Amortization	-10.9	-10.3	-10.3	-10.2	-15.9	-16.4
Monetary authorities	128.1	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of commercial banks	-23.1	2.0	-24.1	-27.4	-24.6	-46.6
Other, including errors and omissions	-38.1	-16.9	-78.7	0.9	20.0	3.2
Overall balance	108.1	-40.6	-31.8	-9.0	19.2	30.3
Financing						
Central bank net reserves (- increase)	-108.1	40.6	31.8	8.9	-19.2	-30.2
Gross reserve change	-126.9	0.0	-8.9	0.0	-26.0	-30.0
Use of Fund loans	18.8	40.6	40.7	8.9	6.8	-0.2
Purchases	18.8	42.8	42.8	14.1	14.1	7.1
Repurchases	0.0	-2.1	-2.1	-5.2	-7.4	-7.3
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
					(Percent of GDP)	
Current account	-8.4	-9.5	-27.9	-54.9	-10.1	-9.9
Trade Balance	-10.1	-10.5	-16.9	-40.8	16.3	12.6
Capital and Financial Account	16.2	8.3	30.4	54.5	10.1	10.7
Overall Balance	5.8	-2.1	-1.7	-0.4	0.5	0.8
Official aid (grants and loans)	10.5	9.6	9.9	11.2	6.1	6.1
Budget support in US\$ (grants and loans)	82.9	77.8	80.1	71.2	67.2	50.1
Gross International Reserves						
(US\$ millions)	336	336	345	345	371	401
Months of imports	4.1	5.6	2.4	2.6	2.6	2.6
Excluding iron ore, months of imports	4.1	...	5.0	3.3	3.0	2.9
National currency per US dollar (average)	3,410	3,990	3,988	...	...	...

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund

	Projection													
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on existing credit														
(in millions of SDRs)														
Principal	1.4	1.9	4.6	4.6	8.1	9.9	11.7	10.3	10.3	6.8	3.7	0.0	0.0	0.0
Charges and interest 1/	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit														
(in millions of SDRs)														
Principal	1.4	1.9	4.6	4.6	8.1	9.9	11.7	12.6	14.3	11.3	8.1	4.5	2.2	0.5
Charges and interest 1/	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit														
In millions of SDRs														
In millions of US\$	1.4	1.9	4.8	4.8	8.3	10.0	11.8	12.7	14.4	11.3	8.2	4.5	2.2	0.5
In percent of exports of goods and services	2.1	3.0	7.7	7.7	13.2	15.9	18.7	20.1	22.8	17.9	12.9	7.1	3.5	0.7
In percent of debt service 2/	0.5	0.6	0.4	0.4	0.8	0.9	1.0	1.1	1.2	0.9	0.6	0.4	0.3	0.1
In percent of GDP	13.4	15.3	27.7	26.5	45.4	48.2	50.4	46.7	46.3	36.8	26.3	14.3	6.8	1.2
In percent of Gross International Reserves	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.3	0.2	0.1	0.1	0.0
In percent of quota	0.6	0.9	2.1	1.9	3.1	3.4	3.8	3.8	4.1	3.1	2.1	1.1	0.5	0.1
Outstanding Fund credit														
In millions of SDRs														
In millions of US\$	73.4	79.0	83.2	83.1	75.0	65.1	53.4	40.9	26.5	15.3	7.1	2.7	0.5	0.0
In percent of exports of goods and services	111.9	125.5	132.6	132.0	118.9	103.1	84.6	64.7	42.0	24.2	11.3	4.2	0.7	0.0
In percent of debt service	26.9	26.2	7.5	7.1	6.8	5.9	4.6	3.4	2.1	1.2	0.5	0.3	0.1	0.0
In percent of GDP	701.0	646.8	478.7	456.2	409.1	312.3	227.8	150.6	85.3	49.5	22.9	8.6	1.4	0.0
In percent of Gross International Reserves	5.9	5.7	3.7	3.4	3.1	2.5	1.9	1.3	0.8	0.5	0.2	0.1	0.0	0.0
In percent of quota	32.4	36.3	35.7	32.9	27.6	22.3	17.2	12.4	7.6	4.1	1.8	0.6	0.1	0.0
Net use of Fund credit (in millions of SDRs)														
Disbursements	26.7	5.6	4.3	-0.2	-8.1	-9.9	-11.7	-12.5	-14.3	-11.3	-8.1	-4.5	-2.2	-0.5
Repayments	28.1	8.9	8.9	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Exports of goods and services (in millions of US\$)	416	479	1,759	1,860	1,744	1,759	1,825	1,896	1,970	2,051	2,139	1,571	1,208	1,321
Debt service (in millions of US\$)	16	19	28	29	29	33	37	43	49	49	49	49	52	57
Nominal GDP (in millions of US\$)	1,905	2,194	3,585	3,847	3,892	4,081	4,425	4,812	5,076	5,358	5,659	5,942	6,239	6,551
Gross International Reserves (in millions of US\$)	345	345	371	401	431	461	491	521	553	586	622	654	684	716
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ There are no interest payments to the Fund in 2010-11.

2/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2010-2013

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
Disbursed	4.44	4.28	Effectiveness of the three-year ECF arrangement
Disbursed	4.44	4.28	Board completion of the first review based on observance of performance criteria for June 30, 2010
May 15, 2011	4.44	4.28	Board completion of the second review based on observance of performance criteria for December 31, 2010
November 15, 2011	4.44	4.28	Board completion of the third review based on observance of performance criteria for June 30, 2011
May 15, 2012	4.44	4.28	Board completion of the fourth review based on observance of performance criteria for December 31, 2011
November 15, 2012	4.44	4.28	Board completion of the fifth review based on observance of performance criteria for June 30, 2012
May 15, 2013	4.47	4.32	Board completion of the sixth review based on observance of performance criteria for December 31, 2012
Total disbursements	31.11	30.00	

Table 8. Sierra Leone: Millennium Development Goals

	1990	1995	2000	2009
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	64	64	65	65
Employment to population ratio, ages 15-24, total (%)	38	41	44	42
Income share held by lowest 20%	1.1	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	...	24.7	...
Poverty gap at \$1.25 a day (PPP) (%)	45	...	...	...
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	63	...	...	...
Prevalence of undernourishment (% of population)	45	39	43	35
Vulnerable employment, total (% of total employment)	...	...	...	...
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	...	...	...	46
Literacy rate, youth male (% of males ages 15-24)	...	...	...	66
Persistence to last grade of primary, total (% of cohort)	...	...	...	...
Primary completion rate, total (% of relevant age group)	...	...	...	88
Total enrollment, primary (% net)	...	...	...	...
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	...	6	9	13
Ratio of female to male primary enrollment (%)	66	...	68	88
Ratio of female to male secondary enrollment (%)	49	...	68	66
Ratio of female to male tertiary enrollment (%)	...	...	38	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	...	...	...	...
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	...	...	37	71
Mortality rate, infant (per 1,000 live births)	166	161	150	123
Mortality rate, under-5 (per 1,000)	285	274	250	192
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	...	...	140	125
Births attended by skilled health staff (% of total)	...	...	42	42
Contraceptive prevalence (% of women ages 15-49)	...	...	4	8
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1400	1300	970
Pregnant women receiving prenatal care (%)	...	...	68	87
Unmet need for contraception (% of married women ages 15-49)	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	...	61	30
Condom use, population ages 15-24, female (% of females ages 15-24)	...	...	...	9
Condom use, population ages 15-24, male (% of males ages 15-24)	...	...	...	20
Incidence of tuberculosis (per 100,000 people)	210	280	380	610
Prevalence of HIV, female (% ages 15-24)	...	...	...	1.3
Prevalence of HIV, male (% ages 15-24)	...	...	...	0
Prevalence of HIV, total (% of population ages 15-49)	0.2	1	1.2	1.7
Tuberculosis case detection rate (all forms)	7	18	24	32
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP \$ of GDP)	0.2	0.3	0.4	0.3
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.2
Forest area (% of land area)	43	41	40	38
Improved sanitation facilities (% of population with access)	...	10	11	13
Improved water source (% of population with access)	...	57	55	49
Marine protected areas (% of total surface area)	...	...	...	0
Terrestrial protected areas (% of total surface area)	...	...	...	4.1
Goal 8: Develop a global partnership for development				
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	10	62	46	2
Internet users (per 100 people)	0	0	0.1	0.3
Mobile cellular subscriptions (per 100 people)	0	0	0	18
Net ODA received per capita (current US\$)	15	51	43	66
Telephone lines (per 100 people)	0	0	0	1
Other				
Fertility rate, total (births per woman)	5.5	5.5	5.4	5.2
GNI per capita, Atlas method (current US\$)	190	200	150	340
GNI, Atlas method (current US\$) (billions)	0.8	0.8	0.6	1.9
Gross capital formation (% of GDP)	10	5.6	6.9	15.1
Life expectancy at birth, total (years)	40	38	42	48
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	40
Population, total (millions)	4.1	4	4.2	5.7
Trade (% of GDP)	46.2	45.1	57.4	44.2

Source: World Development Indicators

Table 9. Sierra Leone: Financial Soundness Indicators of the Banking System, 2005–10

	2005	2006	2007	2008	2009	2010	2011 June
(Percent, end of period, unless otherwise indicated)							
Capital adequacy							
Regulatory capital ratio 1/	35.7	33.3	35.0	43.5	34.0	30.7	25.9
Regulatory tier 1 capital ratio 2/	10.3	17.0	16.7	18.7	18.8	17.5	13.7
Asset quality							
Nonperforming loans to total gross loans	...	...	25.6	17.9	10.6	15.6	15.7
Nonperforming loans (net of provisions) to regulatory capital	...	...	28.5	4.6	9.5	13.1	23.6
Earnings and profitability							
Return on assets	8.1	5.8	3.1	2.2	1.6	3.4	2.3
Return on equity	28.0	17.0	10.3	7.2	4.0	12.1	10.0
Liquidity							
Ratio of net loans to total deposits	27.5	26.5	27.7	33.9	41.5	42.8	40.1
Liquidity ratio 3/	53.0	58.9	53.3	62.0	53.4	54.1	55.8
Statutory minimum liquidity ratio 3/ 4/	34.0	28.5	25.7	25.0	29.0	41.5	29.3
Share of foreign exchange deposits in total deposits	30.7	32.4	36.5	32.2	34.5	40.4	56.3
(Number of banks not complying)							
Prudential ratios at year-end							
Capital adequacy	0	0	0	0	1	0	2
Minimum liquidity ratio	0	0	0	0	1	1	2
Minimum capital	0	1	1	1	2	0	0
Limit of single large exposure 5/	0	2	1	2	4	5	3
Memorandum Item:							
Number of banks	7	8	10	13	14	13	13

Source: Bank of Sierra Leone.

1/ Capital requirement over risk-weighted assets (solvency ratio).

2/ Core capital (Tier I) over total assets.

3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.

4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.

5/ A single large exposure of an institution is any exposure that is 2 percent or more of its capital base.

APPENDIX I. SIERRA LEONE: LETTER OF INTENT

November 18, 2011

The Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated November 17, 2010. It describes recent economic developments and progress with respect to implementing the ECF-supported program in 2010 and the first half of 2011, presents policies for the remainder of 2011, and outlines medium-term objectives.

Program implementation was uneven in the second half of 2010. While domestic revenue overshot projections by 0.3 percent of GDP, spending on infrastructure projects, fuel subsidies, wages, and goods and services led to higher-than-envisaged domestic financing. As a result, the ceiling for net domestic bank credit to government was exceeded by 2.4 percent of GDP for the year and the target for net domestic assets of the central bank was exceeded by 0.9 percent of GDP. However, despite a more expansionary fiscal policy, the floor for gross foreign exchange reserves of the Bank of Sierra Leone (BSL) was met for end-December 2010.

All structural benchmarks for 2010 were met, albeit some with delay, except the adoption of an automatic fuel pricing framework (end-June) and the integration of GST administration within the large taxpayer office (end-December).

The Government implemented corrective measures to bring the program back on track. Fiscal policy was tightened during the first half of 2011 compared to the program, resulting in a lowering of the interest rate on 91-day Treasury bills. For the year as a whole, this implies a lowering of the program ceiling for net credit to government by 1 percent of GDP. The Government increased domestic fuel prices by 17 percent in May 2011 to reduce fuel subsidies. The remaining subsidies were eliminated by reducing fuel excises and road user charges as the Government was restrained from adopting a full pass-through because of social implications and fragility of the peace.

To safeguard budget future resources, the Government is committed to restoring fuel excises and road user charges to their original levels in response to falling international oil prices in the future, and to increase domestic fuel prices in case of an increase in imported fuel prices by more than 5 percent compared to the price level at end-May 2011.

Moreover, amendments to the Bank of Sierra Leone (BSL) Act, including provisions to cap direct credit to the government at 5 percent of previous year's domestic revenue, were submitted to parliament in November 2011. Meanwhile, the Government has repaid BSL the Le178 billion stock of ways and means credit outstanding from 2010.

As a result of successful implementation of corrective macroeconomic policies, all quantitative performance criteria for end-June 2011 were met by a large margin, except for the ceiling on contracting new nonconcessional external debt. Moreover, progress has been made towards implementing the structural benchmarks for 2011.

Given these corrective actions and commitments for the remainder of 2011 and 2012, as detailed in the attached MEFP, the Government requests waivers for nonobservance of performance criteria on net domestic bank credit to the central Government and net domestic assets of the central bank at end-2010. The Government also requests a waiver for nonobserved performance criterion for contracting or guaranteeing of new nonconcessional external debt. The Government contracted two loans in 2011 with grant element below the 35 percent threshold, totaling US\$42 million. The Government is committed to strengthening its monitoring of loan concessionality in the future and to share all new loan contracts with IMF staff before signing. Moreover, the Government has requested technical assistance on debt management from the World Bank and the Fund. It further requests modifications of performance criteria for December 2011, and that the third and fourth disbursements under the ECF be made available upon completion of the second and third reviews.

The Government believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of the revised program, but stands ready to take any further measures that are necessary for this purpose. The Government will consult the IMF in advance of revisions to the policies contained in the MEFP. The fourth, fifth, and sixth reviews under the current program shall take place in May/June 2012, November/December 2012, and May/June 2013, respectively.

In line with its commitment to transparency and accountability, the Government agrees to publication of this letter, its attachments, and related staff report in accordance with Fund procedures for publication.

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:

- Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding

ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

November 18, 2011

I. INTRODUCTION

1. This memorandum reviews recent economic developments and outlines the macroeconomic policies and structural reforms that the Government of Sierra Leone will pursue under the Extended Credit Facility (ECF).

II. ECONOMIC DEVELOPMENTS IN 2010

2. **Economic activity has started to rebound after the crisis.** Real GDP growth reached 5 percent in 2010, compared to 3.2 percent in 2009, reflecting growth in mining, manufacturing, and construction. Consumer price inflation rose 7 percentage points in early 2010 on account of several one-off factors: the introduction of a goods and services tax (GST), spillover from the Leone depreciation in late 2009, and higher fuel prices. For the year as a whole, 12-month inflation reached 18.4 percent compared to 16 percent envisaged under the program, which was partially driven by expansionary monetary policy in the second half of the year. The Leone was relatively stable, losing only 9 percent of its value vis-à-vis the U.S. dollar.

3. **Fiscal policy was expansionary in the second half of 2010.** Although budgetary expenditures were broadly as envisaged through June, spending allocations exceeded the program for the year as a whole by 2.8 percent of GDP. Domestically financed capital expenditures exceeded the budget by 1.7 percent of GDP due to the acceleration of infrastructure projects around the country. The wage bill was higher by 0.3 percent of GDP due to additional hiring in the health sector, supplementary compensation for teachers, pensions and social security related expenditures, as well as the payroll for foreign missions. Other current spending was 0.6 percent of GDP higher than anticipated due to higher fuel subsidies, interest payments, various payments for goods and services, as well as unanticipated payments for an extension of the emergency power project. The excess budgetary spending was executed in anticipation of a US\$50 million one-off tax payment from a mining investor, which did not materialize. The excess spending was only partly offset by an increase in domestic revenue collection by 0.3 percent of GDP while external budget financing was 0.3 percent of GDP lower than programmed. As a result, domestic financing from banks and nonbank financial institutions was 2.4 percent of GDP higher than envisaged, totaling 5.8 percent of GDP for the year.

4. **The fiscal expansion in the second half of the year loosened the monetary policy stance more than anticipated.** The higher fiscal deficit was financed mostly by direct credit from the BSL. Since the BSL only partially mopped up the liquidity expansion under open market operations, reserve money grew much faster than anticipated in 2010 (about 35 percent compared to 8 percent in the program). Broad money expanded by 29 percent and private

sector credit grew by 31 percent. The interest rate on treasury bills increased by about 8 percentage points, to 27 percent during the last quarter of 2010.

5. **Key performance criteria were not met at end-2010 because of expansionary fiscal and monetary policies.** The ceiling for net domestic bank credit to government was exceeded by 2.4 percent of GDP for the year while the target for net domestic assets of the central bank was exceeded by 0.9 percent of GDP (Table 1). However, the domestic revenue target and the floor for gross foreign exchange reserves of the BSL were met with comfortable margins. Except the adoption of an automatic fuel pricing framework (end-June) and integration of GST administration within the large taxpayer office (end-December), the structural benchmarks for 2010 were met, albeit some with delays (Table 2).

III. CORRECTIVE POLICY MEASURES

6. **The Government faced several policy challenges coming into 2011.** First, the fiscal policy expansion towards the end of 2010 contributed to an increase in interest rates on Treasury bills to above 30 percent in early 2011, causing interest cost to exceed budget allocations. Second, other unbudgeted expenditure demands emerged, including from an increase in fuel subsidies to cushion the impact of rising international oil prices, higher cost to complete the Bumbuna power station, and additional compensation to teachers. Third, the monetary expansion in late 2010, combined with increasing food and fuel prices, made it increasingly difficult to bring inflation down to single digits in 2011, as envisaged under the program. Annual inflation was 17 percent in September 2011.

7. **Responding to these challenges, the Government took measures to bring the program and economic policies back on track.** Fiscal tightening during the first half of 2011 reduced domestic bank and nonbank financing to 1 percent of GDP compared to a program target of 1.9 percent of GDP.¹ This was achieved mainly through increased domestic revenue, which exceeded the level envisaged in the program by 0.7 percent of GDP in the first half of the year. This outcome was driven by higher personal income taxes (including one-time payments from an expanding mining sector), corporate income taxes, GST, and import duties. Monetary policy was also tightened, including by mopping up liquidity by net sales of treasury bills and active use of the repo instrument. The fiscal tightening brought interest rates on 91-day Treasury bills down by more than 7 percentage points to about 23 percent. At the same time, the BSL's monetary policy rate was reduced from 26 to 23 percent and reserve money declined by 2.5 percent during the first half of 2011.

8. **As a result of the corrective policies, all quantitative performance criteria for end-June 2011 were met by a large margin, with the exception of the ceiling on contracting of nonconcessional external debt (Table 3).**

¹ After adjusting for a shortfall of 0.5 percent of GDP in external budget support.

9. **To underpin the fiscal and monetary policy strategy and strengthen budget integrity**, the following corrective actions were implemented as well:

- **Domestic fuel subsidies.** In May, 2011, in response to increasing international oil prices, domestic fuel prices were increased by about 17 percent to reduce expanding fuel subsidies. However, effective subsidies remain substantial nonetheless, now reflected on the revenue side in the form of a lowering of fuel excises and fuel related road user charges (on annual basis, the revenue shortfall is estimated at about 2 percent of GDP). While the Government is committed to restoring fuel excises and fully pass-through international to domestic prices in the medium-term, to reducing the costs of the current policy and safeguard future budgetary resources from further movements in international oil prices, the Government will:
 - Fully pass-through to domestic prices any increase in imported fuel prices, if imported prices move above a 5 percent threshold compared to the price level at end-May 2011.
 - Restore fuel excises and road user charges to their original levels in response to a decrease in imported fuel prices.
- **Use of BSL direct credits to Government.** An amendment to the Bank of Sierra Leone Act was submitted to Parliament in November 2011. The amendment (i) sets a limit of the annual flow of direct credits to the Government (loans and advances) to 5 percent of the actual domestic revenue in the previous budget year; (ii) requires that such direct credits be repaid within 93 days from the end of the financial year (repayments may be made with marketable treasury bills that mature before the 93-day deadline); and (iii) stipulates that the BSL may purchase Government securities for monetary policy purposes and provided that such purchases are only made in the secondary market. The Government is already adhering to these principles for BSL direct credits and will continue to do so in the future.
- **The 2010 stock of BSL ways and means advances.** The Le178 billion outstanding stock of ways and means at end-2010 was reduced to Le78 billion through a combination of Government cash payments and drawdown of Le57 billion from Government MDRI deposits. The remaining stock has been repaid through a conversion to marketable medium-term Government securities. This will provide enough securities to the BSL for effective implementation of monetary policy operations in 2012, as most of BSL holdings of treasury bills will mature by the end of 2011.

10. **Moreover, progress has been made to implement the 2011 structural benchmarks (Table 4).** The amendment to the Banking Act was submitted to Parliament to align the act with the Basel Core Principles for Effective Supervision, and progress has been made, albeit slower than envisaged, to restructure the National Revenue Authority (NRA).

IV. POLICIES FOR THE REMAINDER OF 2011

A. Fiscal Policy

11. **Policies in the second half of 2011 will continue to focus on fiscal consolidation, underpinning the corrective action taken in the first half.** The revised fiscal program envisages to achieve the following targets for the year:

- **Revenue and grants.** Domestic revenue is projected at 14.9 percent of GDP, or 1.6 percentage points of GDP higher than originally programmed. Despite a significant lowering of fuel excises, this will be achieved on the basis of the better revenue performance in the first half of the year and one-time signature bonuses in the second half related to several oil exploration licenses amounting to 1.4 percent of GDP.² Grants are projected at 7.9 percent of GDP, reflecting additional budget support from Japan, EU, and the Global Fund compared to the original program.
- **Expenditures.** Overall spending is projected at 26.7 percent of GDP, or 0.9 percentage points of GDP higher than originally programmed. This reflects several new spending priorities: (i) wages to teachers and other public servants were increased because of higher food and fuel prices and demands emerging from last years' salary adjustments to healthcare workers—the wage increase, which was effective in September/October is treated as an advancement of the planned 2012 salary adjustments as part of the multi-year pay reform (the wage bill will be limited to Le 650 billion in 2011); (ii) domestic fuel subsidies were higher than anticipated due to the increase in international oil prices; (iii) interest payments on domestic debt rose significantly due to higher-than-anticipated interest rates; and (iv) commitments for domestic financed capital projects on roads, electricity, agriculture, water supply, health and education exceeded budgetary allocations.
- **Domestic financing.** Despite shortfalls in privatization proceeds and net external financing, domestic financing from banks and nonbank financial institutions is projected at 1.2 percent of GDP, or 1 percentage point of GDP lower than originally programmed for 2011. The tighter domestic financing requirement will contribute to achieving the monetary policy targets while keeping interest rates relatively low.

12. **The royalty on diamonds exported by mining companies will be maintained at 6.5 percent in line with the MMA 2009.** However, in recognition of the difficulties of collecting royalties from artisanal/alluvial diamond miners, and the sharp reduction of alluvial diamond exports through smuggling, the original 3 percent export tax applied to artisanal mining production at the point of export has been reinstated. The 3 percent export tax is comparable to diamond taxes in the neighboring countries. The Government is currently pursuing an agreement to harmonize diamond royalties/export taxes with the other Mano River Union member states (Republic of Guinea, Liberia and Côte d'Ivoire).

² Nominal GDP has been revised upwards due to a higher-than-programmed GDP deflator.

13. **The Government is currently in the process of drafting a Precious Minerals Trading Act, which incorporates Diamond Trading, Diamond Cutting and Diamond Polishing.** The new Act will also formally establish the diamond export tax and the mechanism for implementing the Kimberly Process Certification Scheme. Appropriate arrangements will be put in place by end-December 2011 to enforce collection of the export tax for artisanal mining and to ensure that all export taxes and royalties from diamond production will be transferred to the consolidated revenue fund and recorded as budget revenue.

B. Monetary and Exchange Rate Policies

14. **To anchor inflation expectations, monetary policy in 2011 will be tighter than envisaged under the program.** The tighter monetary stance will be helped by fiscal consolidation and constrained access by the Government to direct BSL credit. Reserve money will grow by 4 percent in 2011 compared to 14 percent envisaged under the program. Consistently, broad money is projected to grow by 14 percent, which is considerably lower than originally programmed. Despite tighter policies, the monetary program accommodates a 26 percent increase in private sector credit in 2011.

15. **The flexible exchange rate policy will be preserved.** Foreign exchange market interventions will be guided by the need for absorbing foreign-financed budget spending, and reducing short-term market volatility, within the confines of the program. Foreign exchange reserves are targeted to be maintained at the end-2010 level.

V. MEDIUM-TERM MACROECONOMIC FRAMEWORK

16. **The medium-term policy framework is guided by the Government's Agenda for Change (PRSP II).**³ The Government's key priority is to facilitate growth and poverty reduction while maintaining macroeconomic stability. Fiscal policy is anchored by keeping domestic financing at 1–2 percent of GDP a year, while monetary policy targets a return to single digit inflation. The key priorities are to increase fiscal space for developing basic infrastructure and improving social services, and support more effective private sector participation in the economy. In anticipation of a declining trend in donor financing, domestic revenue is expected to increase significantly, reflecting efficiency gains from the GST, improvements in tax administration, and higher revenue from mining. To achieve this, the Government will fully apply the fiscal regime stipulated in existing tax and customs acts and resist issuing discretionary tax exemptions.

17. **Natural resource investments are expected to boost economic activity in 2012 and beyond.** Assuming full implementation of two new iron ore mining projects, GDP, exports and tax revenue will increase substantially in the coming years. A one-time upward shift in real GDP of about 51 percent is projected for 2012, while exports could increase by a factor of four. To level the playing field for new mining investment, and increase the revenue take, the fiscal regime as defined by the MMA 2009 will be fully applied to future agreements. The Government intends to implement a resource rent tax in 2012 (structural benchmark for December 2012) to benefit from upside profitability, and a capital gains tax to safeguard Government revenue in case of sales of lucrative lease agreements to third parties in mining and oil extraction.

³ A progress report was completed in June 2011.

18. **The outlook for the nonmining economy is favorable as well.** Real nonmining GDP growth is expected to increase to 6 percent in 2012. Key steps are being taken to strengthen the pillars of growth: investment in agriculture and food security, basic infrastructure, electricity generation, and human resources. Export demand for minerals and cash crops are expected to contribute to exchange rate stability and—combined with expanding domestic food production—ease inflationary pressures. Monetary policy aims at returning to single-digit inflation in 2013. However, excluding investment-related imports for new iron ore projects, import coverage of gross foreign exchange reserves is expected to remain close to 3 months in 2012–13.

19. **The Government is committed to debt sustainability.** On the domestic side, it will keep domestic budget financing at 1–2 percent of GDP. On the external side, it calls for continued borrowing on highly concessional terms. In order to improve debt management, the Government is requesting assistance from the World Bank and the IMF for developing a comprehensive Medium-Term Debt Management Strategy (MTDS). A comprehensive national debt law has already been adopted and a procedures manual is being developed. In collaboration with the Public Debt Unit of Ministry of Finance and Economic Development (MOFED), Government agencies are also working on improving the quality of debt data and reporting in order to better monitor commitments, disbursements, and debt service obligations. The Debt Recording and Management System (CS-DRMS) will be electronically linked with IFMIS. The Government commits to monitoring concessionality more closely in the future to make sure that only concessional loans are contracted in the future. Under the enhanced HIPC Initiative, commercial creditors are expected to deliver their share of debt relief through a debt buy-back operation supported by the World Bank, which implementation is scheduled for 2012. The buy-back program will likely result in over 90 percent reduction of external commercial debt, which stood at US\$232 million at end-2010.

VI. POLICIES FOR 2012

A. Budget Framework

20. **The 2012 budget envisages continued spending on infrastructure development while keeping moderate domestic financing needs.** Domestic revenue collection will be supported by new activities in the mining sector and continued efforts to strengthen revenue administration. Given the limited resource envelope and competing expenditure commitments, domestic capital expenditures will be limited to ongoing projects only. In the same vein, a modest wage increase will be awarded to public servants. The Government's commitment to maintaining macroeconomic stability and low domestic interest rates is reflected by anchoring the budget to domestic financing from banks and the nonbank financial sector to 1.4 percent of GDP.

21. **On the revenue side,** domestic tax revenue is expected to decline slightly relative to GDP, from 13.7 of non-iron ore GDP in 2011 to 12.9 percent of non-iron ore GDP in 2012. This reflects large one-off revenue from petroleum licenses in 2011 (by excluding this one-off revenue, domestic tax revenue would increase 0.5 percent of GDP in 2012), and sharply lower fuel excises (which lowered in mid-2011 to effectively maintain domestic fuel subsidies). The contribution of royalties from the commencement of iron ore exports are

expected to total Le179 billion, or 1.5 percent of GDP, in 2012. GST is expected to remain stable relative to GDP at 3.5 percent (note most mining operations are exempt from GST). Corporate income tax is projected to continue to perform well (1.1 percent of GDP) on account of new economic activity and improved tax administration, while the growth in personal income tax has stagnated at 2.7 percent of GDP. Import duties remain stable (3 percent of GDP).

22. **External grants are expected to remain significant in 2012, albeit at a declining trend.** Total grants are expected to decline to 6 percent of GDP from 7.9 percent in 2011, of which budget support grants, excluding election related support, decrease by 1.4 percent. Budget support loans are, however, expected to increase from zero by 0.9 percent of GDP on account of an increase in World Bank support.

23. **On the expenditure side,** one-off costs for elections generate spending in the order of 1.8 percent of GDP, of which 1 percent of GDP is externally financed. The wage bill is projected to increase from 6.8 percent of GDP in 2011 to 6.9 percent of GDP, reflecting a 10 percent salary increase in July and new hiring of 1,000 for the police force and 300 for the military. With the implementation of cost-saving measures of the pay reform, which has not been incorporated into the estimate due to uncertainties about the amount, the wage bill could be lower in 2012. Capital spending is budgeted to decrease from 10.4 percent of GDP in 2011 to 8.6 percent of GDP in 2012, reflecting a decline of foreign financed project spending. However, this figure may likely be revised upwards as new commitments with development partners are made.

24. **The Government has sought additional safety net project support from the World Bank and DFID.** As a post conflict country, the Government places considerable emphasis on the provision of safety nets for the poor and vulnerable, especially as a way of responding to exogenous shocks. Together with its development partners, the Government is undertaking a review of the efficiency and effectiveness of existing safety net programs. This review will help to formulate options for improved safety net systems and their financing. The implementation of new programs is expected to start in 2012; initially, these programs will be fully financed by additional project support from development partners.

25. **The overall fiscal deficit, excluding grants, is envisaged to decline from 11.8 percent of GDP in 2011 to 10.4 percent in 2012.** Domestic financing from banks and the nonbanking financial sector would remain low at 1.4 percent of GDP, while external financing is projected to decline from 3.5 percent of GDP in 2011 to 3 percent of GDP. However, budget support net external borrowing is projected to increase from zero to 0.9 percent of GDP.

B. Monetary and Exchange Rate Policies

26. **Monetary policy remains geared to lowering consumer price inflation.** High inflation during the last two years contributed to raising inflation expectations. To anchor inflation expectations at a lower level, reserve money is envisaged to grow by 15 percent in 2012. This will be consistent with a 20 percent broad money growth and will accommodate a 22 percent growth in private sector credit. Tighter coordination between monetary and debt management policies will help improve liquidity management.

27. **The BSL is committed to exchange rate flexibility.** In light of the thin market, the BSL intervention in the FX market will be limited to smoothing short-term volatilities and to absorb foreign-financed budget spending.

VII. STRUCTURAL POLICIES FOR 2011–12

28. **The structural reform program will complement macroeconomic policies.** The overarching objective is to promote an efficient public sector and higher sustainable private sector-led economic growth. Specific policies in the remainder of 2011 will focus on improving tax administration, strengthening public financial management, and developing the financial sector (Table 4). The two latter areas will draw on the Integrated Public Financial Management Reform Program (IPFMRP) and the Financial Sector Development Plan (FSDP), respectively.

Improving tax administration

29. **The Government will further step up efforts to improve tax administration and broaden the tax base.** The current tax administration suffers from weaknesses arising from having separate tax departments for GST and income, and it is not conducive to enhance tax compliance. To this end, the National Revenue Authority (NRA) is in the process of transferring all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrating the GST administration with MTO to improve the efficiency of tax collections (structural benchmark for September 2011, but full completion is delayed to end-December 2011). Moreover, the NRA will integrate GST operations (taxpayer services, filing and returns processing, and coordinated audit operations) with the Large Taxpayer Office (Structural benchmark for December 2011).

30. **The NRA will step up efforts to improve tax collection and compliance.** Measures include applying penalties for nonfiling of returns and underestimation of quarterly installment payments; and levying and collecting interest on late payment of tax. In a similar vein, a new small taxpayer regime will be implemented to improve voluntary compliance, and apply penalties for noncompliance (Structural Benchmark for December 2011).

Strengthening public financial management

31. **The Government has initiated a comprehensive review of the legal budget framework.** In particular, with respect to the existing GBBA, the review will make recommendations on how to strengthen budget execution and clarify further the procedures for un-appropriated expenditures, the use of contingency funds, and the circumstances under which warrants shall be issued by the President authorizing extra-budgetary expenditures without prior approval by the parliament. Following agreement with IMF staff, the Government will submit amendments to the GBAA to the Parliament by end-September 2012 (structural benchmark).

32. **The Government will strengthen the Medium-Term Expenditure Framework (MTEF) by enhancing the planning, monitoring and evaluation processes for capital projects.** With the recent enactment of the amendments to the GBAA, the Government will fully integrate a three-year public investment plan with the budget process for 2013 (structural benchmark for end-December 2012). As a first step, the Government will

rationalize the institutional arrangements for public investment planning and strengthen the Project Planning, Monitoring and Evaluation Division in the Ministry of Finance and Economic Development. The Government will also prepare and publish regulations to implement the Public Investment Plan for fiscal year 2013, in line with recent recommendations provided by FAD (Structural Benchmark for December 2011). To further decentralize responsibility to the MDAs, the Government will complete and distribute the MTEF manual by end-2011.

33. The roll out of IFMIS to MDAs will continue to strengthen budget execution.

So far, IFMIS has been rolled out to 11 key MDAs with 2 additional MDAs in the process, accounting for about 65 percent of expenditures. It has also been rolled out to 15 of the 19 local councils to improve financial management. The MOFED will continue to provide training and support to IFMIS users across MDAs to ensure that activities are properly and adequately captured within the system.

34. The Government will strengthen cash management. To this effect, the Government will establish a high-level cash management committee under the leadership of MoFED, in collaboration with the Accounting General and the BSL, to take decisions on cash ceilings, short-term borrowing requirements, and placement of temporary cash surpluses (structural benchmark for end-March 2012). A cash management unit in MoFED will provide monthly cash flow projections to serve as input for decisions of the cash management committee. Also, preparatory work will start to develop a treasury single account (TSA) while efforts are being made to move towards cash-based International Public Sector Accounting Standards (IPSAS).

35. Pay reform. The Government recognizes the growing concern among public sector workers about low wages. With assistance from development partners, implementation of a multi-year pay reform plan (2011–15) will bring compensation of public servants to more competitive levels, with savings achieved through re-grading, rightsizing, and payroll clean-up. The reforms will also include job evaluation, filling critical technical positions, stronger performance management systems, and addressing motivation and retention issues. With effectuation of the first salary adjustments in the last quarter of 2011, the implementation of the pay reform in 2012 will focus on achieving the cost reducing and efficiency enhancing elements of the reform; accordingly, salaries will not be adjusted further in the first half of 2012 and the monthly cost of salary adjustments in the second half of 2012 will be limited to Le 6.3 billion. In line with this, the planned salary adjustments for public servants through 2015 have been revised.

Financial sector measures

36. The BSL will continue to strengthen banking supervision. To this end, the BSL will issue revised prudential guidelines in line with the amended Banking Act to enhance compliance with the Basel Core Principles (structural benchmark for end-September 2012). Moreover, the BSL is working with IFAD and WAMI to develop a new IT platform for banking supervision, which will enhance the BSL's capacity of banking supervision, and it will revise the supervision manual to fully reflect migration towards risk-based supervision.

37. **The BSL and MOFED will revise the guidelines for issuing of Treasury bills to enhance development of the secondary market.** This will clarify roles of market participants (including primary dealers, the BSL, and MOFED) and make Government strategy in the treasury bills market more transparent and credible. The guidelines will specify that (i) Government should announce in advance the schedule of Treasury bills issuance for the upcoming month; (ii) Government should not increase the offered amount during the auction, if there is excess demand; and (iii) Government can announce additional issuance if market conditions are favorable or there is a financing need. In this regard, the Government will seek technical assistance from MCM.

38. **To develop a long-term capital market,** the MOFED and the BSL will engage market participants, including the commercial banks, NASSIT and other nonbank financial institutions, to develop a long-term bond market consistent with the Government's financing need. At first, efforts will focus on developing the market and changing the maturity structure of domestic debt rather than issuing additional net Government debt. The Government will also strengthen the capital market regulatory structure and governance by enacting the Securities and Exchange Commission's (SEC) Bill and implementing associated regulations, and deepen the long-term capital market with the privatization and divestiture of slated public enterprises.

39. **Private sector development is constrained by limited access to financial services.** Lack of financial development is evident in low credit to the private sector. Access to credit will be enhanced by strengthening information structure through the newly established credit reference bureau. To improve efficiency of transactions in the economy, the BSL is working towards strengthening the payments and settlement systems. In this context, the AfDB is financing the automation of the payment system, which includes: (i) real time gross settlement; (ii) automated check processing and automated clearing house; (iii) scriptless securities settlement system; and (iv) core banking application. The BSL will have in place all components of the payment system by the end of 2011, including the necessary payment system legislation and manuals, in line with best international practice.

Other reforms

40. **The privatization program will continue.** In addition to privatizing the container terminal section of the Sierra Leone Port Authority in the first half of 2011, preparations are underway for selling the Government's 51 percent equity holding in Rokel Commercial Bank in 2012 (structural benchmark for June 2012). The Government also intends to sell all of its shares in the National Insurance Company in 2012. The Government will ensure that state-owned institutions will not acquire significant amounts of shares (capping equity ownership at 10 percent of total).

41. **The Government has committed to the principles of Extractive Industries Transparency Initiative (EITI).** The first EITI Report (covering mining for 2006–07) was published in March 2010. An EITI validation report recommends a number of improvements to the governance and management of the processes. The Government will implement the recommendations made in the report by end-2012, with the view to maintain its EITI candidacy status.

42. **The Government sees the need to strengthen Sierra Leone’s capacity to collect and disseminate economic statistics.** In this regard, the Government is seeking technical assistance from the IMF to improve the reporting of national accounts, balance of payments, and price statistics. There is a particular need to improve collection of data on mining and agricultural output and financing flows. The Statistics of Sierra Leone (SSL) will start publishing a single, reliable consumer price index before the end of 2011. The Government is also seeking technical assistance from UK DFID to strengthen the institutional and legal framework of Statistics Sierra Leone, consistent with international best practices.

1.

VIII. PROGRAM MONITORING

43. The program will be monitored based on quantitative performance criteria for end-December 2011 (Table 3), end-June 2012, and end-December 2012 (Table 5) and structural benchmarks for 2011–12 (Tables 4 and 6).

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2010 1/
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	2009 6/	2010											
		June				September 2/			December				
		Stock	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status
Performance criteria													
Net domestic bank credit to the central government (ceiling)	647.3	191.5	240.7	206.6	Met	202.7	249.7	318.2	Not Met	250.3	229.5	413.5	Not Met
Unadjusted target (ceiling)			191.5				202.7				250.3		
Adjustment for the shortfall (excess) in external budget support			31.5				52.0				-9.3		
Adjustment for the issuance of government securities to the nonbank private sector			17.6				-5.0				-11.5		
Net domestic assets of the central bank (ceiling)	-442.3	198.6	247.7	192.4	Met	235.5	268.4	201.0	Met	235.1	178.3	244.1	Not Met
Unadjusted target (ceiling)			198.6				235.5				235.1		
Adjustment for the shortfall (excess) in external budget support			31.5				52.0				-9.3		
Adjustment for exchange rate depreciation (appreciation)			17.6				-19.1				-47.5		
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	336.4	-8.7	-24.3	-23.0	Met	-11.8	-25.1	-23.2	Met	0.0	2.7	8.9	Met
Unadjusted target (floor)			-8.7				-11.8				0.0		
Adjustment for the shortfall (excess) in external budget support 3/			-7.9				-13.0				2.3		
Adjustment for the shortfall in the US\$ value of IMF disbursement			-7.2				0.2				-0.1		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-0.4				-0.5				0.4		
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	Met	0.0		0.0	Met
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		0.0	Met	0.0		0.0	Met	0.0		0.0	Met
External payment arrears of the public sector (ceiling) 3/	...	0.0		...		0.0		...		0.0		...	
Indicative target													
Total domestic government revenue (floor)	...	432.8		417.5	Not Met	676.8		687.4	Met	987.9		1,007.6	Met
Poverty-related expenditures (floor)	...	252.2		325.2	Met	337.9		439.9	Met	417.0		635.1	Met
<i>Memorandum items:</i>													
External budgetary assistance (US\$ million) 4/	...	29.6		21.7		52.1		39.0		77.8		80.1	
Net credit to government by nonbank sector 5/	...	44.0		26.4		45.4		50.4		18.4		29.9	
ECF disbursements (SDR millions)		11.4		7.0		11.4		11.4		15.9		15.9	
Exchange rate (Leones/US\$)		3,990		3,906		3,990		4,081		3,990		4,198	

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/ Staff Report, November 19, 2010

Table 2. Sierra Leone: Structural Benchmarks for 2010

Measures	Timing	Macro Rationale	Status
<ul style="list-style-type: none"> Adopt a domestic fuel pricing formula that reflects full pass-through of international oil prices. 	End–June	To enhance transparency and eliminate risks for the budget in case of external shocks.	Not met.
<ul style="list-style-type: none"> Adoption by the BSL of new off-site surveillance guidelines for banks. 	End–June	To enhance the supervisory role of the BSL for financial sector development.	Met with delay. Implemented in November 2010.
<ul style="list-style-type: none"> Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional, including recruiting Commissioner and Deputy Commissioner. 	End-September	To improve efficiency of revenue collection efforts.	Met with delay. Implemented in November 2010.
<ul style="list-style-type: none"> Submit to parliament amendments of the GBAA (2005) and Financial Management Regulation to ensure that only viable capital projects enter into the budget. 	End–September	To improve efficiency of public investments and achieve the program growth targets.	Met with delay. The amendments were submitted to the parliament in May 2011.
<ul style="list-style-type: none"> Establish reverse repo rate as the benchmark interest rate and announce the rate after every Monetary Policy Committee meeting. 	Continuous from end-September	To increase the effectiveness of monetary policy and help develop a yield curve.	Met with delay.
<ul style="list-style-type: none"> Establish a credit reference bureau. 	End-December	To promote credit access for credit-worthy customers.	Met.
<ul style="list-style-type: none"> Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO). 	End-December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.	Not met. An action plan has been developed and sent to the NRA Board. NRA Management intends to execute the establishment of the LTD and to integrate the GST administration within the same framework. The next step is to seek approval by the NRA Board.

Table 3. 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)

	Dec. 2010 6/	2011												
		Mar. 2/					Jun.					September 2/	December	
		Stock	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status	Prog. 6/	Prog. 6/	Revised Prog.	
Performance criteria														
Net domestic bank credit to the central government (ceiling)	897.6	64.6	66.5	0.9	Met	106.6	146.7	76.5	Met	137.6	152.1	73.6		
Unadjusted target (ceiling)			64.6				106.6							
Adjustment for the shortfall (excess) in external budget support			14.1				46.0							
Adjustment for the issuance of government securities to the nonbank private sector			-12.2				-5.8							
Net domestic assets of the central bank (ceiling)	-207.5	63.7	43.0	-151.5	Met	112.8	123.8	-93.0	Met	146.6	159.5	87.3		
Unadjusted target (ceiling)			63.7				112.8							
Adjustment for the shortfall (excess) in external budget support			14.1				46.0							
Adjustment for exchange rate depreciation (appreciation)			-34.8				-35.0							
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	336.4	-22.7	-28.3	10.0	Met	-14.8	-33.8	-0.6	Met	-24.7	-9.9	0.0		
Unadjusted target (floor)			-22.7				-14.8							
Adjustment for the shortfall (excess) in external budget support 3/			-3.5				-11.5							
Adjustment for the shortfall in the US\$ value of IMF disbursement			0.0				-7.0							
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-2.1				-0.5							
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		42.0	Not 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	Met	0.0	0.0	0.0		
External payment arrears of the public sector (ceiling) 3/	...	0.0		...		0.0		...		0.0	0.0	...		
Indicative target														
Total domestic government revenue (floor)	...	260.0		350.3	Met	549.7		671.7	Met	831.8	1,156.6	1,425.7		
Poverty-related expenditures (floor)	...	134.6		134.8	Met	271.0		274.7	Met	382.5	514.2	537.7		
<i>Memorandum items:</i>														
External budgetary assistance (US\$ million) 4/	...	16.7		13.2		31.3		19.8		42.5	53.5	71.2		
Net credit to government by nonbank sector 5/	...	12.4		24.7		18.2		24.1		25.9	43.2	43.2		
ECF disbursements (SDR millions)		0.0		0.0		4.4		0.0		4.4	8.9	8.9		
Exchange rate (Leones/US\$)	4198	3,990		4,338		3,990		4,355		3,990	3,990	3,990		

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/ Staff Report, November 19, 2010

Table 4. Sierra Leone: Prior Action and Structural Benchmarks for 2011

Measures	Timing	Macro Rationale	Status
Prior Action (second and third review):			
<ul style="list-style-type: none"> 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. 		Limit the monetization of the fiscal deficit in order to facilitate price stability.	Met.
Structural Benchmarks:			
<ul style="list-style-type: none"> 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. 	End-June	Facilitate efficient financial intermediation by improving the efficiency of the financial regulatory system.	Met with delay.
<ul style="list-style-type: none"> Develop a pay reform plan for public servants. 	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"> Transfer all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with MTO. 	End-September	To improve efficiency of revenue collection efforts.	Met.
<ul style="list-style-type: none"> Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO). 	End-December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.	New benchmark. On track.
<ul style="list-style-type: none"> Implement new small taxpayer regime. 	End-December	To improve voluntary compliance and raise tax revenue.	Pending adoption of Finance Act.
<ul style="list-style-type: none"> Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process. 	End-December	To improve efficiency of public investments and achieve medium-term growth targets.	Revised benchmark. Original benchmark will be postponed to 2012

Table 5. 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	Program		
		Mar. 2/	Jun.	September 2/	December
Performance criteria					
Net domestic bank credit to the central government (ceiling)	1,140.8	35.4	24.8	11.6	132.8
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)	-149.8	-43.1	-54.8	-46.7	-19.4
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for exchange rate depreciation (appreciation)					
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	345.2	15.5	34.6	31.9	25.9
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					
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	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	0.0	0.0
External payment arrears of the public sector (ceiling) 3/	...	0.0	0.0	0.0	0.0
Indicative target					
Total domestic government revenue (floor)	...	365.2	798.9	1,222.9	1,606.9
Poverty-related expenditures (floor)	...	142.0	282.2	421.6	569.6
<i>Memorandum items:</i>					
External budgetary assistance (US\$ million) 4/	...	37.8	65.1	66.4	67.2
Net credit to government by nonbank sector 5/	...	12.4	18.2	25.9	33.2
ECF disbursements (SDR millions)		0.0	4.4	4.4	8.9
Exchange rate (Leones/US\$)	4400	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/ Staff Report, November 19, 2010

Table 6. Sierra Leone: Structural Benchmarks for 2012

Measures	Timing	Macro Rationale
<ul style="list-style-type: none"> Privatize Rokel Bank by selling all Government shares in the bank. 	End-June	Enhance competition and efficiency in the banking system and increase fiscal space for infrastructure investment.
<ul style="list-style-type: none"> 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. 	End-March	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.
<ul style="list-style-type: none"> Introduce a resource rent tax on mining operations. 	End-June	Increase tax revenue in case of higher than normal profitability in the mining sector.
<ul style="list-style-type: none"> Submit amendments to the GBAA to the Parliament. The amendments will clarify provisions related to supplementary budgets and contingency funds. 	End-September	Strengthen budget preparation and execution.
<ul style="list-style-type: none"> Issue revised prudential guidelines in line with Banking Act. 	End-September	Improve regulation and supervision of the financial sector.
<ul style="list-style-type: none"> Complete a three-year public investment plan, fully integrated with the budget process, to be submitted with the 2013 budget. 	End-December	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.

ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 18, 2011

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.**¹ For the purpose of the program, foreign currency denominated values for the remainder of 2011 will be converted from their U.S. dollar denominated value into Sierra Leonean currency (leone) using a program exchange rate of Le3990/US\$. For 2012, foreign currency denominated values will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4400/US\$ and cross rates as of end September 2011.²

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* (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 the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance³—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

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

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

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

(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 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

G. Domestic Revenue of Central Government

15. **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.

H. Poverty-Related Expenditures

16. **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

17. 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 1: 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)

Type of Data	Tables	Frequency	Reporting Deadline
Monetary and financial data			
	Gross official foreign reserves	Weekly	End of week + 1 week
	Foreign exchange cashflow 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
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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

**Second and Third Reviews Under the Three-year Arrangement Under the Extended
Credit Facility, Request for Waivers of Nonobservance of Performance Criteria,
Request for Modification of Performance Criteria, and Financing Assurances Review**

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Seán Nolan and Dominique Desruelle

November 18, 2011

Contents	Page
I. Relations with the Fund	2
II. Joint World Bank-IMF Work Program, 2011–12.....	7
III. Statistical Issues	9

Appendix I. Sierra Leone: Relations with the Fund

(As of October 31, 2011)

I. Membership Status: Joined 9/10/62; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	103.70	100.00
Fund holdings of currency	103.69	99.99
Reserve position	0.02	0.02

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	99.51	100.00
Holdings	118.26	118.85

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
ECF Arrangements	71.96	69.39

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Jul 01, 2010	Jun 30, 2013	31.11	8.88
ECF ^{1/}	May 10, 2006	Jun 22, 2010	51.88	51.88
ECF ^{1/}	Sep 26, 2001	Jun 25, 2005	130.84	130.84

VI. Projected Payments to Fund^{2/}

(SDR million; based on current use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	2014	<u>2015</u>
Principal	1.87	4.62	4.62	8.12	9.86
Charges/interest		<u>0.17</u>	<u>0.16</u>	<u>0.15</u>	<u>0.12</u>
Total	<u>1.87</u>	<u>4.80</u>	<u>4.78</u>	<u>8.27</u>	<u>9.98</u>

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount will be shown in this section.

Assistance committed (NPV terms)	
By all creditors (US\$ million) ^{3/}	675.20
<i>Of which:</i> IMF assistance (US\$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income ^{4/}	6.58
Total disbursements	106.58

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ^{5/}	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59
II. Debt Relief by facility (SDR Million)	

	Eligible Debt		
<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
December 2006	N/A	117.34	117.34

IX. Safeguards Assessment:

Pursuant to IMF policy, the Bank of Sierra Leone was subject to a safeguards assessment with respect to the ECF arrangement approved on May 10, 2006. The assessment, which was completed on June 12, 2006, proposed recommendations to address new and continuing vulnerabilities in financial reporting, internal audits, and internal controls. Updates of the 2006 safeguards assessment report were completed in October 2009 and November 2010. The most recent update finds that the BSL maintains important elements of the safeguards framework; financial statements are prepared and audited in accordance with international standards and are published in a timely manner. However, financial safeguards need to be improved in other areas. External auditors need to be selected and appointed in a timely

³ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

⁴ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

⁵ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of 2004 that remains outstanding at the time the member qualifies for debt relief.

manner, based on well-established criteria, and should be appointed for a multi-year term instead of the current practice of annual appointments. The audit committee should monitor timely implementation of recommendations arising from external and internal audits and safeguards assessments.

X. Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of November 3, 2011, the BSL mid-rate was Le 4,417.74=US\$1.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. Furthermore, effective November 1, 2008, the *de facto* exchange rate arrangement has been reclassified to 'floating' from a 'stabilized arrangement'. Effective February 2, 2009, the *de facto* exchange rate arrangement was reclassified from a conventional pegged arrangement to a "stabilized arrangement" retroactively to April 30, 2008, due to a revision of the classification methodology. In March 2008, the exchange rate regime was reclassified as "a conventional peg" to reflect the nominal stability of exchange rate developments under *de facto* management through the auction by the BSL as the only seller of foreign exchange.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Sierra Leone maintains one multiple currency practice subject to Fund jurisdiction arising from the applied multiple-price Dutch auction system, as there is no formal mechanism in place to prevent spreads of effective rates between winning bids from exceeding 2 percent.

XI. Article IV Consultation:

The Executive Board concluded the 2010 Article IV consultation on December 6, 2010. The next Article IV consultation will be held in accordance with the 2010 decision on consultation cycles.

XII. Technical Assistance:

Department	Purpose	Date
FAD	Extractive Industry Fiscal Regimes	October/November 2011
	Tax Administration	October/November 2011
	Mining and Oil Tax Policy, and Macro-fiscal and Forecasting	July 2011
	Fiscal Regimes for Extractive Industries	July 2011

Department	Purpose	Date
	Advancing Public Financial Management Reforms	June 2011
	Advancing Public Financial Management Reforms	April 2011
	Petroleum Product Prices	April 2011
	Reform Progress update	September 2010
	Review of petroleum pricing mechanism	February 2010
	Tax administration	January 2010
	Evaluation of progress in PFM reforms	March 2009
	Assistance in designing a simplified regime for small taxpayers	January 2009
	Evaluation of progress on tax administration reform and VAT preparation	September 2008
	Evaluation of progress on PFM reforms	July 2008
	Implementation of public financial management reforms	March 2008
	Tax administration reforms for successful VAT implementation	February 2008
MCM	Financial Stability Analysis	April/May 2011
	Banking Supervision and Banking Regulation	April 2010
	Needs assessment and monetary operations and foreign exchange auction system	March 2010
	Follow-up assessment on TA needs	June 2009
	Follow-up assessment of banking supervision processes at BSL	March 2009
	Follow-up assessment on progress in strengthening central bank internal auditing	March 2009
	BSL: Internal audit and management of the central bank	October 2008

Department	Purpose	Date
	Monetary policy, banking supervision, and recapitalization of the BSL	April/May 2008
	Recapitalization of the BSL	February 2008
STA	Producer Price Index Mission	November 2011
	Producer Price Index Mission	June/July 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	May/June 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	February/March 2011
	Standardized Report Form Data Development for Other Financial Corporations	October 2010
	Producer Price Index Mission	October 2010
	Assist the authorities in implementing the international standards recommended in the <i>Monetary and Financial Statistics Manual</i>	April 2009
	National accounts statistics mission	March 2009
	National accounts statistics mission	September/October 2008
	National accounts statistics mission	January 2008

XII. Resident Representative:

Mr. Francis Kumah assumed responsibility for the Fund office in Freetown in November 2010 as a new resident representative.

Appendix II. Sierra Leone: Joint World Bank-IMF Work Program, 2011–12

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	Decentralized Service Delivery	May, June, Sep, Oct 2011	N/A
	Decentralized Service Delivery Spn.	Multiple 2010	N/A
	Financial Sector TA Credit	Sep., Dec. 2010	March 2011
	IRCBP Supervision	April, June, 2011	N/A
	IPFMRP (PFM Project) Supervision	April, June, Sep, Dec 2011	N/A
	Public Expenditure & Financial Accountability Assessment (joint with other donors)	January 2011	N/A
	Mining Sector TA Credit	Nov-Dec. 2010	May 2011
	Social Safety Nets Assessment	May, Oct, 2011	May 2012
	Fifth Governance Reform and Growth Credit (GRGC-5)	June, Sep, Dec 2011	N/A
	Pay Reform Project	Sep, Nov, Dec 2011	May 2012
	Technical Assistance:		
	Anti Corruption Commission	June, Dec 2011	
	Household Survey	May Dec 2011	
	AML/CFT	Jun Jul Oct 2011	N/A
IMF work program	Second and third reviews of the arrangement under the ECF	August-September 2011	December 2011
	Fourth ECF review	March 2012	June 2012
	Technical Assistance:		
	FAD:		
	• Tax Administration Reform	December 2011	N/A
	• Extractive Industry Revenue Administration	May/June 2012	N/A

Appendix II. Sierra Leone: Joint World Bank-IMF Work Program, 2010–11 (concl.)

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	MCM		
	• Financial Stability Analysis	April/May 2011	June 2011
	• Needs Assessment	December 2011	N/A
	• Banking Supervision and Regulation	April 2012	N/A
	STA		
	• Price Statistics	October 2011	N/A
	• National Accounts	December 2011	N/A
B. Agreement on Joint Products and Missions			
Joint products in 2010	DSA	February 2012	June 2012
	Assisting the authorities with the implementation of their financial sector reform strategy		Continuous

Appendix III. Sierra Leone: Statistical Issues

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. The prolonged civil war resulted in a virtual collapse of statistical systems in the late 1990s. Serious deficiencies still affect balance of payments statistics, national accounts, government finance statistics, and social indicators. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring the institutional framework.

Real sector statistics: Improvements have been made in the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Remaining issues concern rebasing the accounts, developing better data sources for agricultural production, and generally continuing the improvement of informal sector measurement. In addition, for constant price GDP, there is a need to supplement the consumer price index (CPI) with alternative price measures, such as the producer price index or industry-specific measures such as a construction cost index. Under a new DFID-funded project two technical assistance missions visited Freetown in March and June 2011 to improve annual estimates of GDP. The mission worked with the authorities to prepare revised national accounts based on a 2006 benchmark and using 2006 prices to compile constant price estimates. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by Statistics Sierra Leone (SSL).

The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2007 using the 2007 Sierra Leone integrated household survey and continues to cover the capital city and three main districts. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). To avoid confusion, the authorities have requested TA to validate the work done in order to adopt a common series.

Technical assistance missions visited Freetown in October 2010 and June 2011 to review the CPI and to advice on the development of a producer price index (PPI). The authorities are working to improve the index calculation methods for the CPI and procedures to aggregate regional CPIs to obtain the national index. They intend to publish revised CPI and newly developed PPI indices by the end of 2011.

The Authorities have developed PPI weights, selected a representative sample of establishments, and selected representative products and transaction for price collection. A work plan, in the form of Project Framework Summary, was drafted to guide the PPI staff in developing and releasing the new index.

Government finance statistics: The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly cash flow data on budgetary central government revenue, current expenditure, and financing are provided. The transaction coverage of the budgetary central government cash flow is incomplete. There is an urgent need for more timely and accurate data on foreign-financed development projects.

Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. There is also need for quality control of the final data.

The authorities are currently considering introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects. As part of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data and to improve the coverage and classification of the two data sets. With the current drive towards decentralization and the growing role of local government, there is an urgent need to compile and monitor the operations (and financial balance sheet data) for the whole of consolidated general government.

Monetary and financial statistics: The main components of the central bank balance sheet are available daily and weekly; this system provides an early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks; it has comprehensive coverage of commercial banks.

There has been some progress in the compilation of data in line with the 2000 Monetary and Financial Statistics Manual. The BSL, with assistance from STA, has completed the preparation of a standardized report form (SRF) for the central bank. There is a need to expand coverage of other deposit corporations, improve data collection for other financial corporations and develop the financial corporations survey.

Balance of payments: The BSL is responsible for compiling balance of payments (BOP) statistics. It obtains source data from the SSL, government ministries, the Customs and Excise Department (Customs), and the “Financial Survey of Major Limited Companies,” for data on foreign direct investment. Imports and exports of goods estimates are based on data compiled by Customs and are adjusted for coverage, valuation, and timing to accord with BOP definitions. The BSL does not adjust BOP data using supplementary information to take account of unreported data.

External transactions are characterized by a large volume of activity in the informal sector, principally diamond smuggling. A considerable portion of imports is financed by these unrecorded exports. As a result, official BOP statistics tend to substantially understate transactions. STA has been providing technical assistance on BOP issues to help the authorities implement the *Balance of Payments Manual*, Fifth Edition (*BPM5*).

Data problems also exist for trade in services, income statistics, current transfers, and the capital and financial accounts. Regarding the last, there are substantial difficulties in tracking financial transactions of the public and private sectors that are routed through commercial banks. While the authorities are producing data on the international investment position, improvements are required in coverage and in valuation adjustments. These difficulties are manifested in reconciling flow data in the BOP and stocks in the international investment position. Estimates of smuggled imports and exports, in particular diamonds, are also not available.

Information on official grant and loan receipts is relatively good and is prepared by AFR on the basis of contact with the authorities and donor agencies, but data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private flows, especially those linked to the informal diamond trade, are implicitly included in “errors and omissions.”

J. Data Standards and Quality

Sierra Leone commenced its participation in the General Data Dissemination System (GDDS) in 2003. Metadata need to be updated.

K. Reporting to STA

Fiscal data are reported to AFR, but it is not disseminated in the *International Financial Statistics*. Plans are underway to resume reporting annual data for publication in the GFS Yearbook (the most recent data refer to 2004).

The BSL started reporting monetary data in the SRF-format to the IMF in April 2010.

**Sierra Leone: Table of Common Indicators Required for Surveillance
October 2010**

	Date of latest observation	Date received	Frequency of Data 1/	Frequency of Reporting 1/	Frequency of publication 1/
Exchange Rates	10/14/10	10/22/10	W	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 2/	08/10	10/07/10	M	M	M
Reserve/Base Money	08/10	10/07/10	M	M	M
Broad Money	08/10	10/07/10	M	M	M
Central Bank Balance Sheet	08/10	10/07/10	M	M	M
Consolidated Balance Sheet of the Banking System	08/10	10/07/10	M	M	M
Interest Rates 3/	09/10	10/22/10	M	M	M
Consumer Price Index	08/10	09/17/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – Central Government	06/10	08/13/10	M	M	N/A
Stocks of Central Government and Central Government-Guaranteed Debt	12/09	09/08/10	Q	Q	N/A
External Current Account Balance	12/09	09/08/10	A	A	A
Exports and Imports of Goods and Services	06/10	09/08/10	A	A	A
GDP/GNP	12/09	09/15/10	A	A	A
Gross External Debt	06/10	09/08/10	A	A	A
International Investment Position 4/	06/09	08/31/09	A	A	A

1/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

2/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

3/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

4/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.



INTERNATIONAL MONETARY FUND

EXTERNAL
RELATIONS
DEPARTMENT

Press Release No. 11/450
FOR IMMEDIATE RELEASE
December 7, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under ECF with Sierra Leone and Approves \$US 13.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second and third review of Sierra Leone's economic performance under a program supported by the Extended Credit Facility (ECF). The Board's decision enables the immediate disbursement of an amount equivalent to SDR 8.88 million (about US\$13.8 million), bringing total disbursements under the arrangement to an amount equal to SDR 17.76million (about US\$27.6 million).

In completing the reviews, the Executive Board approved waivers for nonobservance of performance criteria on net domestic bank credit to the central government and net domestic assets of the central bank, both for end-December 2010, and for the continuous performance criterion on the ceiling on new nonconcessional external debt. The Board also approved a modification of three performance criteria for end-December 2011 related to the net domestic bank credit to the central government, net domestic assets of the central bank, and gross foreign exchange reserves of the central bank to reflect envisaged changes in fiscal and monetary policy.

The three-year ECF arrangement for Sierra Leone was approved on June 4, 2010 in an amount equivalent to SDR 31.11 million (see [Press Release No. 10/228](#)).

Following the Executive Board's discussion of Sierra Leone, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The economy is continuing to recover, reflecting steady growth in mining, manufacturing, and construction. Inflation, however, remains high due to exogenous shocks and loose monetary policy at the end of 2010. Given tighter policies and more favorable external conditions, inflation is expected to decline in the near term. Gross international reserves remain at comfortable levels.

“Notwithstanding progress with respect to macroeconomic and structural policies, recent performance under the authorities’ program, supported by the three-year Extended Credit Facility, has been mixed. Despite improved revenue performance in the second half of 2010, an acceleration of infrastructure investment under the government’s *Agenda for Change* led to a surge in unbudgeted spending and commensurate liquidity expansion. As monetary policy accommodated the fiscal easing, key fiscal and monetary targets for December 2010 were not met. The government took action in early 2011 to tighten policies, resorting to both revenue and expenditure measures, resulting in improved program performance. It is also taking action to impose a statutory limit on central bank credit to the government. Continued fiscal restraint will be critical to maintaining macroeconomic stability in the period ahead.

“The medium-term outlook is favorable. Full operation of an iron ore megaproject in 2012 is expected to boost GDP and exports substantially. The fiscal space for infrastructure investment and social spending is, however, constrained in the near term, as government revenue is expected to increase only gradually in the first years of new mining activity. Financing the upcoming elections, as well as the government’s decision to reduce excises on fuel, puts additional burdens on the 2012 budget.

“Monetary policy will seek to contain inflationary pressures, bringing inflation down to single digits by 2013, while improving policy implementation and communication. Exchange rate flexibility should be maintained to facilitate adjustment to external shocks.

“Administrative reforms must also underpin policy efforts with a focus on improving tax administration, strengthening public financial management, and deepening the financial sector. These reforms will help create fiscal space for capital and social spending, while encouraging private sector investment and activity in support of inclusive and broad-based growth,” Mr. Shinohara added.

Statement by Moeketsi Majoro, Executive Director for Sierra Leone

December 7, 2011

Introduction

1. My Sierra Leonean authorities have remained steadfast in their efforts at structurally transforming the economy and attaining robust and sustainable medium to long-term economic growth geared towards reducing poverty and fostering social development. In spite of the many challenges encountered in scaling up public spending on the priority sectors, my authorities continue to demonstrate an unwavering commitment to pursuing prudent macroeconomic and structural policies within the framework of the program with the Fund. The medium-term growth outlook is quite favorable with real output growth projected in the double digits, placing Sierra Leone among the fastest growing economies in the world in the coming years. Going forward, the authorities are determined to strengthen the gains in macroeconomic stabilization, while judiciously implementing their development agenda.
2. My authorities are appreciative of the constructive dialogue with staff especially in identifying the binding constraints to sustained growth and macroeconomic stability, and in proffering appropriate policy responses to addressing these challenges. My authorities value highly the support from staff, Management, and Executive Directors as they seek to foster socio-economic development and poverty reduction. They broadly agree with the thrust of the staff report.

Program performance

3. Program implementation in 2010 was challenged by the authorities' resolve at implementing their infrastructure and social development programs in the face of limited domestic resources and delayed disbursement of programmed external budgetary support. Monetary accommodation of the fiscal deficits resulted in the breach of the targets on net domestic bank credit to government and net domestic assets of the central bank. The swift response of the authorities in instituting appropriate corrective policy measures to address the fiscal expansion and accommodative monetary policy underscores their commitment to implementing the Fund program. Fiscal tightening through rationalized expenditures and increased domestic revenue mobilization has culminated in a marked reduction in domestic financing, while the contractionary monetary policy stance, reflected in intensified monetary operations, succeeded in significantly reducing the growth of monetary aggregates.
4. The judicious implementation of the corrective policy measures translated into impressive program performance and, by end-June 2011, all the key quantitative performance criteria under the program were met by a large margin. The marginal breach of the ceiling on contracting of nonconcessional external debt was, however, on account of the deterioration in the discount rate in the period between negotiating the loans and signing the commitments. It is worth noting that these loans were contracted mostly to support key social sector projects and upgrade the country's communications infrastructure that will ultimately lead to considerable improvements in economic productivity, market efficiency, and external competitiveness. My authorities nonetheless reaffirm their commitment to maintaining a zero

ceiling on nonconcessional borrowing over the medium to long term, and undertake to work closely with staff in monitoring loan concessionality and further strengthening debt management capacity. On the structural front, appreciable progress has been accomplished in implementing the reform agenda. As highlighted in the staff report, amendment to the Bank of Sierra Leone (BSL) Act limiting direct central bank credit to the government is awaiting legislative approval and a domestic fuel pricing mechanism that minimizes the fiscal impact on the budget while protecting the vulnerable population has been instituted.

5. It is against the backdrop of the improved program performance and the unwavering commitment to implementing prudent macroeconomic and structural policies, that my authorities request Directors' support for the completion of the second and third reviews of the ECF program. They also solicit Directors' support for the granting of waivers for the nonobservance of quantitative performance criteria on net domestic bank credit to the central government and net domestic assets of the central bank at end-2010 and the criterion for contracting or guaranteeing of new nonconcessional external debt.

Recent economic developments

6. The economy has continued its rebound from the global economic and financial crisis on the back of largely broad-based sectoral growth, with real GDP on course to performing strongly. The robust growth in mining, construction and manufacturing underpinned the 5 percent real GDP expansion in 2010, about 1.8 percentage points increase from the preceding year. Exports rose appreciably during the first half of the year driven mostly by the substantial increase in mineral exports. However, the more than proportionate increase in imports, on account of the surge in imports of machinery and transport equipment to support mining activities, culminated in the widening of the trade deficits. The exchange rate however remained relatively stable given increased foreign exchange inflows and generally strong macroeconomic fundamentals. Gross international reserves have been maintained above three months of imports cover.

7. Fiscal policy was expansionary in 2010 resulting in substantial monetary expansion and the authorities' resort to bank financing sent interest rates on government securities soaring. As noted earlier, the policy response was swift culminating in a marked reduction in domestic financing. Domestic tax revenues increased sharply during the first half of the year reflecting higher collections across key revenue categories, while recurrent spending was largely constrained.

8. The adoption of a tight monetary policy stance in the first half of 2011 has also been timely and appropriate. Inflationary pressures have since subsided following the initial build up at the beginning of the year, exacerbated by higher international prices of food and fuel. The national inflation rate declined to 15.7 percent in September from 17.8 percent in May 2011, while interest rates on government securities have largely stabilized at levels much lower than at end-December 2010. The authorities, however, stand ready to institute appropriate policy measures to contain potential surge in inflationary pressures resulting from further external shocks. Importantly, as staff pointed out, the authorities have fully repaid the entire stock of ways and means advances utilized in 2010, and are pursuing

legislative approval of an amendment to the BSL Act limiting direct Central Bank credit to the government.

Medium-term outlook and policies

9. The policy interventions over the medium term will be defined by the priorities set out in the authorities' 'Agenda for Change' which reflects the country's poverty reduction strategy. Continued scaling up of investment in infrastructure and enhanced delivery of basic social services, coupled with effective private sector participation, will continue to constitute the nucleus of this strategy. Broadly speaking, policy will focus on attaining high and sustainable economic growth, within a stable macroeconomic environment.

10. The growth outlook over the medium term is quite promising, with real GDP projected to exceed 10 percent over the period. Increased investments in the natural resource sector, notably in the production of iron ore, will underpin the expansion in output. Given an estimated real GDP growth of about 50 percent in 2012 alone, Sierra Leone has the potential of emerging as one of the fastest growing economies in the world. Exports are also estimated to increase four-fold in 2012 and will continue to grow in 2013 and 2014. With expanding activity in other sectors, the economy is projected to grow by 6 percent on average per annum in real terms over the medium term even if iron ore production is factored out. Reflecting the projected increase in exports, the current account deficit will decline while the exchange rate stabilizes over the medium term. Given the reduced exchange rate pressures, the gross foreign exchange reserves position is expected to average 5 months of imports cover over the medium term. Consequently, inflationary pressures are to remain subdued, with the inflation rate returning to single digits.

Fiscal and debt management policies

11. My authorities will continue to pursue prudent fiscal policy aimed at safeguarding medium to long-term debt sustainability while, at the same time, creating the required fiscal space for investments in infrastructure and the social sectors. To this end, they will seek to institute a number of revenue-enhancing measures that includes extending tax coverage to the Oil and Gas sector, formulating a simplified tax regime for Small and Medium Enterprises (SMEs), and strengthening domestic tax legislations to broaden the tax base and improve compliance. As part of their revenue mobilization strategy, my authorities will seek to define an appropriate fiscal regime for the extractive industries with due consideration to the recent recommendations espoused by staff. In the meantime, they remain committed to fully applying the fiscal regime defined by the Mines and Minerals Act (MMA) 2009 to all mining lease agreements.

12. On the expenditure front, the prudence demonstrated thus far by the authorities in containing non-statutory recurrent spending will continue over the medium term. In order to strengthen the legal framework governing public financial management, the authorities will seek legislative approval of the recent amendments to the Government Budgeting and Accountability Act and the Public Procurement Act and their respective supporting regulations. In addition, the institutional arrangements for public investment planning will be rationalized with a view to developing a three-year Public Investment Plan (PIP) for

integration within the budget process. Moreover, the rolling out of the Integrated Financial Management Information System (IFMIS) to additional MDAs will be accelerated.

13. My authorities welcome the recent update of staff's debt sustainability analysis the outcome of which is broadly consistent with their own assessment. While it is evident that all sustainability indicators will improve substantially over the medium term in line with the envisaged expansion in output and exports, a cautious approach to external borrowing will be adopted given the vulnerability of exports to external shocks. External financing of infrastructure and other social sector projects will be contracted at highly concessional terms, while implementation of the debt buyback operation with commercial creditors, within the context of the enhanced HIPC Initiative, is fast-tracked. On the domestic front, action will be taken to effectively manage the domestic debt portfolio by developing a strategy to restructure the existing portfolio from short to medium and long-term instruments to help finance specific development projects.

Monetary and exchange rate policies

14. Monetary policy will continue to focus on achieving price stability while providing the support needed to attain a high and sustainable economic growth. The growth of monetary aggregates will be contained at low levels to help anchor inflation expectations; as a result, inflation is expected to return to single digits over the medium term. The BSL will continue to strengthen the monetary policy framework by deepening monetary operations and providing appropriate policy direction to the market through its benchmark policy rate.

15. The current flexible exchange rate regime which has proved quite effective in facilitating the smooth adjustments of the economy to the myriad of external shocks in recent years will be maintained. Interventions in the foreign exchange markets will be limited to smoothening short-term volatility in the exchange rate and absorbing externally-financed budget spending. The BSL will continue its efforts at promoting inter-bank foreign exchange market transactions while exploring the possibility of migrating to a wholesale foreign exchange auction system over the medium term.

Structural reforms

16. The authorities' structural reform agenda will be vigorously pursued over the medium term in order to support implementation of prudent macroeconomic policies and enhance the efficient functioning of the economy. In addition to the structural fiscal reforms highlighted above, the agenda will focus on reforming the financial sector, the public sector, and public enterprises, while promoting private sector development and improving governance.

17. Implementation of the Financial Sector Development Plan (FSDP) by the BSL will be expedited to help promote financial intermediation and maintain financial stability. Efforts at strengthening the banking supervisory and regulatory framework will be enhanced by pursuing approval of the reviews to key banking legislations to ensure compliance with international best practices. The adoption of risk-based supervision is also expected to be fast-tracked. Furthermore, the modernization of the payments system infrastructure, within

the context of the West African Monetary Zone (WAMZ), is expected to come on stream in 2012 to help facilitate financial transactions.

18. My authorities hold the view that effective implementation of the country's development agenda and sound macroeconomic policies requires a capable, motivated, and adequately remunerated civil service. Following cabinet approval of the multi-year reform strategy early this year, the requisite institutional framework is being developed to enhance public sector efficiency and productivity. With the support of development partners, professional training will be provided and stronger performance management systems instituted at all levels of the public sector.

19. As acknowledged by staff, the privatization of public enterprises has picked up steam in recent months, with the reform and divestiture processes already transitioned from preparatory to implementation phase. It is expected that the divestiture of several public enterprises will be concluded over the next year. In addition to creating fiscal space for priority spending, this will provide the much-needed boost to the operations of the Sierra Leone Stock Exchange (SLSE) by facilitating the listing of additional companies.

20. The 2012 Doing Business report ranks Sierra Leone as one of the top ten global reformers, a testament to the far-reaching reforms that have been implemented to improve the business climate. Notwithstanding, my authorities will continue to strengthen the business regulatory framework and further minimize the barriers to investment, including through shrewd implementation of the Private Sector Development Strategy.

21. Finally, my authorities will be unrelenting in their efforts at improving governance, in spite of the significant progress already accomplished in the fight against corruption, as reflected by the 14 percentage point increase in the MO Ibrahim index over the past five years. As part of their efforts to improve transparency and accountability in the management of mineral and petroleum revenues, a National Minerals Agency will be established to ensure proper governance of the mining sector and the full realization of its potential. Furthermore, to underscore their commitment to the principles of the Extractive Industries Transparency Initiative (EITI), the governance framework of the mining sector will be strengthened to further improve transparency.

Conclusion

22. The swift response of my authorities in instituting appropriate corrective policy measures to address the fiscal slippages underscores their commitment to implementing the ECF program. They remain committed to pursuing sound macroeconomic policies and undertaking far-reaching structural reforms with a view to sustaining growth at a high level over the medium to long-term. Given the favorable growth outlook, they are determined to ensure that these prospects are translated into robust economic growth, poverty reduction and social development. My authorities consider the Fund's and other development partners' policy advice and financial assistance critical to successful implementation of their development agenda. They, therefore, solicit the Executive Board's support in completing the second and third reviews under the ECF arrangement.