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# Sierra Leone: Enhanced Heavily Indebted Poor Countries Initiative—Completion Point Document and Multilateral Debt Relief Initiative

This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of Sierra Leone's Completion Point under the Enhanced Initiative for Heavily Indebted Poor Countries and debt relief under the Multilateral Debt Relief Initiative. It is based on the information available at the time it was completed on December 1, 2006. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Sierra Leone or the Executive Board of the IMF.

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INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND

SIERRA LEONE

# Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative

Prepared by the Staffs of the International Monetary Fund and the International Development Association

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December 1, 2006

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## Executive summary

- **The staffs of the International Development Association (IDA) and the International Monetary Fund (IMF) are of the view that Sierra Leone has met the requirements for reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** Sierra Leone has made satisfactory progress in implementing its Poverty Reduction Strategy Paper (PRSP) in 2005 and the first half of 2006 and it has maintained satisfactory macroeconomic policies as evidenced by its performance under programs supported under the Fund's Poverty Reduction and Growth Facility (PRGF). Sierra Leone agreed to 13 triggers for reaching the floating completion point notably in areas of governance, decentralization, private sector development, education and health. Of these, 11 were fully met by June 2006 and two were partially met. Sierra Leone is now well positioned to consolidate and deepen its poverty reduction strategy while maintaining strong real GDP growth.

- **At the decision point in February 2002, the Executive Directors agreed that Sierra Leone qualified for debt relief under the Enhanced HIPC Initiative.** The decision point analysis indicated that HIPC assistance in the amount of US$600.3 million in 2000 NPV terms was required to lower Sierra Leone's NPV of debt-to-exports ratio to the HIPC threshold of 150 percent. IDA and IMF commitments to this debt relief were US$121.5 million and US$123.3 million, respectively, in NPV terms of which US$32.1 million and US$86.0 million, respectively were delivered as interim assistance as of November 2006. Total interim HIPC debt relief delivered by multilateral and bilateral creditors in 2002-2006 amounted to US$205.4 million in nominal terms. Additional information from creditors and a downward revision in exports lead to an upward revision of HIPC assistance at the decision point to US$675.2 million in 2000 NPV terms.

- **The NPV of debt-to-export ratio has substantially increased with respect to projections at the time of the decision point.** This can be attributed to different discount rates, a more depreciated U.S. dollar vis-à-vis other currencies in which Sierra Leone's debt is denominated and lower concessionality of new borrowing. At the decision point, the NPV of debt-to-exports ratio at end-2005 was projected to amount to 130.2 percent assuming full delivery of the assistance committed under the HIPC Initiative at decision point. The completion point analysis shows the actual outturn to be 202.3 percent of exports.

- **Sierra Leone does not meet the condition for topping-up.** After the delivery of additional bilateral relief, the NPV of external debt-to-exports ratio would amount to 178.8 percent in end-2005. However, under borrowing assumptions in line with the past and conservative export growth estimates, the NPV of debt-to-export ratio, after HIPC and additional bilateral relief, is projected to fall under the 150 percent threshold by 2007 in the baseline scenario.

- **Upon reaching the completion point under the Enhanced HIPC Initiative, Sierra Leone will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI).** Debt relief under the MDRI would cover all remaining debt service obligations on eligible credit balances to IDA, the IMF and the African Development Fund (AfDF) after any debt service relief available under the HIPC Initiative. MDRI debt relief (net of HIPC assistance) would lead to nominal debt service savings on debt owed to IDA, the IMF and the AfDF of US$609.9 million.

- **After HIPC debt relief and MDRI debt relief, Sierra Leone's external debt burden indicators fall to levels significantly lower than the average of low-income countries.** In the long-term, the NPV of debt-to-exports ratio is expected to increase gradually, but will remain below 70 percent. This projection is based on the assumptions that the government maintains prudent fiscal policies, implements measures to maintain steady export growth and keeps new borrowing to modest levels and on concessional terms.

- **The staffs of IDA and the IMF recommend that the Executive Directors of IDA and the IMF decide that Sierra Leone has reached the completion point under the Enhanced HIPC Initiative.**

## I. INTRODUCTION

1. **Sierra Leone had just put an end to a brutal 10-year civil war only one month before the Sierra Leone HIPC Decision Point (DP) document was brought to the Boards of IDA and IMF in February 2002.** At that time, the economy was severely damaged, hundreds of thousands of people were internally displaced and many skilled professionals had fled the country, many never to return.

2. **Sierra Leone has significantly advanced since then in its transition from a nation focused primarily on post-conflict needs to one focused on implementing a Poverty Reduction Strategy (PRS) aimed at broad-based growth and poverty reduction.** Progress has been made since 2002 in consolidating social and economic security as well as in promoting transparent and politically-inclusive governance. With the elections of May 2004, democratically elected local governments were restored for the first time in more than 30 years. A range of governance indicators, including those concerned with the quality of financial management, have improved since 2003. On the economic front, while many challenges remain, the initial results have been encouraging. Real GDP growth has been consistently strong. As a result, per capita income rose to US$220 by 2005 from US$160 in 2001.[1] Gains have been made in public service delivery, particularly in primary education, where the number of enrollments doubled between the 2001/02 and 2004/05. While there is a continued need for rehabilitation and recovery, people are now increasingly looking ahead to the economic growth and public service delivery that will help them escape poverty. HIPC debt relief will help provide the necessary financial resources to achieve this objective.

3. **In February 2002, the Board of Executive Directors of IDA and the IMF agreed that Sierra Leone had met the requirements for reaching the decision point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** The amount of debt relief committed at the decision point was US$600.3 million in net present value (NPV) terms, calculated to bring the NPV of debt to the equivalent of 150 percent of exports on the basis of end-2000 data. This relief represents a reduction of 80.2 percent of the NPV of debt as of end-2000 after traditional debt relief and would correspond to a reduction of 42 percent in the nominal value of the debt service over time. At the same time, the Boards of IDA and IMF agreed to provide Sierra Leone with interim debt relief until Sierra Leone reached the floating completion point. Interim assistance under the Enhanced HIPC Initiative was also granted by the African Development Bank Group (AfDB), the European Union, and the Paris Club group of creditors (through flow rescheduling on Cologne terms).

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[1] World Bank Atlas methodology.

4. **This paper discusses progress on these triggers and recommends that the Executive Directors of IDA and the IMF approve the completion point for Sierra Leone under the Enhanced HIPC Initiative.** The Executive Directors had determined that the completion point would be reached when Sierra Leone had complied with the 13 triggers outlined in Box 6 of the DP document. Of the 13 triggers for reaching the floating completion point, 11 have been fully met and two were partially met (see Box 1 below). A full Poverty Reduction Strategy Paper (PRSP) was completed in February 2005. The Joint Staff Advisory Note (JSAN) that reviewed the PRSP was discussed by the Executive Boards of IDA and the IMF in May 2005. Since then, the authorities have prepared their first Annual Progress Report (APR) of the PRSP. The second JSAN concludes that the reforms and activities targeted by the authorities for 2005 and the first half of 2006 were satisfactorily implemented. Macroeconomic performance under the first and second arrangements under the PRGF with the IMF has also been satisfactory (see Box 2 below).

5. This paper is organized as follows. Section II provides an assessment of Sierra Leone's performance in meeting the requirements for reaching the Completion Point under the Enhanced HIPC Initiative. Section III reviews the status of creditor participation and presents an updated debt sustainability analysis (DSA). Section IV contains a summary of the main conclusions and Section V lists a number of issues for discussion by the Boards of IDA and the IMF.

## II. Assessment of Requirements for Reaching the Completion Point

6. The conditions for reaching the floating completion point, as set out in the Box 6 of the DP document, comprised: (i) preparation of a full PRSP and implementation for at least one year, as evidenced by the satisfactory joint staff assessment of the PRSP and the country's annual progress report; (ii) continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program; (iii) structural measures in the areas of governance, private sector development, education and health; and (iv) the increase in total spending on designated poverty reducing expenditure priorities will be proportionate to HIPC relief.

7. In the view of the staffs, the Government of Sierra Leone has made satisfactory progress in meeting the conditions for reaching the floating completion point. Of the 13 triggers for reaching the floating completion point, 11 have been fully met and two were partially met (see Box 1 below). This section reviews performance relative to each condition.

### A. Preparation and Implementation of the PRSP

8. **The PRSP, completed in February 2005, was discussed by the IDA and IMF Boards in May 2005 along with the JSAN provided by Bank and Fund staffs.** According to the schedule in the Interim-PRSP (I-PRSP), the final PRSP was originally expected by

December 2002. This was delayed pending the full disarmament and demobilization of Revolutionary United Front rebels; the resettlement and reintegration of internally displaced persons, refugees, and ex-combatants; and the holding of presidential and parliamentary elections in 2002. Administrative and financing difficulties also delayed the final PRSP.

9. **The Boards concluded that the PRSP provides a credible framework for concessional assistance.** As noted in the 2005 JSAN, the PRSP provides a good basis for a transition towards sustained long-term development beyond the post-conflict requirements of the war that ended in January 2002. While the full PRSP takes into account government's earlier experiences in implementing the National Recovery Strategy (NRS) and the I-PRSP, it is built primarily upon a number of participatory processes carried out in 2003 and 2004 that reflect the consolidation of peace and the hope for accelerated growth and poverty reduction.

10. **The Poverty Reduction Strategy (PRS) provides an adequate framework for reducing poverty in Sierra Leone.** The main strengths of the PRSP include: (i) its documentation of the conclusion of the post-conflict phase of contemporary Sierra Leone; (ii) the provision of a poverty diagnosis; and (iii) the articulation of policies aimed at reducing poverty, unemployment and food insecurity as well as the eventual realization of the Millennium Development Goals.

11. **The staffs consider, on the basis of the first Annual Progress Report, that PRS implementation through June 2006 has been satisfactory.** The government's first Annual Progress Report (APR) was completed in September 2006 and is submitted to the Boards of the IDA and the IMF together with a second JSAN and this document. The APR highlights progress in many areas including macroeconomic management, security, good governance, public financial management, decentralization, private sector development and human resource development. Based on this report and other relevant material, the staffs of IDA and the IMF observe that acceptable progress has been made under all three PRSP pillars.

12. **The staffs agree with the assessment of the authorities in the APR that more work needs to be done to strengthen the capacity for monitoring and evaluation (M&E).** Good progress has been made in the design of a reporting structure within government, but this will need to be matched by increased capacity within each reporting unit (whether a ministry or a local government office) to set measurable targets, monitor progress and interpret the results.

**Box 1. Sierra Leone: Status of Triggers for Reaching the Floating Completion Point**

| Triggers | Assessment |
|---|---|
| **Preparation and Implementation of PRSP** | |
| Preparation of a full PRSP and implementation for at least one year, as evidenced by the satisfactory joint staff assessment of the PRSP and the country's annual progress report. | **Implemented.** The PRSP was presented to the Boards of IDA and the IMF in February 2005 along with the JSAN. The 2005 budget is portrayed by government as being "…the defining instrument towards the achievement of Sierra Leone's new development agenda, as articulated in the new country-owned and country-led PRSP…" The first PRSP Annual Progress Report (APR) was completed in September 2006, and the associated JSAN is being submitted to the two Boards along with this completion point document. The staffs observe that the implementation of the PRSP in 2005 and in the first half of 2006 has been satisfactory. |
| **Macroeconomic Stability** | |
| Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program. | **Implemented.** The staffs judge that the overall maintenance of macroeconomic stability has been satisfactory. Six successful reviews were completed under the first arrangement under the IMF PRGF. The IMF staffs propose the completion of the first review under the second PRGF arrangement. |
| **Use of Budgetary Savings** | |
| The budgetary savings from interim debt-service relief in 2002 have been used in the priority areas indicated in Table 2 of the *Enhanced Initiative for HIPC—Decision Point Document* and monitored in the framework for poverty-reduction expenditures. The increase in total spending on these priorities will be proportionate to HIPC Initiative relief. Budgetary savings from interim debt-service relief in subsequent years will be used in accordance with the agreed annual budgets for those years. | **Implemented.** Budgetary savings from interim relief was used in the priority areas indicated in Table 2 of the *Enhanced Initiative for HIPC—Decision Point Document*. The level, composition and quality of spending were well monitored. The increase in priority spending was more than proportionate to the receipt of interim HIPC relief. The budget has become more poverty focused relative to pre-HIPC expenditures in 2001. A substantial improvement in the protection accorded to priority spending was made in 2005 when the targets for health and education were fully met despite resource shortfalls. |
| **Governance and Decentralization of Government Functions** | |
| Completion of disarmament and demobilization, and provision of reintegration assistance to all former combatants under the DDR program. | **Implemented.** All registered applicants under the DDR program who participated in the DDR project received assistance. |
| Bi-annual tracking of public expenditures on priority areas within the PETS framework, including development expenditures; dissemination, and publication of results. | **Partially implemented.** Semi-annual tracking of public expenditures for 2001 data, annual tracking thereafter, on priority areas within the recurrent budget. Development expenditures are to be tracked beginning with 2005 data, to be published in 2007. The dissemination and publication of results was acceptable. PETS reports have had a substantial positive impact on resource management and service delivery. |

**Box 1. Sierra Leone: Status of Triggers for Reaching the Floating Completion Point (cont.)**

| Triggers | Assessment |
|---|---|
| Adoption and implementation of the Medium Term Expenditure Framework (MTEF), and budget system for tracking expenditures at the regional levels. | **Implemented.** The government began publishing the annual budget in the context of the MTEF in 2002. The expenditure codes for the old Financial Management and Accounting System include regional designations while the new Integrated Financial Management Information System uses an even more disaggregated district level designation. |
| **Structural Measures** | |
| Bill has been passed to introduce new privatization legislation that establishes an independent National Commission for Privatization to implement the government's divestiture strategy that was approved by the Cabinet in May 2000. | **Implemented.** The National Commission for Privatization (NCP) Act was enacted in November 2002. The NCP is mandated to divest government ownership and control over these and other public enterprises. The Commission completed its divestiture plan in September 2003 and issued a revised plan in December 2004. |
| Adoption by the government of a revised mining policy to promote formal activities (including artisanal mining) and attract private investment for medium- and large- scale mining. | **Implemented.** The Ministry of Mineral Resources (MMR) adopted a Core Mineral Policy in 2003 that promotes formal activities (including artisanal mining) and the attraction of private investment for medium- and large- scale mining. The MMR and Law Reform Commission have subsequently formed a technical sub-committee to identify and propose changes in the legal and regulatory framework for consistency with the new Core Mineral Policy. |
| **Education** | |
| The primary gross enrollment rates for girls will have been increased to at least 65 percent. | **Implemented.** According to household survey data, the gross enrollment rate for girls in primary school in 2004/05 school year was approximately 121 percent. (The GER exceeds 100 percent because older students, denied the opportunity for schooling during the war, have chosen to enroll and catch up on their education). |
| At least 1,500 unqualified teachers will have received formal in-service training in primary schools and at least 500 unqualified will have received in-service training in secondary schools. | **Partially implemented.** The target for primary school teachers was exceeded by over 100 percent while 90 percent of the target for secondary school teachers will have been met. By December 2006, in-service training will have been provided for 3,510 unqualified primary school teachers and 450 unqualified teachers in junior secondary schools. |
| **Health** | |
| Distribution of insecticide-treated bed nets will have increased from 18,482 in 2000 to 60,000. | **Implemented.** With the help of the community of donors and NGOs, government distributed 90,457 insecticide treated bed nets in 2004 and 104,397 in 2005. Distribution for 2006 is expected to be substantially higher, with 174,890 distributed according to partial records. When the distributions for 2002 and 2003 are included, the cumulative total distribution is 438,644. |

**Box 1. Sierra Leone: Status of Triggers for Reaching the Floating Completion Point (concl.)**

| Triggers | Assessment |
|---|---|
| At least 200 persons, including professionals and staff from line ministries and health and civil society organizations, will have been provided by the National HIV/AIDS Secretariat with HIV/AIDS and STIs education and training on prevention and basic care, in order to encourage HIV/AIDS and STIs avoidance behavior, destigmatize the disease, and support those infected or otherwise affected by the disease. | **Implemented.** According to the authorities, between 2002 and June 2006, 495 health staff were trained on the management of sexually transmitted diseases, 454 health staff were trained on Medical Waste Management, 476 health staff were trained on management of opportunistic infections, 147 health staff were trained on Voluntary Confidential Counseling and Testing (VCCT) for HIV/AIDS, 102 health staff were trained on PMTCT on HIV/AIDS and 25 health staff trained on sentinel monitoring of HIV/AIDS. A national HIV/AIDS policy was put into place in 2005 and, as of June 2006, 15 ministries are implementing the policy. A strong communications effort has also been mounted and utilization of relevant health services rose sharply. |
| Immunization coverage (percentage of children aged 12 to 23 months immunized against diphtheria, pertussis, and tetanus) will have increased to at least 55 percent. | **Implemented.** Immunization coverage for all children under 1 year of age against diphtheria, pertussis, and tetanus (DPT third immunization) has steadily improved from 51 percent of the population to 59 percent in 2003, 61 percent in 2004 and 64 percent in 2005. Survey data for children aged 12 to 23 months confirm the 2005 outcome. Other immunization rates increased as well, some substantially. |

## B. Macroeconomic Performance during 2002–06

13. **Since reaching the decision point in March 2002, Sierra Leone has displayed rapid economic growth and has made good progress towards macroeconomic stability under the Fund-supported program (Table 1).** The government's broad macroeconomic objectives for the program supported by the Fund under the first arrangement (September 2001 through June 2005), included a real GDP annual growth of about 6–7 percent and an inflation rate of about 5 percent per annum. With enhanced economic and political stability and much improved business confidence, annual output growth substantially exceeded these program objectives, averaging 13 percent per annum between 2002 and 2005. The recovery from conflict was broad based and continued to be robust in 2006, reflecting buoyant activities in the agriculture, mining, construction, and service sectors. Moreover, the fiscal deficit (after grants) steadily declined to 0.3 percent of GDP by 2006 from 8.3 percent in 2002.

14. **Inflation performance under the program was mixed.** After an initial deflation in 2002, reflecting in part the normalization of the economy and improvements in the domestic supply situation, inflation rose during 2003-05 with the annual average exceeding 12 percent

in 2005. Inflation accelerated during the later years largely due to higher fuel costs, expansionary fiscal and monetary policies, and a depreciation of the currency. Since mid-2006, the year-on-year inflation rate has sharply declined (to about 9 percent in June 2006 from 13 percent in December 2005) despite higher international oil prices. This drop reflects the improved supply situation for basic commodities, a slower rate of depreciation in the exchange rate, and slow growth in money supply. The latter resulted from an increase in government deposits at the central bank and the partial sterilization of domestic liquidity through the sale of foreign exchange by the Bank of Sierra Leone (BSL). Lower inflation rates are not entrenched, however, and risks remain.

**Box 2. Sierra Leone: Performance Under the Fund-Supported Programs, 2002–06**

On September 26, 2001, the IMF Executive Board approved a three-year arrangement under the Poverty Reduction and Growth Facility with Sierra Leone in the amount of SDR 130.84 million (about US$169 million) to support the government's 2001-2004 economic program. In the context of the fourth and fifth reviews under the PRGF arrangement, the Executive Board extended the PRGF arrangement for six and three months, respectively, to expire in June 2005 (the original expiration date was September 2004). All PRGF reviews were completed and the final disbursement was made on June 2, 2005.

Performance criteria and structural benchmarks were generally observed. Quantitative performance criteria with regard to domestic and external payments arrears, international reserves, and external debt were generally met, although the targets for net domestic financing of the budget and domestic primary balance of the government were frequently missed. The slippages reflected revenue shortfalls, expenditure overruns on the wage bill (which were financed domestically), and the shortfalls in external budget support. Structural conditions were generally met, with occasional delays reflecting capacity constraints and slower-than-agreed action on the part of the authorities as well as delays in technical assistance by donors.

On May 10, 2006, the IMF Executive Board approved a new three-year PRGF arrangement for the period 2006-08. The total amount is equivalent to SDR 31.1 million (about US$46.3 million); the initial disbursement amounted to SDR 4.7 million (about US$7 million). Consistent with the PRSP and the ex-post assessment, key elements of the program are fiscal consolidation, support of macroeconomic stability, as well as increased allocation of expenditures toward poverty alleviation, and financial sector reforms.

15. **Fiscal performance improved on the whole, but domestic revenue mobilization remained low.** Targets for the overall fiscal balance (excluding grants) as a percent of GDP were met in most of the program years, except for 2005. This achievement mainly reflected lower expenditures than envisaged throughout the review period in part owing to optimistic program assumptions on spending associated with disbursements of external grants and loans. In 2005, total expenditures exceeded program targets as spending on poverty-related activities accelerated following the strengthening of budget execution processes, particularly for the health and education sectors. Revenue in percent of GDP was generally lower than targeted essentially because of inadequate tax enforcement and the authorities' lack of success in broadening the tax base. The objective of the fiscal program to reduce net domestic financing of the deficit was frequently missed owing mainly to shortfalls in external budget support. In the first half of 2006 revenue performance improved due to the introduction of a number of measures to reduce the scope for tax exemptions and to better

combat smuggling and better enforce customs collections. Tax administration has been strengthened through the creation of a unit for large tax payers. The improved revenue performance coupled with the lower-than-budgeted expenditures resulted in a net repayment by government to the banking system.

**Table 1. Sierra Leone: Selected Economic and Financial Indicators, 2002-06**

| | 2002 | 2003 | 2004 | 2005 | 2006 Proj. |
|---|---|---|---|---|---|
| | | | (Annual percentage change) | | |
| Income and expenditure | | | | | |
| Real GDP | 27.5 | 9.3 | 7.4 | 7.3 | 7.4 |
| Consumer prices (annual average) | -3.7 | 7.5 | 14.2 | 12.1 | 12.2 |
| Money and credit | | | | | |
| Broad money | 30.1 | 26.2 | 18.9 | 32.8 | 3.9 |
| Private sector credit growth | 62.3 | 64.5 | 45.2 | 17.8 | 11.2 |
| External sector | | | | | |
| Exports (goods and services) | 18.6 | 38.5 | 9.7 | 15.3 | 24.0 |
| Imports (goods and services) | 21.6 | 20.5 | -9.5 | 32.9 | 8.6 |
| Terms of trade (- deterioration) | 0.0 | -1.9 | -4.6 | -2.3 | -9.4 |
| Real effective exchange rate (- depreciation; e.o.p.) | -9.7 | -18.2 | -8.0 | 20.9 | … |
| | | | (In percent of GDP, unless otherwise indicated) | | |
| Central government budget | | | | | |
| Total domestic revenue | 12.1 | 12.4 | 12.3 | 11.9 | 12.5 |
| Total expenditure and net lending | 28.6 | 26.9 | 24.8 | 24.6 | 21.4 |
| Overall fiscal balance | | | | | |
| (commitment basis, excluding grants) | -16.5 | -14.5 | -12.4 | -12.8 | -9.0 |
| (commitment basis, including grants) | -8.3 | -6.7 | -3.5 | -2.7 | 0.4 |
| Domestic primary fiscal balance | -7.0 | -5.6 | -2.8 | -3.1 | -1.5 |
| Balance of payments | | | | | |
| Current account balance, including official transfers | -4.8 | -7.6 | -4.9 | -7.7 | -5.4 |
| Current account balance, excluding official transfers | -12.1 | -14.1 | -11.5 | -14.6 | -10.3 |
| Overall balance of payments | -0.3 | -4.6 | 1.4 | -0.2 | 9.0 |
| Gross international reserves (in millions of U.S. dollars) | 84.6 | 59.4 | 124.9 | 168.3 | 169.0 |
| (in months of imports) | 2.5 | 1.9 | 3.1 | 3.8 | 3.4 |

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

16. **External sector objectives were mostly achieved under the program.** The external current account balance as a percent of GDP was stronger than anticipated in most years, although this reflected weaker investment than projected rather than stronger saving. Export performance during 2002-05 remained buoyant, especially for diamonds, and continued to improve in 2006 with the resumption of rutile and bauxite mining. On the whole, imports remained high due to the continued expansion in reconstruction activities and the higher cost of fuel. Imports dropped markedly in 2004, reflecting mainly the withdrawal of the United Nations (UNAMSIL) forces from Sierra Leone which significantly reduced the amount of duty-free imports. In addition, delays in restarting the rutile and bauxite mining projects required fewer imports of capital equipment. International reserves relative to imports generally exceeded the program targets and stood at nearly 4 months of import coverage at end-2005.

17. **The staffs of IDA and the IMF conclude that Sierra Leone has met the trigger on the maintenance of macroeconomic stability and satisfactory implementation of the PRGF programs**. Macroeconomic stability improved significantly since the decision point under the PRGF-supported programs. All reviews of the last PRGF arrangement have been successfully completed, and the Fund staff is recommending completion of the first review under the current arrangement. All the program's quantitative performance criteria at end-June 2006 were met. While one structural performance criterion, relating to enhancing the quality of the database on civil servants and teachers, was not completed on the scheduled test date (June 2006), the authorities have taken appropriate actions to complete it. In the view of the staffs, Sierra Leone's performance under the PRGF-supported program provides a satisfactory track record of strong and sustainable policy performance.

## C. Implementation of Structural Triggers

18. **The staffs of the IDA and the IMF consider that performance on the structural triggers established in the 2002 DP document for reaching the completion point has been satisfactory.** The 2002 DP document set out a number of triggers for the floating Completion Point. These included actions grouped into three topics: (i) governance and decentralization; (ii) structural measures for private sector development; and (iii) education and health.

### Governance and Decentralization of Government Functions

19. Sierra Leone is a small post-conflict state making real but still fragile progress towards good governance indicators and lower corruption. Government efforts to improve human rights, the restoration of democratically elected local governments, gains in the delivery of some public services (notably education), stable macroeconomic performance and strengthened public financial management have led to generally improving scores from the following five indices over the period 2001–06: (i) the Failed States Index published by Foreign Policy Magazine; (ii) Transparency International's Index of Perceived Corruption; (iii) the Heritage Foundations' Index of Economic Freedom; (iv) Governance Matters V and (v) the Country Performance and Institutional Assessment (CPIA). Sierra Leone's CPIA for 2005 is stronger than 10 of the 15 post-conflict countries in Sub-Saharan Africa. Only 15 out of 76 IDA countries had better CPIA scores than Sierra Leone in 2005 for the quality of budgetary and financial management.

**Box 3. Sierra Leone: The Improved Governance and Accountability Pact**

To underline the importance of the quality of governance, government and its four key budget support donors (AfDB, DfID, EC and the World Bank) issued a joint communiqué in July 2006 referred to as the "Improved Governance and Accountability Pact." This Pact reasserts the commitment of the government to good governance and it sets out a number of activities to be pursued through July 2007 in ten key areas. These include efforts related to: free and fair elections, anti-corruption, anti-money laundering, procurement, the Office of the Auditor-General, civil service reform, decentralization and the role of non-state actors (notably the private sector and civil society), the creation of a more conducive investment environment, implementation of the extractive industries transparency initiative and better public service delivery in health and education. The Pact also commits the four budget support donors to further harmonization around the government's program.

20. The government is aware of the high cost that the nation paid for corruption under previous regimes. An Anti-Corruption Act was passed in 2000 and the Anti-Corruption Commission (ACC) was established in the same year to carry out prevention and community awareness activities as well as investigate alleged or suspected corruption cases. A National Anti-Corruption Strategy (NACS) was published in February 2005 and an implementation plan was proposed. The intelligence and investigative capacity of the ACC has been improved by the recruitment of additional staff and intensive training. One constraint is that the ACC is not responsible for prosecution: cases are referred to the Attorney-General and the Minister of Justice. This has led to some frustration because only a few high-profile cases have been prosecuted so far.

21. By contrast, the authorities have had considerable success in introducing a number of proactive reforms in public financial management (PFM) meant to reduce the opportunities for corruption:

- The Government Budgeting and Accountability Act approved in 2005 eliminates discretionary powers and sets out roles and standards that promote transparency and accountability in the execution of the government's budget.

- Procurement reform was initiated in late 2004. Tangible gains in 2005 and 2006 include the replacement of the central tenders board with decentralized procurement committees and units; the establishment of a regulatory procurement authority; the establishment of an independent review panel; and the initiation of procurement planning in key ministries.

- The capacity to meet the fiduciary obligations of government has been strengthened through recruitment of qualified staff and the installation of upgraded financial management computer software in the Accountant-General's Department.

- Internal audit units have been set up in the ministries responsible for finance, defense, education, health, police and road maintenance. Internal Audit Handbooks have been approved and are being printed. Progress is being made by the Office of the Auditor-General in reducing the backlog of audit reports.

- Efforts to improve record-keeping within the Accountant-General's Department were completed in 2005. Among other things, this is expected to facilitate improved capacity to review payment vouchers, as needed, by the Office of the Auditor-General. Additional efforts to improve personnel files are currently underway within the Establishment Secretary's Office (ESO) and the ministries responsible for agriculture, health and education.

- To restrict the trade in "conflict diamonds," Sierra Leone has enacted anti-money laundering legislation and participates in the Kimberly Process. To further strengthen the administration of the diamond producing areas and reduce the risk of violence, government has begun the introduction of a cadastral-based system for the administration of mining rights. The Ministry for Mineral Resources asserts that the process of establishing more precise property rights via Global Positioning Satellite coordinates has already had a positive effect in reducing conflicts between artisanal miners and mining crews.

- The government declared in October 2006 that it will implement Extractive Industries Transparency Initiative (EITI) principles and meet all EITI criteria.

22. The government also seeks to reverse the disenfranchisement of the population outside of Freetown, which many observers believe was a major cause of the recent conflict. The government took the first steps in 2004 with the passage of the Local Government Act that created new Local Councils and mandated regular elections at the local level. The first local elections in more than 30 years were subsequently successfully completed in May 2004. As of early 2006, six ministries have devolved at least some of their functions covering services for agricultural crops, livestock, education, health, water supply, sanitation, gender, youth and sports.

23. **The trigger for disarmament, demobilization and reintegration was implemented.**[2] All registered applicants under the DDR program who participated in the DDR project received assistance. At the time the DP document was written, the peace was newly won and was in need of consolidation.[3] When the Executive Secretariat for the

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[2] Sources: Minutes of the NCDDR Executive Secretariat Report, February 3, 2004. See also Africa Region Findings No. 112, May 2005 and Infobrief No. 81, October 2002.

[3] The war was declared formally ended in January 2002. The DP document was submitted to the Boards of the IDA and the IMF in February 2002.

National Committee on Disarmament, Demobilization and Reintegration (NCDDR) was set up in 1998, it was thought that 45,000 ex-combatants would need assistance. In fact, the DDR program eventually helped to disarm 72,490 fighters through the creation of 16 demobilization centers in 12 districts and 7 interim care centers. Of the disarmed, 71,043 were demobilized and 56,751 registered with the NCDDR for reintegration training by December 2002. Just before the program closed in January 2004, 51,122 of the registered ex-combatants had benefited from reintegration services. This left a gap of 5,629 ex-combatants who failed to participate in the project. An additional support package was provided, however, to approximately 3,500 ex-combatants who had failed to participate in the reintegration project that they had registered for. Most of those receiving reintegration services participated in the Training and Employment Program (TEP). The TEP trained 48,000 ex-combatants (3,000 more than targeted) and helped close to 50 percent of the trainees find employment or self-employment. The government sought to help the civilian population as well. This is being achieved through a wide variety of programs including the community development programs of the National Commission for Reconstruction, Resettlement and Rehabilitation that was later reorganized and renamed as the National Commission for Social Action (NaCSA). The demobilization was essential in enabling the government to re-establish services in conflict affected areas. It also facilitated the free flow of people, goods and services within the country and helped re-start a stagnant economy.

24. **The trigger for Public Expenditure Tracking Surveys (PETS) was partially implemented.** Five PETS reports have been completed to date. These are summarized in Table 2 below. The first PETS reports were conducted bi-annually in 2001. These initial reports covered a wide variety of topics and required over 100 student volunteers to help conduct the required surveys. This proved too difficult to maintain in subsequent years, both organizationally and financially. The PETS were subsequently conducted annually rather than bi-annually as specified in the trigger. A subsequent review in March 2003, conducted with outside technical assistance from the World Bank and DfID, revealed the need for some changes.[4] In particular, as a result of the review, it was agreed to adopt a new methodology: focus initially on the education and health sectors for 2002 outcomes and focus only on a few specific budget lines within the responsible ministries. A review of the distribution of seed rice was added in the following years. These recommendations allowed the PETS team to dig much more deeply and generate specific recommendations for corrective action rather than issue broad observations without policy relevance. The reports were disseminated by means of talk radio shows round the country and distribution to the press. The reports are published for public consumption and are routinely lodged with the four budget support donors (AfDB, DfID, EC and IDA) as well.

[4] Sierra Leone: Public Expenditure Tracking Surveys (PETS) Review, Final Report, May 2003.

25. Until recently, the PETS reports have looked at priority expenditures only from within the recurrent budget (school subsidies, furniture, text books, essential drugs and seed rice). Tracking development expenditures requires specialized skills which MoF does not have. This year, the authorities in the MoF have started tracking development expenditures incurred under the 2005 budget. This was made possible by collaborating with engineers, quantity surveyors and other technicians from the Ministry of Works and Maintenance to track the construction and rehabilitation of primary schools and health centers. The next report will also track the supply of medical equipment and specialized drugs. The results should be published as early as June 2007.

**Table 2. Sierra Leone: Public Expenditure Tracking Surveys**

| Year Under Review | Sectors Covered | Publication Date |
|---|---|---|
| 1st Half 2001 | All key ministries [1/] | November 2001 |
| 2nd Half 2001 | All key ministries [1/] | December 2002 |
| 2002 | Primary school fee subsidy and essential drugs | May 2004 |
| 2003 | Primary school fee subsidy, primary school furniture, essential drugs and seed rice | June 2005 |
| 2004 | Primary school fee subsidy, primary text books, essential drugs and seed rice | October 2006 |

[1/] Includes those responsible for education, health, agriculture, fisheries, security, social welfare, rural development, local government and water supply and sanitation.

26. The trigger was implemented in substance because the PETS reports have motivated corrective actions that have led to substantial improvements in public resource management and public service delivery, despite the lack of bi-annual reporting and the exclusion of development expenditures. The PETS report on primary education, for example, had a very positive impact on budgetary efficiency and public service delivery. Significant leakages in the school fees subsidy were substantially reduced.[5] The PETS report on the essential drugs has motivated changes in record keeping and in the way such drugs are distributed. Public advertisements have been placed by the Ministry in newspapers since 2005 informing the

[5] There is still room for improvement. A local firm continues to deduct 10 percent as service fee for the distribution of school fee subsidies, manifesting non-compliance with recommendations made in the previous PETS reports. Consequently, each pupil continues to receive on average about Le 1,740 compared to Le 2,000 as school fees subsidy. This could be discontinued as more schools open bank accounts, allowing MEST to transfer funds for subsidies directly.

public the values of drugs distributed to hospitals and public health units. Distribution of drugs is now more direct as well, bypassing the old central medical stores unit. This has helped to improve accountability and reduce misappropriation. As additional follow-up measures, special anti-corruption committees have been formed in the education and health sectors. The preventative wing of the Anti-Corruption Commission has also been collaborating with the PETS team on the subject of records management for service delivery facilities. The PETS report for 2003 and 2004 covered the distribution of seed rice. The report for 2004 observes that most of the farmers who were surveyed complained of late and inadequate supplies.[6] It also observed substantial weaknesses in distribution channels and record keeping: the Bo District office, for example, could not provide a comprehensive list of agricultural business units that received seed rice in the 2004 planting season.

27. **The trigger for the adoption and implementation of a Medium-Term Expenditure Framework was implemented.**[7] The government began publishing the annual budget in the context of a medium term (three-year) fiscal framework in 2002. The completion of the Interim PRSP in 2001 allowed the establishment of national priorities which were revised and generally reconfirmed by the completion of the PRSP in early 2005. As part of the annual budget process, each spending agency is to present its budget proposal for the current year, and the next two years, in the context of its policy objectives.

28. Only a few ministries are now producing strategic budget plans that explicitly define objectives and activities. As noted in the APR, an Activity Based Budgeting system has been introduced for the 2006-2008 MTEF period, focusing on objectives, outputs and activities of MDAs during the budget preparation process—to be provided in the strategic budget plans submitted by each ministry. This work has been facilitated by the use of a customized Budget Management Software that was introduced recently to all MDAs to enhance the Strategic Planning Process.

29. The requirement for regional expenditure tracking was implemented. The expenditure codes for the old Financial Management and Accounting System employed from 2000 through 2005 and its replacement, the Integrated Financial Management Information System, include regional designations in the chart of accounts. The former tracked spending at the regional level, the latter went beyond regional tracking to district level tracking.

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[6] A similar result was recorded in the 2006 Service Delivery Perceptions Survey, from the centre for Economic and Social Analysis.

[7] Sources: Sierra Leone Public Expenditure Review, World Bank Report No. 29075-SL, August 2004 and the Sierra Leone Poverty Reduction Strategy Paper.

**Structural Measures for Private Sector Development**

30. Following a decade of civil war, the government has moved aggressively to set the stage for a broad agenda of private sector development. Much of the necessary preparatory work has been completed or is underway. Some of the highlights include:

- The enactment of an investment code in August 2004 based on international best practices. The new law ensures that all enterprises—domestic, foreign, new or old will benefit from and be subjected to the same laws and regulations.

- In January 2005, Sierra Leone became the first member of ECOWAS to begin implementing the Common External Tariff (CET) which has only 4 rates: 0 for essential social goods, 5 percent for raw materials and capital goods, 10 percent for intermediate products and 20 percent for final products. The CET will be fully implemented by the end of 2007 at which time the average tariff rate will be only 11.5 percent.

- The government entered into agreements with a private firm for the restoration of rutile and bauxite operations which had been halted due to the war. This has already created roughly 1,000 new jobs and is generating export receipts.

- To encourage private investment, the government is working on the development of a new Companies Act, a Bankruptcy Act, a Securities Act and a venture capital scheme. These drafts are at an advanced stage.

- The authorities have produced a draft law for the commercial use of land. The draft Act is considered an intermediate step towards resolving the land issues related to cadastral mapping, titling and alienation of land and should help to promote investment, housing finance, and economic growth in Sierra Leone.

- Reforms of the roads, ports and airport industries have been initiated.

- Clear and transparent procedures for the sale, transfer or disposal of equity were published by the National Commission for Privatization (NCP) in mid-2006.

- The government installed the elements of a cadastral system for the award, administration and enforcement of mineral rights in late 2004 and initiated the phased implementation of the cadastre in July 2006, starting with Kono District.

31. **The trigger for legislation establishing an independent National Commission for Privatization was implemented.** The NCP Act was enacted in November 2002. The NCP is mandated to divest government ownership and control over a portfolio of key public

enterprises. The Commission completed its divestiture plan in September 2003 and issued a revised plan in December 2004. Reforms were initiated for the public enterprises responsible for road maintenance, ports operations and airport operations.

32. **The trigger for the adoption of a revised mining policy was implemented.** The Ministry of Mineral Resources (MMR) adopted a new Core Mineral Policy in November 2003. The new policy governs the following 10 objectives:

- Review and amend mining laws, regulations and associated laws to make them as attractive as possible for investment in Sierra Leone rather than in neighboring countries with similar mineral potential.

- Strengthen the institutions that administer, regulate and monitor the mineral industry in Sierra Leone to allow the mining industry, especially with respect to the diamond industry, to be turned around to become a positive for Sierra Leone.

- Develop and strengthen human resources in the mining sector.

- Attract private investments into the mining sector. Encourage private investment to use the implementation of the Kimberley process as a positive at the forefront of selling diamonds for peace and development properly registered by the Kimberley process.

- Ensure that Sierra Leone's mineral wealth supports national economic and social development.

- Improve the regulation and efficiency of artisanal and small-scale mines.

- Minimize and mitigate the adverse impact of mining operations on health, communities and the environment.

- Promote improved employment practices, encourage participation of women in the mining sector and prevent the employment of children in mines.

- Add value to mineral products and facilitate trading opportunities for mined products.

- Improve the welfare and benefits of the individuals and communities participating in and Affected by Mining.

33. The MMR and Law Reform Commission have subsequently formed a technical sub-committee to identify and propose changes in the legal and regulatory framework for consistency with the new Core Mineral Policy.

**Education**

34. Sierra Leone is making a significant progress in the education sector despite the substantial disruption caused by the war between 1991 and January 2002. The starting base was quite low: the literacy rate reported in the 2004 census was 38 percent compared to 65 percent for Sub-Saharan Africa (SSA). To improve on this situation, the government introduced universal free primary education in 2000 and replaced school fees with a subsidy. School fees for girls in the Junior Secondary Schools in the Northern and Eastern Provinces are also subsidized. The government has enhanced its expenditures to cater for additional teaching and learning materials, examination fees, provision of subsidized textbooks for secondary schools. As a result, the government has made remarkable progress in doubling the number of primary school enrollments between the 2001/02 and 2004/05 school years to a current level of over one million children. The primary completion rate (PCR) was 65 percent in 2004/05, slightly above SSA average of 62 percent. The number of students sitting for the National Primary School Examination has tripled between 2001 and 2005 to 78,000. Thus far, however, learning outcomes remain low: more than half of all junior secondary students fail to achieve four or more passes in the Basic Education Certificate Examination while a further 20 percent perform only marginally satisfactorily.

35. **The trigger for an increase in the primary gross enrollment rate for girls was implemented.**[8] The government introduced universal free primary education in 2000 and replaced school fees with a subsidy. School fees for girls in the Junior Secondary Schools in the Northern and Eastern Provinces are also subsidized. It has enhanced its expenditures to cater for additional teaching and learning materials, examination fees, provision of subsidized textbooks for secondary schools. Over 350 primary schools have been rehabilitated or rebuilt since the end of the war in 2002. With the government's commitment and right policies in place, such as the introduction of the Free Primary Education Policy in 2001, student enrollments increased rapidly at all levels. Many children and youth who previously had little or no opportunity to access schooling are now in school. The corresponding upward trends are reflected in the gross enrollment rates (GER) across different levels of education. According to data from the 2003/04 household survey, the primary GERs for boys and girls in primary schools were 125 percent for boys and 121 percent respectively. (Note: The high primary GER for both sources is mainly due to a large number of older children coming back to school after the war.)

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[8] World Bank, 2006. Education in Sierra Leone: Present Challenges, Future Opportunities, Africa Region Human Development Working Paper Series. There are two alternative sources. Data from the Ministry of Education, Science and Technology (MEST) suggests a GER of 162 percent for 2004/05 overall. Data from the 2004 census suggests an overall enrollment rate of 115 percent.

**Table 3. Sierra Leone: Teacher Training, 2003–06**

| | Primary | Secondary |
|---|---|---|
| Completed 2000–05 | 1,488 | 0 |
| Completed August 2005 | 522 | 0 |
| Completed December 2005 | 500 | 150 |
| Completed August 2006 | 500 | 150 |
| In Progress 2006 | 500 | 150 |
| Total | 3,510 | 450 |

Sources: MEST and UNICEF.

36. **The trigger for teacher training was partially implemented.**[9] The target of training for 1,500 primary school teachers was exceeded by over 100 percent while 90 percent of the target will have been met for training 500 secondary school teachers. In-service training was provided by the government under the SABUBU project.[10] In 2003, 1,574 unqualified primary school teachers entered into training and 1,488 completed their training in 2005. The government completed training for an additional 1,522 unqualified primary school teachers between August 2005 and August 2006 with 500 more currently underway. The total number of primary school teachers that will have been trained by December 2006 is therefore 3,510 (see Table 3).

37. The government completed training for 300 unqualified junior secondary school teachers from 7 districts in December 2005 and August 2006 with 150 more currently underway. The total number of secondary school teachers that will have been trained by December 2006 is 450. The failure to meet the full target of 500 reflects capacity limitations in the Ministry of Education, Science and Technology as well as some issues of coordination on the part of key donors and their local partners. The target is likely to be met in the near future as additional training is planned.

38. The staffs are therefore of the view that the trigger was met in substance. Substantial numbers of primary and secondary teachers have been trained, the impact of these efforts is clearly positive despite the shortfall of 50 trained secondary school teachers and corrective actions are planned to ensure the trigger will be met.

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[9] Sources include selected UNICEF progress reports from the SABABU project as well as documentation from World Bank, 2005: Rehabilitation of Basic Education Project, Mid-term Review and correspondence with MEST.

[10] Implemented by UNICEF and some local partners with funding from the World Bank and the African Development Bank.

## Health

39. A national health policy is in place and is supported by the government and Development Partners. The policy is based on providing an essential package of services and protecting the poor. An annual health review is held each year with a wide group of stakeholders at which time the policy is reviewed and a detailed plan of action agreed upon for the upcoming year. The government has made a commitment to provide free maternal and child health care, expanded immunization programs and school health program. Financial protection for the poor against the burdens of illness is limited. This is the case in much of the developing world where the public sector does not work particularly well and a majority of health services are provided by the private sector - often either missionary of traditional. Programs to prevent and treat malnutrition exist but implementation is weak. Implementation is better in the Western Area and efforts are underway to expand the programs to the provinces and rural areas.

**Table 4. Sierra Leone: Distribution of Insecticide Treated Bed Nets, 2002–06**

| | Government | World Bank | AfDB | UNICEF | NGO & Other | Total |
|---|---|---|---|---|---|---|
| 2002 | 1,300 | Nil | Nil | 9,000 | 3,000 | 13,300 |
| 2003 | 1,500 | 25,000 | Nil | 12,000 | 17,100 | 55,600 |
| 2004 | 5,500 | Nil | 45,000 | 36,000 | 3,957 | 90,457 |
| 2005 | 2,000 | Nil | Nil | 36,000 | 66,397 | 104,397 |
| 2006 (partial) | 882 | 1,300 | Nil | 160,973 | 11,735 | 174,890 |

Source: National Malarial Control Program Database, MOHS.

40. **The trigger for the distribution of insecticide treated bed nets was implemented.** With the help of the community of donors and NGOs, the government distributed 90,457 insecticide treated bed nets in 2004 and 104,397 in 2005. Distribution for 2006 is expected to be substantially higher, with 174,890 distributed according to partial records. When the distributions for 2002 and 2003 are included, the cumulative total distribution is 438,644 (see Table 4).

41. **The trigger for the provision of training on HIV/AIDS issues was implemented.**[11] According to the authorities, between 2002 and June 2006, 495 health staff were trained on the management of sexually transmitted diseases, 454 health staff were trained on Medical Waste Management, 476 health staff were trained on management of opportunistic infections, 147 health staff were trained on Voluntary Confidential Counseling and Testing

[11] Annual Reports from the National AIDS Secretariat (NAS), NAS project performance indicators and correspondence with NAS.

(VCCT) for HIV/AIDS, 102 health staff were trained on Prevention of Mother to Child Transmission (PMTCT) on HIV/AIDS and 25 health staff trained on sentinel monitoring of HIV/AIDS. Training for ARV Therapy was provided in 2005 to 30 Physicians, 13 Pharmacists, 34 Nurses and 13 Laboratory technicians.

42. A national HIV/AIDS policy has been put into place in 2005 and, as of September 2006, 17 ministries are implementing the policy.[12] A strong communications effort has also been mounted.[13] The National AIDS Secretariat has: (i) erected 30 billboards and 300 sign posts; (ii) produced 500 HIV/AIDS wall clocks for distribution to partners and stakeholders and conducted workshop for development of communication strategy plan; (iii) conducted a training session on communication campaign and 4 regional workshops for 200 CCSI grantees; (iv) signed MOU with 10 newspapers, SLBS Radio/TV and 10 FM radio stations; (v) provided 20,000 posters for partners and 20,000 T-shirts; and (vi) conducted a float parade in Bo Town by school children, military personnel, health workers, civil society groups, NGOs and CBOs.

**Table 5. Sierra Leone: Utilization of HIV/AIDS Related Health Services, 2003–05**

| | Voluntary Confidential Counseling and Testing | Prevention of Mother to Child Transmission [1/] | People receiving Anti-Retro-Viral Medicine |
|---|---|---|---|
| 2003 | 1,518 | 283 | 0 |
| 2004 | 23,681 | 18,145 | 90 |
| 2005 | 12,499 | 11,876 | 614 |
| 2006 (through Sept.) | 13,829 | 14,069 | 1,203 |

[1/] The low number of PMTCT services reveals a low proportion of women who deliver in health facilities, as compared to those who attended Antenatal consultation.

Sources: Monthly Healthy Facility Reports and Annual Reports of the Health Sector Response Group, National Aids Secretariat, Ministry of Health and Sanitation.

43. These efforts have helped to facilitate a dramatic increase in the number of clients, relative to 2003, willing to utilize relevant health services. This is illustrated in Table 5 above. The large numbers shown for VCCT and PMTCT in 2004 reflect the temporary impact of the Rapid Results Initiative (RRI) that was implemented in that year. Even if the RRI is filtered out, the underlying trend remains strongly positive: VCCT and PMTCT testing rates in 2005 and 2006 were substantially higher than the results achieved in 2003.

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[12] World Bank, 2006. HIV/AIDS Response Project, October Implementation Status Report.

[13] *Ibid*.

**Table 6. Sierra Leone: Immunization Rates, 2002–05**

| | Ministry of Health and Sanitation | | | | MICS |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2005 |
| Bacilli Calvin Guerin (for Tuberculosis) | 75 | 87 | 83 | 82 | 85.9 |
| Measles | 62 | 73 | 64 | 67 | 75.9 |
| Yellow Fever | 15 | 64 | 60 | 64 | 74.5 |
| Diphtheria, Pertussis, and Tetanus 1rst Dose | 73 | 74 | 76 | 77 | 82.0 |
| Diphtheria, Pertussis, and Tetanus 3rd Dose | 51 | 59 | 61 | 64 | 62.6 |
| Oral Polio Vaccine 1rst Dose | 73 | 75 | 76 | 77 | 87.0 |
| Oral Polio Vaccine 3rd Dose | 52 | 60 | 61 | 64 | 64.0 |
| Fully Immunized Children | n.a. | 46 | 45 | 49 | 53.6 |

Source: Expanded Program on Immunization, MOHS, and UNICEF.

44. **The trigger for immunization coverage was implemented.**[14] According to the Ministry of Health and Sanitation (MOHS), immunization coverage for all children less than one year of age against diphtheria, pertussis, and tetanus (DPT third immunization) has steadily improved from 51 percent of the population to 59 percent in 2003, 61 percent in 2004 and 64 percent in 2005 (see Table 6). Data from the 2005 Multiple Indicator Cluster Survey (MICS) for children aged 12 to 23 confirm the MOHS data with only minor differences. The estimated vaccination rate for a third DPT dose was 62.6 percent. Other immunization rates increased as well, some substantially: the coverage for yellow fever increased to at least 64 percent by 2005 from 15 percent in 2002.

## D. Use of the Interim Debt Relief

45. **Interim debt relief assistance has been used in accordance with the criteria set forth at the decision point.** The Government of Sierra Leone agreed that: (i) the budgetary savings from interim relief in 2002[15] would be used in agreed priority areas and would be monitored in the framework for poverty reduction expenditures; (ii) the increase in total spending on these priorities was to be proportionate to HIPC relief; (iii) budgetary savings from interim debt service relief in subsequent years was to be used in accordance with agreed annual budgets for those years; and (iv) the authorities, IDA and IMF would monitor the use of resources through (a) the analysis of the evolving composition of public expenditures; (b) periodic surveys of household expenditures; and (c) expenditure tracking mechanisms.

- In July 2002, the authorities submitted to Parliament a supplemental budget for a number of poverty reducing programs that would fully utilize the expected relief. That budget

[14] Data are from the Expanded Program on Immunization, which has a routine data collection system that produces monthly and annual summaries.

[15] The interim period between the Decision and Completion points began in mid-2002.

covered only goods and services and excluded the wage bill. The choice of programs was consistent with the priorities laid out in the 2001 Interim PRSP and listed in Table 2 of the DP document. These include programs in education, health, agriculture, fishing, transport, communications, power, water supply and sanitation. The provision of security services was also included as a necessary element of post-conflict consolidation. The staffs judge that the exclusion of all wages from the list of HIPC priorities was not appropriate when the restoration of public services immediately after the war required more teachers, health care workers and police. Between the end of 2001 and the end of 2005, the number of teachers grew by approximately 7,700, the number of health care workers grew by just over 340 and the number of police grew by approximately 1,600.[16] These additions were fully consistent with PRSP objectives. These expenditures are therefore included in the assessment that follows. Table 7 provides a summary of the actual expenditures for 2001 through 2005. Table 8 provides additional details by sector and ministry.

- Priority spending for poverty reduction in 2003, 2004 and 2005 has been determined through the normal annual budget process. The list of poverty reducing expenditures has been preserved in each of these years. The budget has become more poverty focused relative to the pre-HIPC benchmark in 2001. The receipt of Interim Relief allowed the share of actual spending allocated to poverty reducing programs to rise to almost 59 percent in 2002 from 44 percent in 2001. This share increased to almost 63 percent in 2003 before gradually falling to just above 56 percent in 2005—still well above the pre-HIPC benchmark.

- The increase in priority spending was more than proportionate to the receipt of interim HIPC relief (see Table 7). Annual receipts of interim relief expressed as a share of 2001 revenues and grants never exceeded 35 percent between 2002 and 2005. By contrast, the incremental increase in spending on poverty reducing programs, relative to such spending in 2001, increased steadily from 46 percent in 2002 to 111 percent in 2005.

- The level, composition and quality of spending were well monitored. The government monitored the composition of spending and its impact in three ways: regular quarterly expenditures reports, annual Public Expenditure Tracking Surveys (PETS) and a household survey in 2003/04. The quarterly reports have proved to be useful in detecting and correcting expenditure shortfalls. The public expenditure tracking surveys (PETS) have been designed to track expenditures and to assess improvements in service delivery using quantitative and qualitative criteria agreed in consultation with civil society. The

[16] Data are from the Accountant-General's Department. According to the MoF data, almost 2,900 more teachers were hired in 2006.

PETS have focused on primary education, the distribution of essential drugs and the distribution of seed rice. In each case, leakages and delays were found and corrective actions were proposed. The design of the 2003/04 household survey allows the analysis not only of poverty but also the incidence and impact of key public services.

**Table 7. Sierra Leone: Interim HIPC Relief and Poverty Reducing Expenditures, 2001–05**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| HIPC interim relief received (in US$ million) | | 35.8 | 45.4 | 35.0 | 21.0 |
| Revenues and grants (millions of Leones) | 302,692 | 400,027 | 467,001 | 616,342 | 767,851 |
| HIPC interim relief (millions of Leones) | | 75,326 | 106,617 | 93,630 | 60,786 |
| HIPC interim relief (as percent of 2001 revenue and grants) | | 25 | 35 | 31 | 20 |
| Total poverty reducing expenditures (millions of Leones) [1/] | 126,482 | 184,508 | 217.056 | 218,539 | 267,422 |
| Incremental priority spending (millions of Leones) [2/] | | 58,026 | 90,573 | 92,057 | 140,940 |
| Incremental priority spending (as percent of 2001 priority spending) [2/] | | 46 | 72 | 73 | 111 |
| Poverty reducing expenditures as percent of total actual spending | 44 | 59 | 63 | 57 | 57 |

[1/] Poverty reducing expenditures include personnel expenditures for education, health and police.
[2/] Incremental changes are measured relative to priority spending in 2001.

46. In addition to the above, a substantial improvement in the degree of protection accorded to priority spending was made in 2005 when the targets for health and education were fully met despite resource shortfalls. This was achieved by reducing non-priority spending. The authorities have subsequently adopted new procedures based on lessons learned in 2005 to institutionalize the protection of priority spending. These procedures emphasize the distinction between priority and non-priority spending, with protection accorded only to the former.

## E. Staff Assessment

47. **The staffs are of the view that the government has implemented eleven of thirteen triggers in full. Two triggers related to the tracking of public expenditures and the number of teachers trained for secondary school, were partially completed.** Given the progress made to-date in the government's overall public expenditure management and in raising the access to primary education, the staffs recommend that waivers be granted for non-observance of these two triggers. These waivers are sought because, as discussed above: (i) substantive progress was made towards implementation of each trigger; (ii) the impact of

these efforts was substantially positive in both cases despite the incomplete implementation; and (iii) corrective actions are planned to ensure the triggers will be met.

## III. Updated Debt Relief and Sustainability Analysis

### A. Updated Data Reconciliation for the Decision Point

48. **The staffs of IDA and IMF, together with the Sierra Leone's authorities, have reviewed the stock of debt as of end-2000 presented in the DP document.** The nominal stock of debt at end-December 2000 has increased by US$72.5 million to US$1,282.5 million and the NPV of debt, after the delivery of traditional debt relief, increased by US$80.4 million to US$829.1 million (Table 10). This review revealed additional debts to multilateral, official bilateral and commercial creditors. After the decision point, the authorities approached commercial creditors and valid claims from a number of these were added to the decision point database. The main revisions are as follows:

- **Multilateral creditors**: The NPV of debt owed to multilateral creditors was increased to US$417.6 million from US$413.9 million estimated in the DP document (see Table 10). The NPV of debt to IFAD and the Islamic Development Bank (IsDB) was revised respectively upwards by US$2.9 million and downwards by US$0.3 million, due to the correction of the currency of denomination of outstanding loans. The NPV of debt to Arab Bank for Economic Development in Africa (BADEA) has been increased by US$4.0 million to reflect the reduction in the NPV of debt due to the rescheduling of arrears prior to the decision point. In addition, EU loans administered by IDA amounting to US$3.0 million in NPV terms were reclassified as official bilateral claims.

- **Bilateral creditors**: The NPV of the debt owed to the Paris Club creditors after applying a traditional debt relief mechanism was revised upward from US$234 million to US$249 million (Table 10). This was mainly because late interest on loans from Japan was underestimated at the decision point. The NPV of debt to the non-Paris Club creditors was revised by US$0.1 million.

- **Commercial creditors**: The NPV of debt to commercial creditors after applying a traditional debt rescheduling comparable to the Paris Club treatment increased from US$50 million to US$112 million (Table 10). This reflects the authority's efforts to reach commercial creditors for data reconciliation since the decision point. New statements from commercial creditors prove the existence of additional debts incurred before the decision point.

- **Estimates of exports of goods and services used to evaluate HIPC assistance at the decision point have also been revised** from an average of US$98.9 million per year over 1998-2000 to US$102.6 million.[17]

49. **This debt reconciliation exercise, together with revised estimates of exports, implied an increase in the required debt relief and the corresponding common reduction factor.** The common reduction factor has increased from 80.2 to 81.4 percent and total required HIPC assistance in end-2000 NPV term has been revised upward from US$600 million to US$675 million (Table 11).

## B. Status of Creditor Participation and Revision of HIPC Assistance

50. **As of November 2006, Sierra Leone has received assurances of participating in the enhanced HIPC Initiative from creditors representing about 81 percent of the NPV of required amount of HIPC assistance**. Multilateral creditors account for 50.4 percent of total committed assistance, while bilateral and commercial creditors account for 49.6 percent. The majority of multilateral creditors and all Paris Club creditors have provided interim assistance (Table 12). Some non-Paris-Club and commercial creditors have provided some debt relief. Debts owed to Morocco have been fully cancelled. The authorities are making an effort to obtain debt relief comparable to the enhanced HIPC Initiative from remaining creditors.

### Multilateral Creditors

51. HIPC assistance from multilateral creditors amounts to US$340.1 million in NPV terms or about half of total HIPC assistance (Table 12). IDA, the IMF, the AfDB, and the European Union, have provided interim assistance in the form of debt service reduction. The OPEC Fund for International Development and BADEA have implemented a concessional rescheduling of arrears. All creditors have committed to provide the required assistance once Sierra Leone reaches the completion point.

52. **The IMF**: enhanced HIPC assistance from the IMF amounts to SDR100.0 million (US$125.2 million) in NPV terms at decision point. An estimated SDR77 million would be financed from the MDRI–I Trust. Of this amount, the IMF has already disbursed as of end-November 2006 SDR 66.0 million (US$86.0 million) in the form of interim assistance. At

[17] Revised export data were first submitted by the authorities in 2003 as a result of their efforts to improve data quality after receiving technical assistance from the IMF.

completion point, the IMF will provide remaining HIPC assistance amounting to SDR 40.3 million (equivalent to US$52.6 million).[18]

53. **IDA**: Debt relief from IDA amounts to US$123.4 million in NPV terms at decision point (Table 14). Of this amount, IDA has delivered US$32.1 million in NPV terms (US$38.1 million in nominal terms) as interim relief between as of end-November 2006. Total interim relief delivered at end-December 2006 would amount to US$32.4 million in NPV term, corresponding to a reduction of 88.5 percent of debt service falling due from April 2002 to December 2006. On reaching the completion point, the revised HIPC debt relief would amount to US$91.0 million in NPV terms (196.0 million in nominal terms) equal an average of 90.0 percent of debt service due on debt disbursed and outstanding at end-2000, provided until April 2022.

54. **The African Development Bank (AfDB)**: Debt relief from the AfDB amounts to US$43.4 million in NPV terms (Table 12). Of this amount, the AfDB has already provided US$10.42 million in NPV terms (US$12.0 in nominal terms) as interim relief. At completion point, the AfDB is assumed to provide the remaining amount of relief through an 80 percent reduction of debt service on debt outstanding at end-December 2000, applied from January 2007 through to September 2036.

55. **The European Commission**: HIPC relief from the European Commission on EIB debt amounts to US$18.0 million in NPV terms (Table 12). Interim relief amounted to US$9.0 million in NPV terms (US$10.3 million in nominal terms) and was delivered through the forgiveness of arrears and of debt service falling due over 2001-2006 on selected loans. At completion point, remaining relief will be provided through cancellation of debt service on selected EIB loans.

56. **Other multilateral creditors**: The modalities of assistance for all other multilateral creditors are summarized in Table 12.

**Bilateral and Commercial Creditors**

57. **Paris Club creditors have agreed in principle to provide assistance to Sierra Leone under the enhanced HIPC Initiative, amounting to about US$202.8 million in end-2000 NPV-terms.** Interim assistance has been provided through a flow rescheduling under Cologne terms agreed in July 2002. [19] In the corresponding Agreed Minutes, participating Paris Club creditors indicated their readiness in principle to provide

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[18] The amount of HIPC assistance to be disbursed at the completion point includes completion point interest.

[19] A traditional Naples flow rescheduling, agreed in October 2001, was enhanced to a Cologne terms as Sierra Leone reached the HIPC decision point.

their equitable share of assistance at the completion point, provided Sierra Leone maintains satisfactory relations with participating creditor countries. Bilateral agreements have been signed with all Paris Club creditors except for Japan, and most of the signed agreements provide relief in excess of the terms under the Agreed Minutes of the July 2002 Paris Club meeting. The Agreed Minutes have been extended to cover the period through end-November 2006. Some Paris Club creditors have indicated their intention to provide debt relief beyond that required under the HIPC Initiative at the completion point. This would provide additional relief of US$56.0 million in end-2000 NPV terms. The willingness of delivering debt relief beyond HIPC Initiative, and the modalities of such delivery, are summarized in Table 23.

58. **Non-Paris Club official creditors account for about 6 percent of the total debt relief committed at the decision point (Table 12). They expected to provide treatment comparable to that of the Paris Club, with assistance under the enhanced HIPC Initiative amounting to US$41.5 million in NPV terms.** In 2004, Morocco canceled the total debt stock outstanding that stood at the decision point. Saudi Arabia and China have provided some debt relief, the former through a debt rescheduling operation and the latter through a debt cancellation. Negotiations with China for additional HIPC are well advanced. The Sierra Leone authorities are continuing their efforts to reach commercial creditors to implement a debt buy-back operation with resources from the IDA debt buy-back facility after reaching the HIPC completion point.

59. **A few commercial creditors have provided some debt discount when reconciling their debt and most of them are expected to participate in a debt buyback operation financed by IDA in 2007, but one creditor has proposed to the government to be repaid in full as part of the financial arrangements for the completion of a hydroelectric power plant.**[20] Sierra Leone has been compelled, however, to settle some claims in consequence of court judgments or as goodwill payments to avoid litigation.

[20] In June 2005, the government of Sierra Leone acknowledged debts of US$44.1 million due to Salini Costruttori, a construction company, for services provided under 3 construction contracts in 1988 and 1993 for the realization of the Bumbuna Hydroelectric Project (BHP). At the decision point, reconciled claims with Salini Costruttori amounted to US$43.9 million or 5 percent of total NPV of debt after traditional debt relief. This debt is eligible for relief under the HIPC Initiative. Salini Costruttori proposed to the government that full repayment of the debt be financed by revenues generated by the private company managing the BHP thorough the sale of electricity to the government-owned National Power Authorities. This arrangement would refer to a primary source of financing alternative to a claim on government revenues, but the debt would remain direct liability of the government.

## C. Creditor Participation in the MDRI

60. If Executive Directors approve the completion point for Sierra Leone under the enhanced HIPC Initiative, Sierra Leone will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). Three creditors would provide this debt relief under the MDRI: IDA, the AfDF and the IMF.[21] The total stock of debt reduction that would be achieved under the HIPC Initiative and the MDRI would amount to US$861.3 million (Table 16) and MDRI debt relief (net of HIPC assistance) would lead to debt service savings of US$609.9 million over a period of 45 years on debt owed to IDA, the IMF and the AfDF.

61. **IDA** would provide debt relief under the MDRI through a debt stock cancellation of debt disbursed before end-2003 and still outstanding on January 1, 2007.[22] The amount of such IDA debt is US$500.0 million. Of this, US$173.3 would be cancelled as a result of HIPC relief and the remaining US$326.7 million would be cancelled under the MDRI (Table 16). Debt cancellation under the MDRI from IDA would result in average annual debt service savings (net of HIPC assistance) for Sierra Leone of US$4.9 million between 2007 and 2021 and US$13.3 million from 2022 to 2043. Total debt service savings would amount to US$366.3 million (or SDR 261.0 million).

62. **The IMF**'s debt relief under the MDRI would cover the full stock of debt owed to the IMF at end-2004 that remains outstanding at the completion point.[23] This would lead to a debt stock reduction of SDR117.3 million, of which SDR77.0 million would be financed from the MDRI-I Trust and the remainder from the HIPC umbrella account (Table 13). MDRI relief would yield debt service savings (net of HIPC assistance) averaging SDR 9.3 million (or US$13.4 million) over the next 8 years, corresponding to total debt service savings of SDR 74. 8 million (or US$106.9 million).

63. **The AfDF** would provide debt relief under the MDRI through a debt stock cancellation of debt disbursed before end-2004 and still outstanding 3 months after Sierra Leone reaches the completion point.[24] Debt relief would be delivered retroactively at the beginning of 2008. Total relief would amount to US$193.7 million, of which

[21] For IDA, eligible debt covers debt disbursed and outstanding as of December 31, 2003. For the IMF and AfDF, credits on debt outstanding and disbursed as of December 31, 2004 may be eligible for debt relief under the MDRI.

[22] See, International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November 18, 2005.

[23] As defined in the MDRI-I Trust Instrument.

[24] See African Development Fund, "The Multilateral Debt Relief Initiative: ADF Implementation Modalities Paper," November 28,2005, ADF/BD/IF/2005.

US$74.1 million would correspond to HIPC assistance. MDRI relief from the AfDB will yield annual debt service savings (net of HIPC assistance) averaging US$2.0 million over the next 5 years and US$3.1 million over the next 45 years. Total debt service savings under MDRI would amount to US$135.9 million in nominal terms to be delivered in full at the time of the completion point.

## D. Updated Debt Sustainability Analysis

### Debt Burden Indicators at End-2005

64. **The DSA included in the DP document was updated on the basis of end-2005 loan-by-loan debt data, using updated exchange and interest rates (Table 17).** Based on a debt data reconciliation of over 90 percent, Sierra Leone's nominal stock of external debt reached US$1,573.2 million at end-2005 (Table 18), compared with US$1,210.0 million at end-2000. Multilateral creditors accounted for 67.4 percent of total debt, while bilateral and commercial creditors for 23.5 percent and 9.2 percent respectively. IDA, AfDB group and the IMF are the largest creditors, accounting for 35.4 percent, 13.4 percent and 12.2 percent respectively of total outstanding debt.

65. The NPV of Sierra Leone's external debt at end-2005, after full delivery of the assistance committed under the HIPC Initiative at the decision point, is estimated at US$481.0 million, equivalent to 202.3 percent of exports, compared with a decision point projection of 130.2 percent (Table 19). Taking into account bilateral debt relief beyond the HIPC Initiative, the NPV of debt is further reduced to US$425.0 million, or 178.8 percent of exports (Tables 18 and 20).

66. The NPV of debt-to-export ratio has substantially increased with respect to projections at the time of the decision point, mainly because of different discount rates, more depreciated U.S. dollars vis-à-vis other currencies in which Sierra Leone's debt is denominated and lower concessionality of new borrowing. The change in the discount rates and exchange rates used to calculate the NPV of debt at the decision and completion point accounts for 91.0 percent of the increase in the NPV of debt (Table 19). New borrowing in nominal terms was less than projected, but had also a lower level of concessionality,[25] which contributed to a 4.6 percent increase in the NPV of debt. Revisions in the base at decision point and in the timing and mechanisms of delivery of assistance compared to the assumptions in the decision point projections increased the NPV of debt after HIPC relief by 15.3 percent. Finally higher than projected exports at the time of the decision point reduced the ratio of the NPV of debt-to-export by 10.9 percent.

[25] In the Decision Point Document, new borrowing was expected to have a concessional element of 60 percent consistent with IDA terms, but actual grant element of new borrowing over 2000–05 was only 42 percent.

67. **Sierra Leone does not meet the condition for topping-up.** Compared to projections at the decision point, the NPV of external debt-to-exports ratio deteriorated to 202.3 percent on various factors as explained above (see Table 19). The NPV of external debt-to-exports ratio would amount to 178.8 percent at end-2005. After the delivery of additional bilateral relief, the ratio is projected to fall under the 150 percent threshold from 2007 onward and to decrease to 84.8 percent by 2025 (Table 20). The debt service to export ratio stays between 3 and 7 percent during the entire projection period, which is in line with past debt service of other HIPCs.[26]

68. Topping-up relief at completion point generally could be considered if the HIPC has experienced deterioration in its debt burden indicators that can be attributed primarily to a fundamental and exogenous change in its economic circumstances.[27] In the case of Sierra Leone, the higher than projected debt indicator is mainly due to exogenous changes in the discount and exchange rates, compared to the decision point assumptions. Lower discount rates could be interpreted as changes in expected international inflation, which would imply an increase in a country's real burden of servicing its fixed interest rate debt. The depreciation of the U.S. dollar vis-à-vis other currencies can also have a negative impact on debt servicing capacity. In the case of Sierra Leone, however, the debt decomposition table shows that exports have increased more than expected in the decision point document. In the medium term, Sierra Leone's growing export volumes and prices are expected to increase the country's debt servicing capacity. Lastly, although the amount of new borrowing through 2005 was less concessional than projected at the decision point, the concessionality of new borrowing remained in the limits set in the PRGF programs and the volume of lending did not exceed the projection at the decision point. For these reasons, the case of Sierra Leone does not meet the exceptional circumstances in which additional HIPC relief at the completion point is justified.

**External Debt Outlook, 2006–25**

69. **The macroeconomic framework has been revised to set the medium-term outlook against the current PRGF-supported program, and extension along the trend under prudent macroeconomic management in the long-term (Box 4 and Table 9).** Growth is expected to be maintained at around 6½ percent in the medium-term, reflecting the effects of the on-going post-conflict recovery, before gradually declining to a long-run

[26] "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)-Status of Implementation", August 2006.

[27] "The Enhanced HIPC Initiative-Completion Point Considerations" (IDA/SecM2001-0539/1 and www.imf.org).

average of 5 percent by 2020. This trend is predicated on continued expansion of the mineral sector following full rehabilitation and growing exports of cash crops.[28]Continuing fiscal adjustment will limit the fiscal deficit to a level that can be covered by external donor assistance, and domestic bank financing, without crowding out private sector activities. The current account deficit, which is expected to stabilize at about 7 percent of GDP in the long-term, is expected to be financed by official loans on concessional terms and grants. While further expansion of rutile and bauxite production is a key to support exports, continuing governance and structural reforms, and open trade policy will play a catalytic role for reducing the cost of doing business, by which attracting private investment and skills in addition to official development assistance and providing opportunities for growth.

70. **Full delivery of debt relief under the HIPC Initiative and the MDRI would significantly reduce Sierra Leone's external public debt.** In NPV terms, the stock of debt would be reduced from US$1,197.6 million at end-2005 to US$483.0 million at end-2006 after HIPC relief and to US$128.6 million after MDRI (Table 15). Nominal debt service relief would amount to US$35.4 million in 2006 and US$84.6 million in 2007, of which MDRI relief would contribute US$8.9 million (Table 21).

71. **The debt sustainability analysis shows that Sierra Leone's external debt indicators will remain below the HIPC Initiative thresholds throughout the projection period (Table 20).** After HIPC relief, the NPV of debt-to-export ratio for Sierra Leone is projected to remain above the 150 percent threshold only until 2007. After 2007, the NPV of debt-to-export ratio is expected to steadily fall below the HIPC threshold, even assuming progressively less grant financing over the medium term. Following enhanced HIPC assistance, as well as additional bilateral and MDRI relief at the completion point, the NPV of debt-to-exports ratio would drop to 46 percent at end-2006 and it would subsequently increase to 68 percent by the end of the projection period. The NPV of debt-to-GDP ratio would decrease from 92 percent at end-2005 to 9 percent at end-2006. It is expected to rise modestly over the medium-term while staying at about 14 percent in the long-run. Finally, the NPV of debt-to-revenue ratio would decline from 86 percent at end-2005 to 70 percent in 2006 and would average 88 percent in 2016–25. Sierra Leone would borrow mainly on IDA terms, however, new borrowing is expected to decline from 3 percent of GDP in 2006 to below 2 percent of GDP by 2025.

72. External debt service ratios will decline to comfortable levels in line with a significant reduction of the NPV of debt stock after the completion point. The debt service to export ratio after the HIPC and additional bilateral assistance is expected to average 5 percent

[28] These recent developments in agriculture and mining have led to a 0.5 percentage point upward revision in the long-term growth projections of the decision point.

in 2006-2015 and to decline further to 4 percent on average in 2016–25 (Table 20). The debt service to revenue ratio would decline from an average value of 10 percent in 2006–15 to 6 percent over 2016-25. After MDRI, debt service to exports are projected to average 1 percent and debt service to revenue about 2 percent of revenues for the entire projection period. The low level of flow indicators is based on the assumption that new borrowing would be contracted at highly concessional terms.

**Sensitivity Analysis and Long-Term Debt Sustainability**

73. Sierra Leone's debt sustainability outlook heavily depends upon sustained export growth and prudent debt management. Stock indicators are expected to substantially exceed the HIPC thresholds in the event of large shocks to exports and shortfall in grant financing. Thus, the sensitivity analysis underscores the importance of pursuing export diversification and prudent borrowing policies in order to avoid potential risks for debt sustainability.

***Scenario 1: Lower export growth***

74. **The main assumptions in scenario 1 comprise a permanent 50 percent decline in the growth rates of key mineral export (diamond, bauxite, and rutile) volumes and prices relative to the baseline scenario.** Underlying these assumptions are the possible failures of the continued development of key minerals especially rutile and bauxite, and slower growth of diamond exports. The assumption of a lower export price growth rate takes into account possible adverse external developments in the world mineral markets. Out of total incremental financing needs arising from the lower export growth, the scenario assumes that one-fourth could be financed by lower imports associated with the development of mineral sector and other policy measures to contain domestic absorption. Therefore, three-fourths of total amount of export decline is assumed to be financed by additional borrowing on concessional terms.

## Box 4. Sierra Leone: Macroeconomic Assumptions, 2007–26

*The medium term assumptions in the baseline scenario are consistent with the IMF PRGF supported program. Key macroeconomic assumptions include the continuation of prudent macroeconomic management that underpins a stable macroeconomic development. Continued expansion of the mineral sector following full rehabilitation, combined with growing exports of cash crops would support the balance of payments and growth, as well as enhance fiscal sustainability*

The baseline scenario assumes a sustained output growth and low inflation. Output growth is projected to slow gradually to 5.2 percent annually by 2026 from 6.5 percent in 2007. Consumer price inflation would decline to 5 percent towards the end of the projection period from 9.3 percent in 2007.

Consistent with the decision point document, the terms of trade are expected to increase moderately in 2008-09 and stabilize thereafter.

The external trade balance would improve by 3 percentage points of GDP in the medium term and then stabilize at a deficit of about 10 percent of GDP, reflecting robust export growth. This reflects the initial restart and expansion of rutile and bauxite production and exports as well as continued strong growth in diamond exports. Imports of goods and services would grow in line with the nominal GDP, following some additional investment-related imports in the initial years for the expansion of the newly restarted rutile and bauxite mines. The external current account deficit is projected to narrow to about 4½ percent of GDP by 2026 from 5½ percent of GDP in 2006.

Implementation of the full PRSP has contributed to keeping the level of grant assistance at above 8 percent of GDP in 2006 in support of the government's poverty reduction efforts. While the level is expected to be maintained in 2007 mainly in relation to one-time assistance for the successful Presidential election, the baseline scenario includes the conservative assumption for the remainder of the projection period, with its level falling gradually to 3½ percent of GDP by 2026 as post-conflict needs fade.

External borrowing is expected to decline gradually from 3 percent of GDP on average in the medium-term to 2 percent by 2026. IDA borrowing is assumed to constitute about 60 percent of new borrowing until 2015, with the remaining projection period increasing borrowing from other creditors including bilaterals on less concessional terms.

A reversion of external grant assistance to traditional levels will require fiscal adjustment. The main elements of the envisioned adjustment include steady gains in revenue collection through improved administration and augmentation of the revenue base. Revenues collected would steadily rise from 13.2 percent per GDP in 2007 to the average for HIPC completion point countries of 15 percent by the end of the period. Current expenditures, excluding interest, would rise from 12.9 percent of GDP in 2007 to 14.6 percent of GDP in 2010 and then decline and stabilize at a level of 14 percent of GDP. Development spending would increase to a peak of 9.6 percent of GDP by 2008 from 8.6 percent per GDP in 2007 and then gradually fall to 5.6 percent of GDP by 2026, with some increase in domestic development expenditures to offset the fall in donor-funded projects. The reduction in development expenditures is consistent with the deceleration of the rate of real growth in the economy in the outer years.

75. **Sierra Leone's external debt indicators could deteriorate considerably in the face of such adverse external developments.** Reduced export growth and additional financing would increase the NPV of debt well above 150 percent in the medium term and long term (Figure 2). The debt service ratio would trend upwards and reach about 9 percent

of exports at the end of the projection period or more than 3 percentage points of exports compared to the baseline scenario (Table 22 and Figure 2).

***Scenario 2: Less concessionality on external financing***

76. **This scenario assumes a change in mix of the external assistance with lower grants that are replaced by increased borrowing.** The scenario specifically assumes that the disbursements of budget support grants will fall short of projections by 50 percent in and after 2007, and the shortfall is substituted by additional borrowing on concessional terms throughout the projection period. The GDP share of loan financing will remain at 3 percent of GDP by 2026, compared to 2 percent in the baseline scenario.

77. **A less favorable combination of grants and loans, even under concessional terms, could have substantial negative impacts on external debt sustainability.** This shock would increase the debt stock by approximately US$1.4 billion in NPV terms in 2025, compared with the baseline, and the NPV of debt-to-export ratio would increase by 113 percentage points to 197.9 percent and maintain a positive slope throughout the period (see Table 22 and Figure 2).

## IV. CONCLUSIONS

78. **The staffs of IDA and the IMF consider that Sierra Leone's performance on the conditions established in 2002 for reaching the completion point under the enhanced HIPC Initiative has been broadly satisfactory.** The poverty reduction strategy is grounded in a broad reform agenda, laid out in consultation with civil society and embedded in a sound macroeconomic framework. The government has recently prepared its first PRSP annual progress report. The staffs judge that Sierra Leone's implementation of the PRSP has been satisfactory.

79. A satisfactory track record of performance has been established under the PRGF-supported program. Sierra Leone has also made progress in implementing its structural reform agenda as evidenced by the satisfactory conclusion of four IDA Economic Rehabilitation and Recovery operations and the recent Governance Reform and Growth Grant. Under these operations, the Government of Sierra Leone has carried out a range of governance reforms which have focused on actions to fight corruption, improve public financial management and decentralize public service delivery. Regarding the completion point triggers, the staffs are of the view that the government has implemented 11 of 13 triggers in full. Two triggers related to the tracking of public expenditures and the number of teachers trained for secondary school were partially completed. Given the progress made to-date in the government's overall public expenditure management and in raising access to primary education, the staffs recommend that waivers be granted for non-observance of these two triggers.

80. **The staffs consider that with enhanced HIPC and MDRI assistance, Sierra Leone will achieve a debt profile below the HIPC threshold**. Assurances have been obtained regarding participation in the enhanced HIPC Initiative from creditors representing more than 81 percent of the relief to be provided. After full delivery of assistance of the enhanced HIPC Initiative and additional debt relief from some Paris Club creditors and MDRI, the NPV of debt-to-exports ratio would be reduced to about 46 percent in 2006. Nevertheless, Sierra Leone's economy remains vulnerable to external shocks. The sensitivity analysis shows that Sierra Leone's external debt sustainability could be jeopardized by adverse shocks and financing on non-concessional terms.

81. **In light of the above, the staffs of IDA and the IMF recommend that the Executive Directors determine that Sierra Leone has reached the completion point under the enhanced HIPC Initiative.**

## V. Issues for Discussion

82. Executive Directors may wish to focus on the following issues and questions:

- **Completion point**: Do Directors agree that Sierra Leone has fully met 11 of 13 floating conditions, and partially completed another 2 conditions, for reaching the completion point under the enhanced HIPC Initiative, as established at the time of the decision point?

- **Data correction**: Do Directors agree with staffs' recommendation that the proposed revision in the stock of debt in NPV terms warrants a revision in the amount of HIPC Initiative assistance?

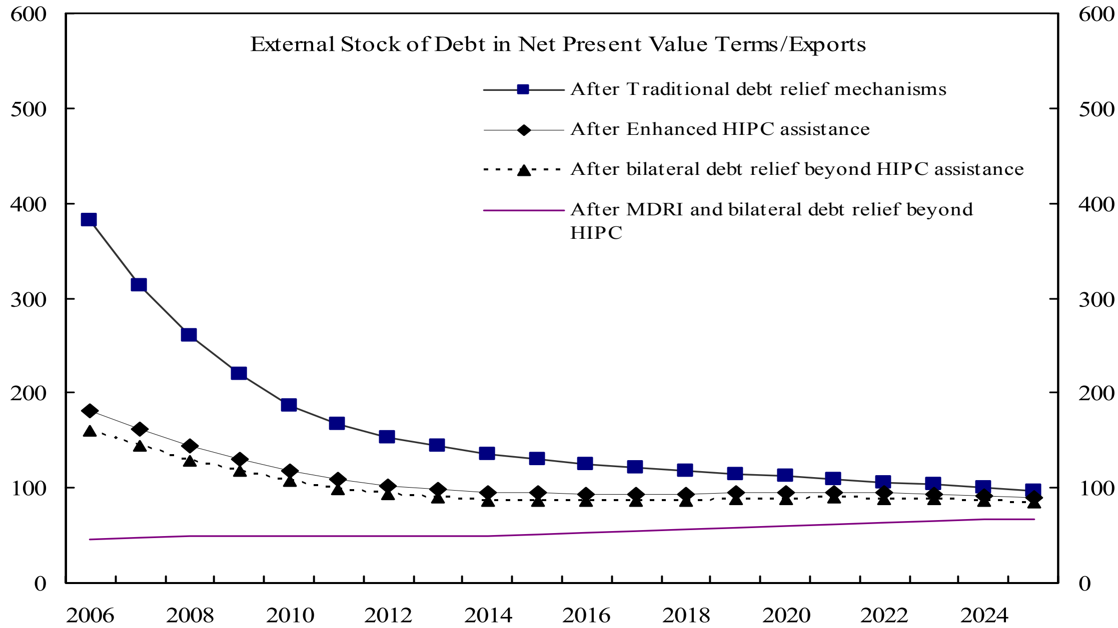
- **MDRI**: Do IMF Directors agree that Sierra Leone qualifies for an amount of debt relief by the Fund equal to SDR 117.3 million, of which SDR 77.0 million would be financed from the MDRI-I Trust and the rest from Sierra Leone's HIPC Umbrella sub-account?

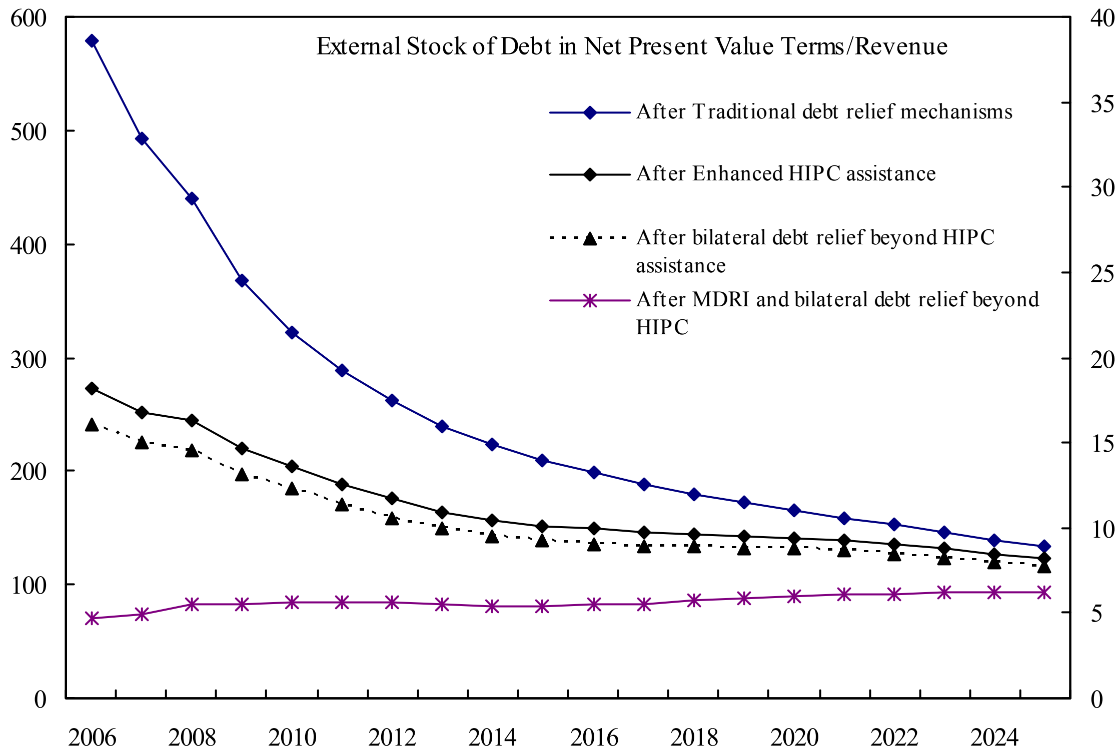
- **Creditor participation**: Do Directors agree that sufficient assurances have been given by Sierra Leone's creditors to commit HIPC assistance to Sierra Leone on an irrevocable basis?

- **Debt Sustainability**: Do Directors agree with staffs' assessment that Sierra Leone's debt sustainability is likely to be maintained over the medium and long-term? Do Directors share the staffs' assessment regarding possible risks that may emerge if the authorities do not actively pursue policies that encourage continued growth and prudent fiscal and debt management policies?

- **Comparable Treatment:** Do the Directors agree that Sierra Leone should continue to seek debt relief from its non-Paris Club creditors within the framework of the HIPC Initiative and that the staffs should continue to monitor the delivery of the debt relief from all creditors?

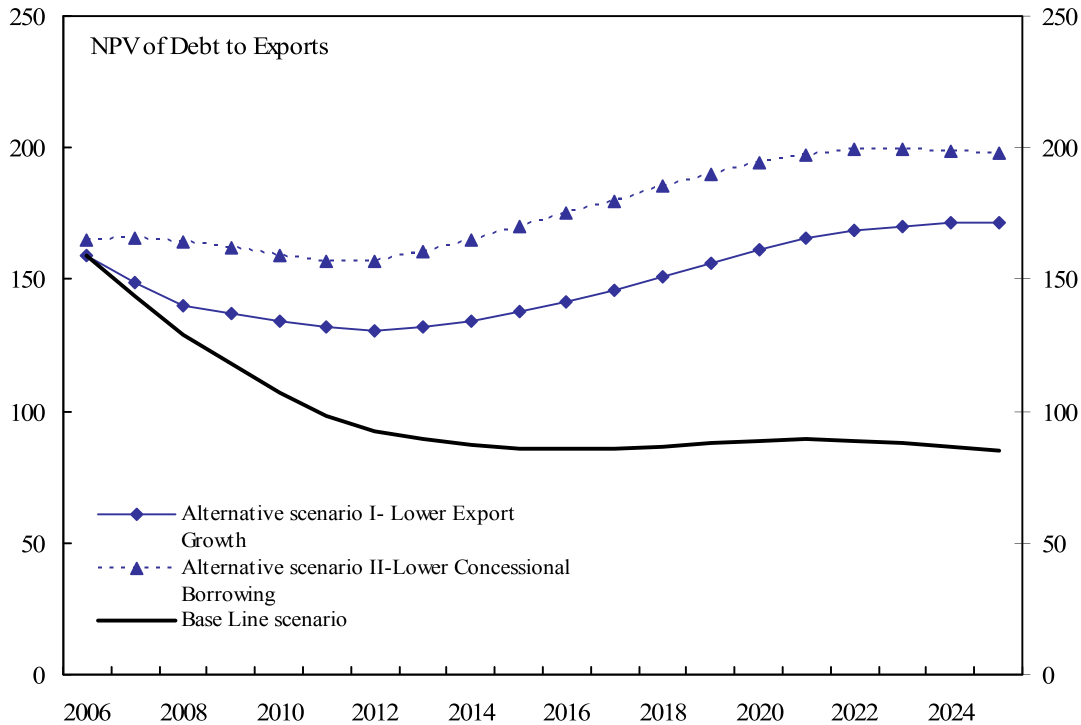
**Figure 1. Sierra Leone: External Debt and Debt Service Indicators for Public Sector Debt, 2006–25**
(Medium and long-term debt in percent)

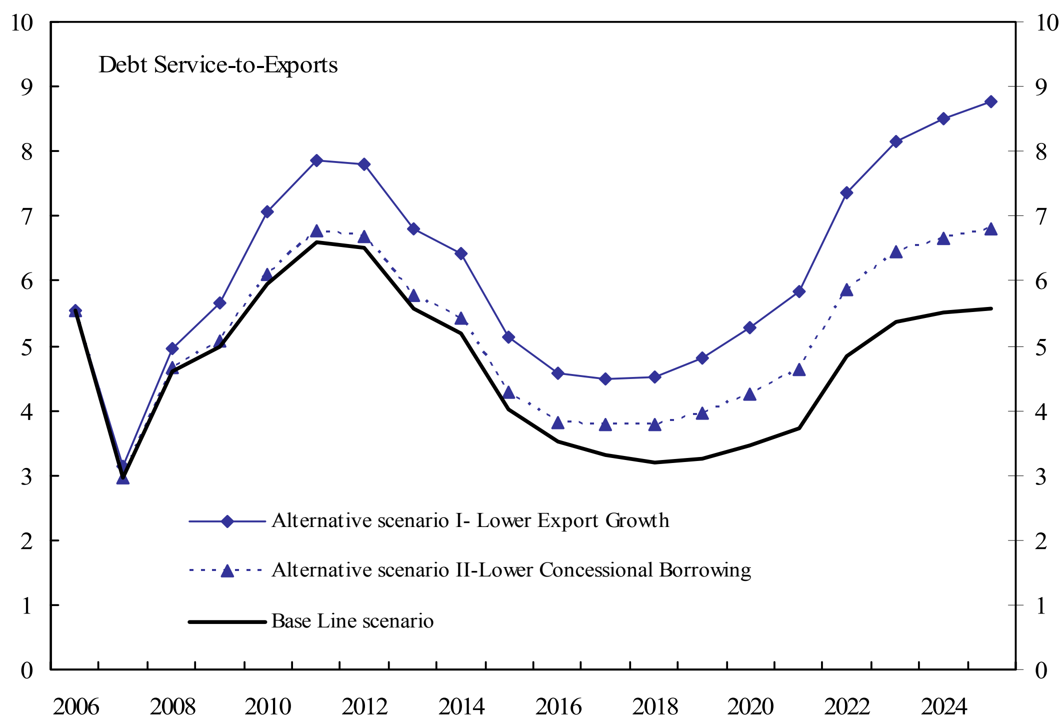



Sources: Sierra Leone authorities; and Bank-Fund staff estimates and projections.

**Figure 2. Sierra Leone: Sensitivity Analysis, 2006–25**
(In percent)

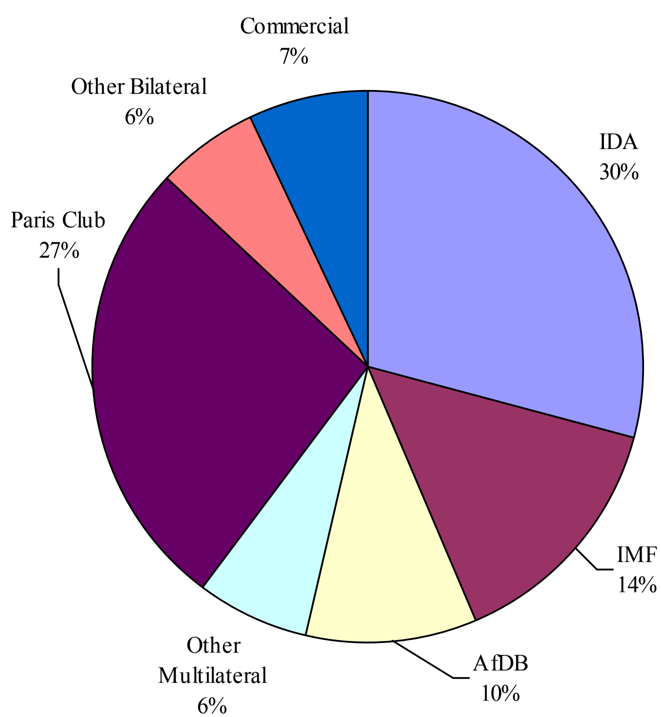


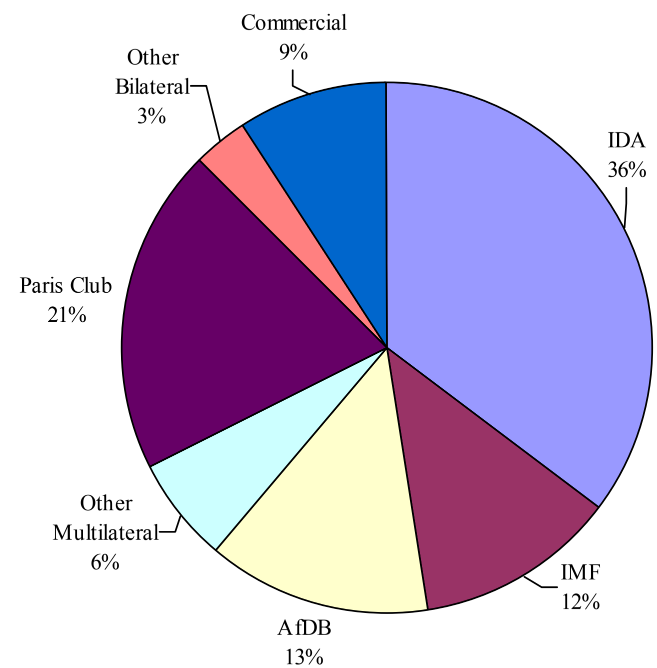

Sources: Sierra Leone authorities; and Bank-Fund staff estimates and projections.

**Figure 3. Sierra Leone: External Debt Structure, 2000 and 2005**
(In percent)

**End-Dec 2000**

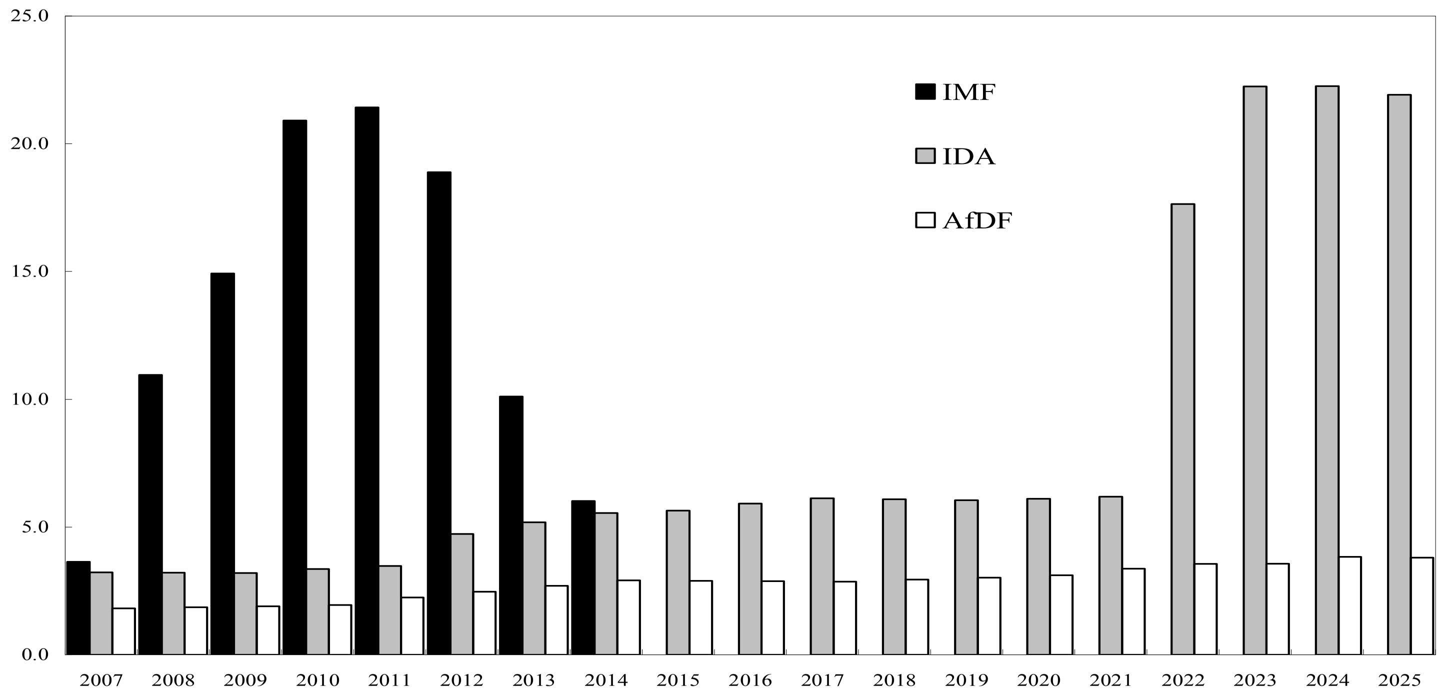



**End-Dec 2005**




Sources: Sierra Leone authorities; and Bank-Fund staff estimates and projections.

**Figure 4. Sierra Leone: Implied Debt Service Savings Under the MDRI**
(In millions of US$)




Sources: IMF and World Bank staff estimates.

## Table 8. Sierra Leone: Poverty Reducing Expenditures, 2001–05 [1/]

(In millions of Leones)

| Head | Sector and Ministry | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| 1 | **General Services** | 2,442.0 | 2,379.5 | 1,076.9 | 3,449.3 | 1,816.9 |
| 107 | Ministry of Local Government and Rural Development (local government grants) | 2,442.0 | 2,379.5 | 1,076.9 | 3,329.3 | 1,616.9 |
| 110 | Office Of The President | 0.0 | 0.0 | 0.0 | 120.0 | 200.0 |
| 2 | **Security Services** | 25,362.0 | 27,320.4 | 40,870.3 | 43,362.1 | 45,462.6 |
| 206 | Police [2/] | 20,727.1 | 22,327.1 | 29,949.1 | 32,219.5 | 39,406.6 |
| 207 | Prisons Department | 3,969.1 | 4,588.6 | 6,151.7 | 6,645.6 | 5,359.7 |
| 208 | National Fire Authority | 665.8 | 404.7 | 4,769.5 | 4,497.1 | 696.3 |
| 3 | **Social Services** | 90,090.9 | 129,807.7 | 148,274.9 | 148,216.8 | 178,446.7 |
| 301 | Ministry Of Education, Science And Technology [2/] | 66,883.6 | 91,958.7 | 100,655.1 | 113,839.7 | 133,139.3 |
| 302 | Ministry Of Youth And Sports | 0.0 | 0.0 | 0.0 | 2,116.4 | 1,065.6 |
| 304 | Ministry Of Health And Sanitation [2/] | 21,793.6 | 35,260.6 | 44,572.6 | 27,000.1 | 38,179.8 |
| 305 | Ministry Of Social Welfare, Gender & Children's Affairs (Social Welfare Division) | 1,011.5 | 982.5 | 1,413.0 | 1,106.7 | 956.1 |
| 306 | Ministry Of Lands, Housing, Country Planning And The Environment | | | | | |
| 307 | Gender And Children's Affairs Division | 402.2 | 1,605.9 | 1,634.2 | 1,399.4 | 887.8 |
| 308 | National Commission For Social Action | 0.0 | 0.0 | 0.0 | 886.6 | 1,670.0 |
| 340 | Socially Oriented Projects | 0.0 | 0.0 | 0.0 | 1,867.9 | 2,548.0 |
| 4 | **Economic Services** | 8,587.5 | 16,446.6 | 22,561.6 | 21,246.0 | 25,772.9 |
| 401 | Ministry Of Agriculture And Food Security | 1,988.5 | 7,018.5 | 11,025.8 | 11,359.0 | 14,844.8 |
| 402 | Ministry Of Marine Resources | 0.0 | 449.7 | 970.5 | 174.6 | 250.0 |
| 404 | Ministry Of Transport And Communications | 3,880.0 | 3,252.0 | 2,182.6 | 1,963.5 | 1,531.5 |
| 406 | Ministry Of Energy And Power | 2,719.0 | 2,929.4 | 3,875.6 | 2,920.3 | 3,412.0 |
| 407 | Ministry Of Labor, Industrial Relations And Social Security | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 408 | Ministry Of Works And Maintenance | 0.0 | 2,797.0 | 4,507.1 | 4,828.6 | 5,734.5 |
| 701 | **Transfers To Local Councils** | 0.0 | 0.0 | 0.0 | 0.0 | 15,015.6 |
| | **Domestic Debt Buy-Back Program** | 0.0 | 8,553.7 | 4,271.9 | 2,264.9 | 907.6 |
| | **TOTAL** | 126,482 | 184,508 | 217,056 | 218,539 | 267,422 |

Source: Ministry of Finance.

[1/]. All data include other recurrent spending and locally financed development expenditures.
[2/]. Includes personnel expenditures.

## Table 9. Sierra Leone: Selected Macroeconomic Indicators, 2005–26

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2015 | 2020 | 2026 | Averages 2000-05 | 2006-10 | 2011-15 | 2016-20 | 2021-26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise indicated) | | | | | | | | | | | | | | |
| **Economic growth and prices** | | | | | | | | | | | | | | |
| Real GDP | 7.3 | 7.4 | 6.5 | 6.5 | 6.5 | 6.6 | 5.9 | 5.2 | 5.2 | 12.2 | 6.7 | 6.2 | 5.5 | 5.2 |
| Consumer prices (end of period) | 13.1 | 10.1 | 8.5 | 7.5 | 7.0 | 6.5 | 5.5 | 5.0 | 5.0 | 13.1 | 7.9 | 6.1 | 5.1 | 5.0 |
| Consumer prices (period average) | 12.1 | 12.2 | 9.3 | 8.0 | 7.3 | 6.8 | 5.8 | 5.0 | 5.0 | 5.6 | 8.7 | 6.2 | 5.2 | 5.0 |
| (In percent of GDP, unless otherwise indicated) | | | | | | | | | | | | | | |
| **National accounts** | | | | | | | | | | | | | | |
| Gross domestic investment | 17.4 | 15.1 | 18.1 | 15.1 | 14.3 | 13.6 | 16.2 | 17.0 | 17.7 | 7.4 | 15.2 | 15.5 | 16.7 | 17.5 |
| Government | 5.8 | 5.0 | 8.6 | 9.6 | 4.7 | 6.3 | 6.4 | 6.1 | 5.6 | 5.3 | 6.8 | 6.3 | 6.2 | 5.8 |
| Private | 11.5 | 10.1 | 9.4 | 5.5 | 9.7 | 7.3 | 9.8 | 10.9 | 12.1 | 2.1 | 8.4 | 9.2 | 10.5 | 11.7 |
| Gross domestic savings | -0.6 | 1.8 | 5.4 | 3.7 | 3.6 | 3.1 | 5.6 | 6.9 | 7.0 | -11.5 | 3.5 | 4.8 | 6.5 | 7.1 |
| Government | -1.6 | 0.1 | 0.9 | 0.6 | 1.7 | 0.6 | 1.5 | 1.6 | 1.9 | -4.4 | 0.8 | 1.3 | 1.6 | 1.8 |
| Private | 1.0 | 1.7 | 4.5 | 3.0 | 1.9 | 2.5 | 4.1 | 5.3 | 5.1 | -7.0 | 2.7 | 3.5 | 4.9 | 5.3 |
| Gross national savings | 9.7 | 9.7 | 12.9 | 10.4 | 9.8 | 9.2 | 11.5 | 12.6 | 13.3 | 9.0 | 10.4 | 10.8 | 12.1 | 13.0 |
| Savings/Investment balance | -7.7 | -5.4 | -5.1 | -4.8 | -4.5 | -4.4 | -4.7 | -4.4 | -4.4 | 1.6 | -4.9 | -4.7 | -4.6 | -4.5 |
| **Government finance** | | | | | | | | | | | | | | |
| Total revenue | 11.9 | 12.5 | 13.2 | 13.4 | 14.4 | 14.6 | 15.1 | 15.1 | 15.3 | 12.2 | 13.6 | 15.0 | 15.1 | 15.2 |
| Total expenditure | 24.6 | 21.4 | 25.3 | 27.3 | 22.1 | 25.3 | 22.4 | 21.6 | 21.6 | 27.2 | 24.3 | 23.4 | 21.8 | 21.6 |
| Of which: Current expenditure | 18.7 | 16.4 | 15.4 | 16.0 | 15.7 | 17.0 | 15.8 | 15.3 | 15.5 | 22.1 | 16.1 | 16.2 | 15.4 | 15.3 |
| Capital expenditure | 5.9 | 5.0 | 8.6 | 9.6 | 4.7 | 6.3 | 6.4 | 6.1 | 5.6 | 5.1 | 6.8 | 6.3 | 6.2 | 5.8 |
| Primary balance | -3.1 | -1.5 | -2.7 | -3.5 | -2.7 | -4.3 | -2.5 | -2.3 | -2.2 | -5.1 | -2.9 | -3.0 | -2.4 | -2.3 |
| Overall balance (excluding grants) | -12.8 | -9.0 | -12.2 | -13.9 | -7.7 | -10.8 | -7.3 | -6.5 | -6.3 | -15.0 | -10.7 | -8.4 | -6.7 | -6.4 |
| **Balance of payments** | | | | | | | | | | | | | | |
| Exports of goods and services | 22.1 | 22.6 | 24.6 | 25.9 | 27.1 | 28.3 | 26.5 | 25.3 | 24.7 | 19.2 | 25.7 | 27.1 | 25.7 | 24.9 |
| Imports of goods and services | 40.1 | 35.9 | 37.2 | 37.4 | 37.9 | 38.8 | 37.1 | 35.3 | 35.4 | 37.4 | 37.5 | 37.8 | 35.9 | 35.4 |
| Current account, including grants | -7.7 | -5.4 | -5.1 | -4.8 | -4.5 | -4.4 | -4.7 | -4.4 | -4.4 | -9.4 | -4.9 | -4.7 | -4.6 | -4.5 |
| Current account, excluding grants | -14.6 | -10.3 | -10.1 | -9.3 | -8.8 | -8.5 | -8.2 | -7.3 | -6.5 | -15.9 | -9.4 | -8.4 | -7.7 | -6.9 |
| Overall balance | -0.2 | 9.0 | -1.9 | -1.2 | -0.8 | -0.6 | 0.3 | 0.3 | 0.3 | -0.6 | 0.9 | 0.2 | 0.3 | 0.3 |
| Overall balance (in millions of US dollars) | -2.1 | 132.5 | -30.7 | -21.6 | -14.8 | -12.9 | 9.4 | 11.9 | 18.7 | -5.5 | 10.5 | 6.2 | 10.2 | 16.6 |
| Gross official reserves (in weeks of imports) | 3.8 | 3.4 | 3.4 | 3.5 | 3.6 | 3.6 | 3.8 | 3.9 | 4.1 | 2.6 | 3.5 | 3.6 | 3.9 | 3.9 |
| Export value growth (percentage change) | 15.3 | 24.0 | 19.2 | 13.8 | 12.7 | 12.7 | 6.0 | 5.6 | 5.8 | 21.8 | 16.5 | 6.2 | 5.5 | 5.8 |
| Import value growth (percentage change) | 32.9 | 8.6 | 13.6 | 8.4 | 9.2 | 10.8 | 5.8 | 6.1 | 6.1 | 35.5 | 10.1 | 6.6 | 5.5 | 6.2 |
| Terms of Trade (percentage change) | -2.3 | -9.4 | -3.2 | 1.6 | 2.1 | 0.5 | 1.0 | 1.0 | 1.0 | -2.6 | -1.7 | 1.0 | 1.0 | 1.0 |
| **Memorandum items:** | | | | | | | | | | | | | | |
| Nominal GDP | | | | | | | | | | | | | | |
| In billions of leones | 3,510.2 | 4,361.2 | 5,132.2 | 5,872.8 | 6,662.7 | 7,566.1 | 13,837.0 | 23,249.3 | 42,158.8 | 2,271.6 | 5,919.0 | 11,098.1 | 19,184.9 | 33,420.5 |
| In millions of US dollars | 1,214.8 | 1,473.0 | 1,614.6 | 1,740.5 | 1,874.2 | 2,029.4 | 2,918.5 | 4,001.7 | 5,734.8 | 942.3 | 1,746.3 | 2,554.6 | 3,550.1 | 4,969.2 |
| Government revenues | | | | | | | | | | | | | | |
| In millions of US dollars | 144.0 | 183.8 | 212.3 | 232.9 | 270.2 | 296.3 | 441.4 | 604.3 | 874.7 | 114.9 | 239.1 | 384.4 | 535.1 | 755.0 |
| Exchange rates | | | | | | | | | | | | | | |
| Leone/US$ period average | 2,889.6 | | | | | | | | | | | | | |

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

## Table 10. Sierra Leone: Nominal and Net Present Value of External Debt Outstanding as of End- 2000 [1/]

| | Nominal debt | | NPV of debt after rescheduling 2/ | | |
|---|---|---|---|---|---|
| | From decision point | Revised | From decision point | Revised | |
| | ( In millions of U.S. dollars) | | | | |
| **Total** | **1,210.0** | **1,282.5** | **748.7** | **829.1** | |
| **Multilateral institutions** | 728.1 | 731.7 | 413.94 | 417.6 | |
| IDA | 353.2 | 353.2 | 151.54 | 151.54 | |
| IMF | 173.6 | 173.6 | 153.74 | 153.74 | |
| African Development Bank | 123.2 | 123.2 | 53.387 | 53.323 | |
| European Union/EIB | 32.9 | 31.1 | 25.0 | 22.1 | 3/ |
| International Fund for Agricultural Development | 20.4 | 25.1 | 9.8 | 12.7 | |
| Arab Bank for Economic Development in Africa | 11.25 | 12.00 | 8.02 | 12.06 | |
| Organisation of Petroleum Exporting Countries | 11.0 | 11.0 | 11.0 | 11.0 | |
| Islamic Development Bank | 2.6 | 2.5 | 1.4 | 1.1 | |
| **Bilateral and commercial** | 481.8 | 550.7 | 334.7 | 411.5 | 4/ |
| **Paris Club** | 323.9 | 334.9 | 234.0 | 249.0 | |
| Austria | 0.4 | 0.4 | 0.2 | 0.2 | |
| Belgium | 18.3 | 17.6 | 10.4 | 10.4 | |
| Denmark | - | 0.0 | - | 0.0 | |
| France | 23.7 | 23.6 | 16.4 | 16.3 | |
| Germany | 13.3 | 13.8 | 9.0 | 9.0 | |
| Italy | 57.6 | 52.0 | 41.3 | 37.8 | |
| Ireland | | 0.0 | - | 0.0 | |
| Japan | 67.6 | 88.9 | 67.3 | 88.5 | |
| Luxembourg | - | 0.0 | - | 0.0 | |
| Netherlands | 28.7 | 27.3 | 19.4 | 18.4 | |
| Norway | 9.7 | 9.4 | 6.5 | 6.3 | |
| Switzerland | 21.6 | 21.5 | 10.9 | 10.5 | |
| United Kingdom | 5.6 | 12.0 | 2.7 | 8.5 | |
| United States | 77.5 | 68.5 | 50.0 | 43.3 | |
| **Non-Paris Club official bilateral** | 72.3 | 72.3 | 50.9 | 51.0 | |
| China | 44.9 | 44.9 | 37.4 | 37.5 | |
| Kuwait | 14.0 | 14.0 | 9.6 | 9.6 | |
| Morocco | 12.1 | 12.1 | 2.9 | 2.9 | |
| Saudi Arabia | 1.3 | 1.3 | 1.0 | 1.1 | |
| **Commercial creditors** | 85.6 | 143.6 | 49.8 | 111.5 | |
| Commonwealth Development Corporation (UK) 5/ | 5.4 | | 1.8 | - | |
| Military and commercial | 80.3 | 143.6 | 48.1 | 111.5 | |

Sources: Sierra Leonean authorities; and Bank-Fund staff estimates.

1/ Public and publicly guaranteed debt only.
2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) and at least comparable action by other official bilateral and commercial creditors.
3/ EU loans administered by IDA amounting to US$3.0 million in NPV terms were reclassified as official bilateral claims.
4/ Data revision are due to better data availability.
5/ CDC was classified as a commercial claim at the decision point and is now reclassified as bilateral claim under the United Kingdom.

**Table 11. Sierra Leone: Estimated Assistance at Decision Point** [1/]

(In millions of U.S. dollars in NPV terms at end-2000, unless otherwise indicated)

| | NPV of debt-to-exports-target | Total Assistance under the NPV of debt-to-exports criteria | | | Common Reduction Factor at the Decision Point 3/ |
|---|---|---|---|---|---|
| | | Total | Bilateral and commercial | Multilateral | |
| | (in percent) | *(In millions of U.S. dollars)* | | | *(In percent)* |
| Assistance at decision point | 150.0 | 600.3 | 268.0 | 332.0 | 80.2 |
| Assistance revised at decision point | 150.0 | 675.2 | 335.1 | 340.1 | 81.4 |
| Memorandum items: | | | | | |
| NPV of debt 2/ | ... | 748.7 | 335.0 | 414.0 | |
| NPV of debt (revised) 2/ 4/ | ... | 829.1 | 411.5 | 417.6 | |
| 3-year average of exports | ... | 98.9 | | | |
| 3-year average of exports (revised) | ... | 102.6 | ... | ... | |
| NPV of debt-to-exports 5/ | ... | 808.3 | ... | ... | |

Sources: Sierra Leonean authorities and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (IDA/SEC M 97-306, 7/7/97).
2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment by other official bilateral creditors at end-December 2000.
3/ Each multilateral's NPV reduction at the decision point in percent of its exposure at the decision point.
4/ Based on latest data available at the decision point after full application of traditional debt relief mechanisms.
5/ Uses a three-year average of exports of goods and nonfactor services centered on previous year.

# Table 12. Sierra Leone: Status of Creditor Participation under the Enhanced HIPC Initiative

| | HIPC assistance as at the Decision Point Document | | | | Revised assistance 1/ | |
|---|---|---|---|---|---|---|
| | Debt relief in NPV terms (US$ millions) | Percentage of total assistance | Satisfactory reply | Modalities to deliver debt relief | Debt relief in NPV terms (US$ millions) | Percentage of total assistance |
| IDA | 121.5 | 20.2 | Yes | Interim assistance was provided equivalent to an 88.5 percent reduction on Sierra Leone's debt service to IDA, amounting to a total of US$32.6 million in NPV terms. After completion point, the remaining assistance will be provided through debt service reduction of 89.8 percent on IDA loans as of end-2000. | 123.4 | 18.3 |
| IMF | 123.3 | 20.5 | Yes | IMF assistance will be delivered through grants from the PRGF/HIPC Trust Fund to the member's Umbrella Account. At completion point these resources, plus accrued interest, would be used to reduce the payments falling due to IMF during 2007–11 on Sierra Leone's obligations as of December 2000. | 125.2 | 18.5 |
| AfDB Group | 42.8 | 7.1 | Yes | Interim assistance has been provided through the reduction of the debt service payments to the AfDB Group over the period of April 2002–December 2006, on disbursed and outstanding debt as of end-December 2000. After completion point, assistance will be delivered in the same manner. Total NPV assistance will amount to US$43.4 million. | 43.4 | 6.4 |
| IFAD | 7.9 | 1.3 | Yes | Assistance will be delivered at the completion point, through a reduction of debt service payments on eligible debt by up to 100 percent until the target in NPV terms is reached. | 10.3 | 1.5 |
| OPEC Fund | 8.9 | 1.5 | Yes | The OPEC Fund has agreed to provide part of HIPC debt relief through an arrears clearance operation in 2003, which reduced by US$4.4 the NPV of debt outstanding at decision point. Additional relief would be provided through a combination of debt rescheduling and interest rate reduction. | 9.0 | 1.3 |
| EU/EIB | 20.0 | 3.3 | Yes | Assistance will be delivered at the completion point, through a reduction of debt service payments on selected loans by up to 100 percent until the target in NPV terms is reached. | 18.0 | 2.7 |
| BADEA | 6.4 | 1.1 | Yes | In October 2001, BADEA has agreed to reschedule outstanding arrears. The rescheduling reduced by US$2.9 million the NPV of debt outstanding at decision point. Additional relief would be provided through a combination of debt rescheduling and interest rate reduction. | 9.8 | 1.5 |
| IsDB | 1.1 | 0.2 | Yes | Relief at completion point will be provided through concessional loans to finance programs identified in the PRSP. | 0.9 | 0.1 |
| **Total multilateral** | **331.9** | **55.3** | | | **340.1** | **50.4** |
| Paris Club Creditors | 187.6 | 31.3 | Yes | Interim assistance is provided through Cologne term flow relief and several of the creditors have cancelled 100 percent of flow during the interim period. The Paris Club creditors will deliver the rest of the relief at the completion point. | 202.8 | 30.0 |
| Non-Paris Club Creditors | 40.8 | 6.8 | | | 41.5 | 6.1 |
| China | 30.0 | 5.0 | No | China has delivered some assistance through loans' cancellation. | 30.5 | 4.5 |
| Kuwait | 7.7 | 1.3 | No | | 7.8 | 1.2 |
| Morocco | 2.3 | 0.4 | Yes | Morocco cancelled 100% of the debt in 2004. | 2.3 | 0.3 |
| Saudi Arabia | 0.8 | 0.1 | No | Saudi Arabia has provided some relief through a debt rescheduling in 2003. | 0.9 | 0.1 |
| Commercial creditors | 40.0 | 6.7 | No | Philipp Brothers, Executive Outcome Panama and Greganti Secondo provided some discount to their debt. | 90.8 | 13.5 |
| **Total bilateral and commercial** | **268.4** | **44.7** | | | **335.1** | **49.6** |
| **TOTAL** | **600.3** | **100.0** | | | **675.2** | **100.0** |

Sources: Sierra Leonean authorities; and Bank-Fund staff estimates.
1/ EU loans administered by IDA amounting to US$3.0 million in NPV terms were reclassified as official bilateral claims.

# Table 13. Sierra Leone: Delivery of IMF Assistance Under the HIPC Initiative and the MDRI, 2002–11 1/

(In millions of SDRs unless otherwise indicated)

| | 2002 | 2003 | 2004 | 2005 | 2006 Jan-Nov | 2006 Dec. | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | Projections | | | | |
| **I. Pre-MDRI Debt relief (under the HIPC Initiative only) 2/** | | | | | | | | | | | |
| HIPC-eligible Debt Service due on IMF obligations 3/ | 25.0 | 25.5 | 16.3 | 6.3 | 3.4 | 0.1 | 11.3 | 11.6 | 11.6 | 11.5 | 11.4 |
| Principal | 24.3 | 24.8 | 15.7 | 5.7 | 3.0 | - | 10.8 | 11.2 | 11.2 | 11.2 | 11.2 |
| Interest | 0.8 | 0.7 | 0.6 | 0.7 | 0.3 | 0.1 | 0.4 | 0.4 | 0.3 | 0.3 | 0.1 |
| HIPC assistance--deposits into the HIPC Umbrella Account | | | | | | | | | | | |
| Interim assistance | 23.6 | 23.6 | 14.8 | 4.0 | | | | | | | |
| Completion point disbursement | | | | | | 40.3 | | | | | |
| Completion point assistance 4/ | | | | | | 34.0 | | | | | |
| Completion point interest | | | | | | 6.4 | | | | | |
| HIPC assistance--drawdown from the HIPC Umbrella Account | 23.6 | 23.8 | 14.9 | 4.1 | 0.1 | - | 8.8 | 9.2 | 9.1 | 9.1 | 8.6 |
| IMF assistance without interest | 23.6 | 23.6 | 14.8 | 4.0 | - | - | 6.7 | 5.5 | 5.8 | 8.2 | 7.8 |
| Estimated interest earnings 5/ | - | 0.1 | 0.1 | 0.1 | 0.1 | - | 2.1 | 3.7 | 3.4 | 0.9 | 0.8 |
| Debt service due on IMF obligations after HIPC assistance | 1.4 | 1.7 | 1.4 | 2.3 | 3.3 | 0.1 | 2.4 | 2.4 | 2.4 | 2.5 | 2.8 |
| Delivery schedule of IMF assistance (in percent of total assistance; on a flow basis) | 23.6 | 23.6 | 14.7 | 4.0 | - | - | 6.7 | 5.5 | 5.8 | 8.2 | 7.8 |
| Share of debt service due on IMF obligations covered by HIPC assistance (in percent) | 94.5 | 93.3 | 91.2 | 64.2 | 1.6 | - | 78.4 | 79.1 | 79.0 | 78.7 | 75.7 |
| Proportion (in percent) of each principal repayment obligation falling due during the period to be paid by HIPC assistance from the principal deposited in Umbrella Account 6/ | 97.5 | 95.4 | 93.8 | 96.7 | - | - | 61.9 | 49.3 | 51.4 | 72.6 | 69.5 |
| **II. Post-MDRI Debt relief (under both MDRI and HIPC Initiatives)** | | | | | | | | | | | |
| Projected credit outstanding at completion point 7/ | | | | | | 117.3 | | | | | |
| Delivery of debt relief (on stock basis): | | | | | | 117.3 | | | | | |
| from the MDRI-I Trust 8/ | | | | | | 77.0 | | | | | |
| from the HIPC Umbrella Account | | | | | | 40.4 | | | | | |
| of which: unused interim HIPC assistance | | | | | | 0.04 | | | | | |
| completion point disbursement | | | | | | 40.3 | | | | | |
| **III. Debt service due to the IMF after HIPC and MDRI debt relief 9/** | | | | | | 0.3 | 0.1 | 0.1 | 0.1 | 1.5 | 3.3 |
| ***Memorandum items:*** | | | | | | | | | | | |
| **(Based on debt service data and exchange rates as of end-2000)** | | | | | | | | | | | |
| Debt service due on IMF obligations (in millions of U.S. dollars) | | | | | | 5.3 | 16.3 | 24.2 | 28.1 | 35.9 | 37.7 |
| Debt service due on current IMF obligations after IMF assistance (in percent of exports) | | | | | | 5.2 | 3.7 | 11.1 | 15.0 | 23.0 | 25.5 |
| Share of total debt service covered by IMF assistance (in percent) | | | | | | 0% | 77% | 54% | 47% | 36% | 33% |

Source: Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 100.0 million calculated on the basis of data available at the decision point, excluding interest earned on Sierra Leone's account and on committed but undisbursed amounts, as described in footnote 5. The amount of IMF assistance committed at the decision point is adjusted upwards from SDR 98.48 million to SDR 100.0 million owing to data revisions.

2/ Reflects the projected delivery of HIPC assistance in the absence of MDRI decision.

3/ Forthcoming obligations estimated based on rates and principal schedules in effect as of end-March 2002. Interest obligations include net SDR charges and assessments.

4/ A final disbursement of SDR 34 million assumed to be deposited into Sierra Leone's Umbrella Account at the completion point in December 2006.

5/ Includes estimated interest earnings on: (1) amounts held in Sierra Leone's account; and (2) up to the completion point, amounts committed but not yet disbursed. The projected interest earnings are estimated based on assumed interest rates which are gradually increasing to 5 percent in 2011; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year is assumed to be used toward the first principal repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward principal repayment obligations falling due during the three year after the completion point.

6/ Proportions prior to completion point are actual proportions as approved by the Executive Board.

7/ Associated with disbursements made prior to December 31, 2004.

8/ Credit outstanding at end-2004 that has not been repaid by the member or with HIPC assistance at the completion point and is not scheduled to be repaid by HIPC assistance, as defined in the MDRI-I Trust Instrument.

9/ As of end-September 2006; reflecting obligations associated with disbursements made after December 31, 2004.

## Table 14. Sierra Leone: Delivery of IDA Assistance Under the HIPC Initiative and MDRI, 2001–43
(In millions of US dollars unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Relief under the Enhanced HIPC Initiative 1/** | | | | | | | | | | | | | | | | |
| Debt service before HIPC Assistance | 5.0 | 5.8 | 8.0 | 9.6 | 10.4 | 10.8 | 10.9 | 10.9 | 10.8 | 11.6 | 11.9 | 12.5 | 14.3 | 15.4 | 15.9 | 16.3 |
| of which principal | 2.2 | 2.9 | 5.0 | 6.6 | 7.5 | 8.0 | 8.2 | 8.2 | 8.2 | 9.1 | 9.5 | 10.1 | 11.9 | 13.1 | 13.8 | 14.2 |
| of which interest | 2.7 | 2.9 | 3.0 | 2.9 | 2.9 | 2.8 | 2.8 | 2.7 | 2.6 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 2.2 | 2.1 |
| Debt Service after HIPC Assistance | 5.0 | 1.7 | 0.9 | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.4 | 1.5 | 1.6 | 1.6 |
| of which principal | 2.2 | 0.8 | 0.6 | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 1.0 | 1.2 | 1.3 | 1.4 | 1.4 |
| of which interest | 2.7 | 0.9 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Savings on debt service to IDA 2/ | 0.0 | 4.1 | 7.1 | 8.5 | 9.2 | 9.6 | 9.9 | 9.8 | 9.7 | 10.5 | 10.8 | 11.2 | 12.8 | 13.8 | 14.3 | 14.6 |
| of which principal | 0.0 | 2.1 | 4.5 | 5.9 | 6.7 | 7.1 | 7.4 | 7.4 | 7.4 | 8.2 | 8.5 | 9.1 | 10.7 | 11.8 | 12.4 | 12.8 |
| of which interest | 0.0 | 2.0 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 | 2.4 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.0 | 1.9 | 1.8 |
| **2. Relief under the MDRI** | | | | | | | | | | | | | | | | |
| Projected stock of IDA cerdits outstanding at implementation date 3/ | | | | | | | 522.2 | | | | | | | | | |
| Debt stock reduction on eligible credits 4/ | | | | | | | 500.0 | | | | | | | | | |
| Remaining IDA credits after MDRI relief | | | | | | | 22.2 | | | | | | | | | |
| IDA debt service relief under the MDRI | | | | | | | 3.2 | 3.2 | 3.2 | 3.3 | 3.5 | 4.7 | 5.2 | 5.5 | 5.6 | 5.9 |
| Debt service due to IDA after HIPC relief and the MDRI | | | | | | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.5 | 0.8 | 1.2 | 1.2 | 1.3 |
| **Memorandum item:** | | | | | | | | | | | | | | | | |
| IDA HIPC Debt relief as percent of IDA debt service due (in percent) | 0.0 | 70.6 5/ | 88.5 | 88.5 | 88.5 | 88.5 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 |
| Interim Assistance 7/ | 32.6 | | | | | | | | | | | | | | | |
| Interim relief as percent of total | 26.4 | | | | | | | | | | | | | | | |
| IDA debt service due on debt outstanding at completion point reference date 8/ | | | | | | | 13.4 | 13.3 | 13.2 | 14.1 | 14.5 | 16.5 | 18.8 | 20.5 | 21.2 | 21.8 |
| IDA HIPC Debt relief and MDRI as percent of IDA debt service due (in percent) 8/ | | | | | | | 97.6 | 97.6 | 97.6 | 97.7 | 97.7 | 96.8 | 95.6 | 94.3 | 94.2 | 94.2 |
| IDA debt service relief under the MDRI (in millions of SDR) 9/ | | | | | | | 2.5 | 2.5 | 2.4 | 2.5 | 2.6 | 3.5 | 3.9 | 4.1 | 4.2 | 4.4 |

**Table 14. Sierra Leone: Delivery of IDA Assistance Under the HIPC Initiative and MDRI, 2001–43 (concl.)**
(In millions of US dollars unless otherwise indicated)

| | | | | | | | | | | | | Averages | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2025 | 2030 | 2035 | 2040 | 2043 | 2002-10 | 2011-20 | 2021-30 | 2031-40 | 2041-43 |
| **1. Relief under the Enhanced HIPC Initiative 1/** | | | | | | | | | | | | | | | | |
| Debt service before HIPC Assistance | 16.3 | 16.2 | 16.1 | 16.7 | 16.9 | 16.7 | 16.1 | 15.1 | 3.9 | 0.8 | 0.0 | 9.9 | 15.1 | 16.0 | 5.6 | 0.0 |
| of which principal | 14.3 | 14.3 | 14.3 | 15.1 | 15.4 | 15.3 | 15.1 | 14.6 | 3.8 | 0.8 | 0.0 | 7.1 | 13.1 | 15.0 | 5.5 | 0.0 |
| of which interest | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 1.4 | 1.0 | 0.5 | 0.1 | 0.0 | 0.0 | 2.8 | 2.1 | 1.0 | 0.1 | 0.0 |
| Debt Service after HIPC Assistance | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 12.0 | 16.1 | 15.1 | 3.9 | 0.8 | 0.0 | 1.2 | 1.5 | 14.0 | 5.6 | 0.0 |
| of which principal | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 11.0 | 15.1 | 14.6 | 3.8 | 0.8 | 0.0 | 0.8 | 1.3 | 13.2 | 5.5 | 0.0 |
| of which interest | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 | 1.0 | 0.5 | 0.1 | 0.0 | 0.0 | 0.4 | 0.2 | 0.8 | 0.1 | 0.0 |
| Savings on debt service to IDA 2/ | 14.6 | 14.5 | 14.4 | 15.0 | 15.2 | 4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.7 | 13.6 | 2.0 | 0.0 | 0.0 |
| of which principal | 12.9 | 12.9 | 12.9 | 13.6 | 13.8 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.3 | 11.8 | 1.8 | 0.0 | 0.0 |
| of which interest | 1.8 | 1.7 | 1.6 | 1.5 | 1.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.4 | 1.9 | 0.2 | 0.0 | 0.0 |
| **2. Relief under the MDRI** | | | | | | | | | | | | | | | | |
| Projected stock of IDA cerdits outstanding at implementation date 3/ | | | | | | | | | | | | | | | | |
| Debt stock reduction on eligible credits 4/ | | | | | | | | | | | | | | | | |
| Remaining IDA credits after MDRI relief | | | | | | | | | | | | | | | | |
| IDA debt service relief under the MDRI | 6.1 | 6.1 | 6.0 | 6.1 | 6.2 | 17.6 | 21.9 | 20.7 | 8.4 | 4.0 | 0.3 | 3.2 | 5.5 | 19.6 | 9.9 | 1.3 |
| Debt service due to IDA after HIPC relief and the MDRI | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.5 | 2.2 | 2.1 | 2.1 | 1.9 | 0.9 | 0.3 | 1.0 | 2.0 | 2.0 | 1.4 |
| **Memorandum item:** | | | | | | | | | | | | | | | | |
| IDA HIPC Debt relief as percent of IDA debt service due (in percent) | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 27.9 6/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 87.2 | 90.0 | 11.8 | 0.0 | 0.0 |
| Interim Assistance 7/ | | | | | | | | | | | | | | | | |
| Interim relief as percent of total | | | | | | | | | | | | | | | | |
| IDA debt service due on debt outstanding at completion | 22.0 | 21.9 | 21.7 | 22.4 | 22.7 | 23.8 | 24.1 | 22.8 | 10.5 | 5.9 | 1.2 | 13.5 | 20.1 | 23.5 | 11.9 | 2.8 |
| IDA HIPC Debt relief and MDRI as percent of IDA debt service due (in percent) 8/ | 94.2 | 94.2 | 94.2 | 94.1 | 94.2 | 93.7 | 91.0 | 90.7 | 80.4 | 67.5 | 28.4 | 97.6 | 95.0 | 91.6 | 80.1 | 40.4 |
| IDA debt service relief under the MDRI (in millions of | 4.5 | 4.5 | 4.5 | 4.6 | 4.7 | 12.5 | 15.4 | 14.5 | 5.9 | 2.8 | 0.2 | 2.5 | 4.1 | 13.8 | 7.0 | 1.0 |

Source: Staff estimates.
1/ Enhanced HIPC assistance proposed to be delivered over 20 years through 89 percent relief on the debt service falling due to IDA on credits outstanding at end-2000.
2/ Total debt service reduction of US$229.9 in nominal terms corresponding to US$121.5 million in NPV terms, using end-2000 discount and exchange rates.
3/ Stock of debt outstanding on June 30, 2006.
4/ This amount is calculated based on debt disbursed as of December 31, 2003 and still outstanding at the end of 2006.
5/ For 2002, the 71% debt-service reduction applies only to the remaining debt service due to IDA between April 1 - December 31, 2002.
6/ For 2022, the 28% debt-service reduction applies only to the remaining debt service due to IDA between January 1 - April 30, 2022.
7/ In net present value (NPV) terms.
8/ Projected debt service due on debt outstanding at end-2005.
9/ For SDR-denominated IDA credits, debt relief under the MDRI is estimated as 100 percent of SDR-based debt service minus USD-based debt relief under the Enhanced HIPC Initiative. HIPC debt relief is converted into SDR equivalent amounts as follows: (i) for costs during FY07 and FY08, by applying the foreign exchange rate of 1.5104 resulting from the hedging of donor contributions to cover HIPC costs during IDA14; (ii) for costs from FY09 onwards, by applying the foreign exchange reference rate of 1.47738 agreed by donors under the latest regular IDA replenishment. For USD-denominated IDA credits. Debt relief under the MDRI is estimated as 100 percent of USD-based debt service minus USD-based debt relief under the Enhanced HIPC Initiative. The resulting MDRI debt relief amounts are converted into SDR equivalent amounts by applying the foreign exchange reference rates agreed by donors under the latest regular IDA replenishment.

## Table 15. Sierra Leone: Net Present Value of External Debt [1/]

(In millions of US dollars unless otherwise indicated)

| | Actuals | Projections | | | | | | | | | | | | Averages | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2020 | 2025 | 2005-15 | 2016-25 |
| **I. After traditional debt-relief mechanisms 2/** | | | | | | | | | | | | | | | |
| 1. NPV of total debt (2+6) | 1,055.1 | 1,063.3 | 1,044.3 | 1,023.0 | 994.3 | 956.4 | 942.0 | 937.1 | 937.0 | 938.7 | 949.6 | 1,074.7 | 1,230.4 | 985.5 | 1,093.1 |
| 2. NPV of outstanding debt (3+4) | 1,055.1 | 1,044.7 | 998.4 | 943.8 | 884.5 | 818.0 | 775.8 | 744.1 | 718.2 | 693.1 | 674.6 | 577.2 | 430.1 | 850.0 | 556.1 |
| 3. Official bilateral and commercial | 381.1 | 370.5 | 335.1 | 300.3 | 265.9 | 234.4 | 231.6 | 228.4 | 225.0 | 221.4 | 217.7 | 192.6 | 144.7 | 273.7 | 185.1 |
| Paris Club | 221.8 | 214.9 | 211.8 | 208.4 | 204.9 | 203.7 | 202.4 | 200.8 | 198.9 | 196.7 | 194.1 | 173.9 | 132.2 | 205.3 | 167.1 |
| Other official bilateral and commercial | 159.3 | 155.5 | 123.3 | 91.8 | 61.0 | 30.7 | 29.2 | 27.6 | 26.1 | 24.7 | 23.6 | 18.7 | 12.4 | 68.4 | 18.0 |
| 4. Multilateral | 674.0 | 674.2 | 663.3 | 643.5 | 618.5 | 583.6 | 544.2 | 515.7 | 493.2 | 471.7 | 456.9 | 384.6 | 285.4 | 576.3 | 371.0 |
| IDA | 323.8 | 324.8 | 325.4 | 326.2 | 327.1 | 327.1 | 326.7 | 324.4 | 319.6 | 312.8 | 305.2 | 257.3 | 188.2 | 322.1 | 247.6 |
| IMF | 158.9 | 160.4 | 151.0 | 133.3 | 110.9 | 79.8 | 45.4 | 24.5 | 11.5 | 1.9 | 0.0 | 0.0 | 0.0 | 79.8 | 0.0 |
| ADF | 118.6 | 118.8 | 119.0 | 119.1 | 119.2 | 119.2 | 118.8 | 117.9 | 116.5 | 114.7 | 112.8 | 101.9 | 84.9 | 117.7 | 99.4 |
| Others | 72.7 | 70.2 | 68.0 | 64.9 | 61.4 | 57.5 | 53.3 | 48.9 | 45.7 | 42.3 | 38.9 | 25.4 | 12.3 | 56.7 | 24.0 |
| **II. After enhanced HIPC assistance** | | | | | | | | | | | | | | | |
| 1. NPV of total debt (2+6) | 1,197.6 | 501.6 | 535.7 | 567.5 | 592.4 | 606.7 | 616.5 | 626.2 | 641.6 | 660.4 | 689.3 | 912.4 | 1,134.1 | 657.8 | 932.9 |
| NPV of total debt after full delivery 3/ | 481.0 | 501.6 | 535.7 | 567.5 | 592.4 | 606.7 | 616.5 | 626.2 | 641.6 | 660.4 | 689.3 | 912.4 | 1,134.1 | 592.6 | 932.9 |
| *Multilateral* | 378.0 | 379.8 | 386.4 | 385.6 | 380.6 | 367.0 | 349.7 | 332.5 | 322.2 | 314.4 | 314.3 | 320.2 | 254.9 | 355.5 | 304.0 |
| *Bilateral* | 103.0 | 103.2 | 103.3 | 102.6 | 101.9 | 101.3 | 100.6 | 100.7 | 100.6 | 100.4 | 100.0 | 94.7 | 78.8 | 101.6 | 91.9 |
| 2. NPV of outstanding debt (3+4) | 1,197.6 | 483.0 | 489.8 | 488.2 | 482.5 | 468.3 | 450.3 | 433.2 | 422.8 | 414.8 | 414.2 | 414.9 | 333.7 | 522.2 | 395.9 |
| 3. Official bilateral and commercial | 538.1 | 103.2 | 103.3 | 102.6 | 101.9 | 101.3 | 100.6 | 100.7 | 100.6 | 100.4 | 100.0 | 94.7 | 78.8 | 141.2 | 91.9 |
| Paris Club | 337.3 | 45.6 | 45.9 | 46.2 | 46.6 | 46.9 | 47.3 | 47.7 | 48.1 | 48.5 | 49.0 | 51.5 | 52.3 | 73.5 | 51.5 |
| Other official bilateral and commercial | 200.8 | 57.6 | 57.4 | 56.4 | 55.4 | 54.3 | 53.3 | 53.1 | 52.5 | 51.9 | 51.0 | 43.2 | 26.5 | 67.6 | 40.5 |
| 4. Multilateral | 659.5 | 379.8 | 386.4 | 385.6 | 380.6 | 367.0 | 349.7 | 332.5 | 322.2 | 314.4 | 314.3 | 320.2 | 254.9 | 381.1 | 304.0 |
| IDA | 314.7 | 188.0 | 192.6 | 197.3 | 202.3 | 207.4 | 212.6 | 216.5 | 219.8 | 222.6 | 225.4 | 238.5 | 188.2 | 218.1 | 225.0 |
| IMF | 158.8 | 103.8 | 104.5 | 98.0 | 87.2 | 68.0 | 45.4 | 24.5 | 11.5 | 1.9 | 0.0 | 0.0 | 0.0 | 64.0 | 0.0 |
| ADF | 115.6 | 68.7 | 69.4 | 70.1 | 70.8 | 71.4 | 71.8 | 72.1 | 72.1 | 71.7 | 71.4 | 69.2 | 62.3 | 75.0 | 67.9 |
| Others | 70.4 | 19.3 | 19.9 | 20.1 | 20.3 | 20.2 | 19.8 | 19.4 | 18.8 | 18.2 | 17.5 | 12.5 | 4.4 | 24.0 | 11.1 |
| **III. After bilateral debt relief beyond HIPC assistance 4/** | | | | | | | | | | | | | | | |
| 1. NPV of total debt (2+6) | 1,117.3 | 442.9 | 476.8 | 508.4 | 533.2 | 547.3 | 556.8 | 566.3 | 581.6 | 600.1 | 628.9 | 851.4 | 1,075.8 | 596.3 | 872.5 |
| NPV of total debt after full delivery 3/ | 425.0 | 442.9 | 476.8 | 508.4 | 533.2 | 547.3 | 556.8 | 566.3 | 581.6 | 600.1 | 628.9 | 851.4 | 1,075.8 | 533.4 | 872.5 |
| *Multilateral* | 378.0 | 379.8 | 386.4 | 385.6 | 380.6 | 367.0 | 349.7 | 332.5 | 322.2 | 314.4 | 314.3 | 320.2 | 254.9 | 355.5 | 304.0 |
| *Bilateral* | 47.0 | 44.5 | 44.5 | 43.6 | 42.7 | 41.8 | 40.9 | 40.9 | 40.6 | 40.1 | 39.6 | 33.7 | 20.5 | 42.4 | 31.5 |
| 2. NPV of outstanding debt (3+4) | 1,117.3 | 424.3 | 430.9 | 429.2 | 423.3 | 408.8 | 390.6 | 373.3 | 362.8 | 354.6 | 353.8 | 353.9 | 275.4 | 460.8 | 335.5 |
| 3. Official bilateral and commercial | 457.8 | 44.5 | 44.5 | 43.6 | 42.7 | 41.8 | 40.9 | 40.9 | 40.6 | 40.1 | 39.6 | 33.7 | 20.5 | 79.7 | 31.5 |
| Paris Club | 276.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.1 | 0.0 |
| Other official bilateral and commercial | 181.4 | 44.5 | 44.5 | 43.6 | 42.7 | 41.8 | 40.9 | 40.9 | 40.6 | 40.1 | 39.5 | 33.7 | 20.5 | 54.6 | 31.5 |
| 4. Multilateral | 659.5 | 379.8 | 386.4 | 385.6 | 380.6 | 367.0 | 349.7 | 332.5 | 322.2 | 314.4 | 314.3 | 320.2 | 254.9 | 381.1 | 304.0 |
| **IV. After MDRI assistance and bilateral debt relief beyond HIPC 4/** | | | | | | | | | | | | | | | |
| 1. NPV of total debt (2+6) | 1,117.3 | 128.6 | 157.8 | 192.0 | 223.4 | 250.6 | 274.7 | 298.4 | 320.3 | 342.3 | 368.7 | 580.3 | 858.5 | 334.0 | 615.6 |
| NPV of total debt after full delivery 3/ | 123.4 | 128.6 | 157.8 | 192.0 | 223.4 | 250.6 | 274.7 | 298.4 | 320.3 | 342.3 | 368.7 | 580.3 | 858.5 | 243.6 | 615.6 |
| *Multilateral* | 76.4 | 65.5 | 67.5 | 69.1 | 70.8 | 70.3 | 67.6 | 64.5 | 60.9 | 56.6 | 54.1 | 49.1 | 37.6 | 65.8 | 47.1 |
| *Bilateral* | 47.0 | 44.5 | 44.5 | 43.6 | 42.7 | 41.8 | 40.9 | 40.9 | 40.6 | 40.1 | 39.6 | 33.7 | 20.5 | 42.4 | 31.5 |
| 2. NPV of outstanding debt (3+4) | 1,117.3 | 110.0 | 111.9 | 112.7 | 113.5 | 112.1 | 108.5 | 105.4 | 101.5 | 96.7 | 93.6 | 82.8 | 58.1 | 198.5 | 78.6 |
| 3. Official bilateral and commercial | 457.8 | 44.5 | 44.5 | 43.6 | 42.7 | 41.8 | 40.9 | 40.9 | 40.6 | 40.1 | 39.6 | 33.7 | 20.5 | 79.7 | 31.5 |
| 4. Multilateral | 659.5 | 65.5 | 67.5 | 69.1 | 70.8 | 70.3 | 67.6 | 64.5 | 60.9 | 56.6 | 54.1 | 49.1 | 37.6 | 118.8 | 47.1 |
| IDA | 314.7 | 23.5 | 24.2 | 24.9 | 25.7 | 26.4 | 27.2 | 27.9 | 28.2 | 28.3 | 28.3 | 28.0 | 24.9 | 52.7 | 27.4 |
| IMF | 158.8 | 15.6 | 16.2 | 16.8 | 17.4 | 16.1 | 12.7 | 9.3 | 5.7 | 1.9 | 0.0 | 0.0 | 0.0 | 24.6 | 0.0 |
| ADF | 115.6 | 7.0 | 7.2 | 7.3 | 7.5 | 7.6 | 7.8 | 7.9 | 8.1 | 8.2 | 8.3 | 8.6 | 8.3 | 17.5 | 8.6 |
| Others | 70.4 | 19.3 | 19.9 | 20.1 | 20.3 | 20.2 | 19.8 | 19.4 | 18.8 | 18.2 | 17.5 | 12.5 | 4.4 | 24.0 | 11.1 |
| **Memorandum items:** | | | | | | | | | | | | | | | |
| 6. NPV of new borrowing | … | 18.6 | 45.9 | 79.3 | 109.9 | 138.4 | 166.2 | 193.0 | 218.8 | 245.6 | 275.0 | 497.5 | 800.4 | 149.1 | 537.0 |
| Official bilateral | … | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Multilateral | … | 18.6 | 45.9 | 79.3 | 109.9 | 138.4 | 166.2 | 193.0 | 218.8 | 245.6 | 275.0 | 497.5 | 800.4 | 149.1 | 537.0 |

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

1/ Refers to public and publicly guaranteed external debt only and is discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (December 2005).

2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end-2005, and at least comparable action by other official bilateral and commercial creditors.

3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-2005.

4/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

**Table 16. Sierra Leone: Stock of Debt Relief under HIPC and MDRI at the Completion Point**
(In millions of US dollars)

| | MDRI | HIPC | Total |
|---|---|---|---|
| IMF | 110.0 | 57.7 | 167.7 |
| IDA | 326.7 | 173.3 | 500.0 |
| AfDF | 119.6 | 74.1 | 193.7 |
| Total | 556.2 | 305.1 | 861.3 |

Sources: Bank-Fund staff estimates.

## Table 17. Sierra Leone: Comparison of Discount Rate and Exchange Rate Assumptions

| | Discount Rates 1/ 2/ (In percent per annum) | | Exchange Rates ( U.S. dollar per currency) | |
|---|---|---|---|---|
| | At decision point End-2000 | At completion point End-2005 | At decision point End-2000 | At completion point End-2005 |
| Currency | | | | |
| United States Dollar | 7.19 | 5.08 | 1.0 | 1.0 |
| Special Drawing Rights | 6.09 | 4.30 | 0.8 | 0.7 |
| Belgian Franc | 6.25 | 3.95 | 43.4 | 34.2 |
| Swiss Franc | 5.33 | 2.76 | 1.6 | 1.3 |
| Chinese Yuan | 6.09 | 4.30 | 8.3 | 8.1 |
| Danish Kroner | 6.73 | 3.88 | 8.0 | 6.3 |
| Deutsche Mark | 6.25 | 3.95 | 2.1 | 1.7 |
| Euro | 6.25 | 3.95 | 1.1 | 0.8 |
| French Franc | 6.25 | 3.95 | 7.0 | 5.6 |
| Great Britain Sterling | 6.73 | 5.28 | 0.7 | 0.6 |
| Italian Lira | 6.25 | 3.95 | 2,080.9 | 1,641.3 |
| Japanese Yen | 2.03 | 1.91 | 114.9 | 118.0 |
| Kuwaiti Dinar | 6.09 | 5.08 | 0.3 | 0.3 |
| Norwegian Kroner | 8.02 | 4.17 | 8.8 | 6.8 |
| Saudi Arabia Ryal | 6.09 | 4.30 | 3.7 | 3.7 |
| Swedish Kroner | 6.20 | 4.30 | 9.5 | 0.7 |

Paris Club cut off date: July, 1983

Sources: OECD; and IMF, International Financial Statistics.

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2005 for the completion point and in December 2000 for the decision point.
2/ For all Euro area currencies, the Euro CIRR is used. For the Kuwaiti Dinar, the US dollar CIRR is used for completion point calculations (compared to the decision point calculations, when the SDR CIRR was used), in accordance to the explicit peg of the Dinar to the US dollar in the beginning of 2003. For all currencies for which the CIRRs are not available, the SDR discount is used as a proxy.

## Table 18. Sierra Leone: External and Publicly Guaranteed Debt at End-December 2005 1/
(In millions of US dollars)

| | Legal Situation 2/ | | NPV of Debt 3/ | | |
|---|---|---|---|---|---|
| | Nominal Debt | NPV of Debt | After Enhanced HIPC | | After Additional Bilateral Assistance |
| **Total** | **1,573.2** | **1,114.3** | **481.0** | | **425.0** |
| **Multilateral** | 1,060.1 | 674.1 | 378.0 | | 378.0 |
| IDA | 556.6 | 323.8 | 183.5 | | 183.5 |
| ADF | 210.9 | 118.7 | 68.0 | | 68.0 |
| IMF | 192.1 | 158.9 | 104.6 | | 104.6 |
| EU/EIB | 23.6 | 18.9 | 3.1 | | 3.1 |
| IFAD | 26.3 | 17.5 | 1.1 | | 1.1 |
| OPEC Fund | 9.5 | 7.2 | 0.5 | | 0.5 |
| BADEA | 14.6 | 11.6 | 1.2 | | 1.2 |
| IsDB | 26.6 | 17.4 | 16.0 | | 16.0 |
| **Bilateral and commercial** | **513.0** | **440.3** | **103.0** | | **47.0** |
| **Paris Club** | 315.5 | 249.2 | 43.7 | 4/ | 0.2 |
| Austria | 0.4 | 0.2 | - | | - |
| Belgium | 19.8 | 15.1 | - | | - |
| Denmark | 0.0 | 0.0 | - | | - |
| France | 27.1 | 23.6 | - | | - |
| Germany | 15.5 | 15.4 | - | | - |
| Italy | 32.3 | 25.2 | - | | - |
| Ireland | 0.0 | 0.0 | - | | - |
| Japan | 92.3 | 67.4 | - | | - |
| Luxembourg | 0.0 | 0.0 | - | | - |
| Netherlands | 30.9 | 30.7 | - | | - |
| Norway | 10.9 | 9.8 | - | | - |
| Switzerland | 20.3 | 15.8 | - | | - |
| United Kingdom | 5.6 | 3.7 | - | | - |
| United States | 60.3 | 42.3 | - | | - |
| **Non Paris Club official creditors** | 53.5 | 47.1 | 8.7 | | 7.6 |
| China | 30.6 | 29.5 | 5.6 | | 5.6 |
| Kuwait | 21.7 | 16.8 | 1.4 | | 1.4 |
| Morocco | 0.0 | 0.0 | 1.2 | | 0.0 |
| Saudi Arabia | 1.2 | 0.9 | 0.6 | | 0.6 |
| **Commercial** | 144.1 | 144.0 | 50.6 | | 39.3 |
| Military and commercial | 144.1 | 144.0 | 50.6 | | 39.3 |

Sources: Sierra Leonean authorities; and Bank-Fund staff estimates.

1/ Figures are based on data as of end-2005.
2/ Reflects the external debt situation as of end-2005, including Cologne flow and additional assistance beyond HIPC for some creditors.
3/ Assumes full delivery of HIPC assistance as of end-2005.
4/ Paris Club creditors deliver their share of assistance as a group. Actual delivery modalities are defined on a case-by-case basis.

**Table 19. Sierra Leone: Breakdown of the Increase in Net Present Value of Debt-to-Export Ratio**
(As of End-2005 )[1/]

| | Percentage Points | Percent of Total Increase |
|---|---|---|
| **NPV of debt-to-export ratio (as projected at Decision Point)** | **130.2** | |
| **NPV of debt-to-export ratio (actual)** | **202.3** | |
| **Total increase** | **72.1** | **100.0** |
| **1. Due to changes in the parameters** | **65.6** | **91.0** |
| o/w due to changes in the discount rates | 45.9 | 63.7 |
| o/w due to changes in the exchange rates | 19.7 | 27.3 |
| **2. Due to unanticipated new borrowing** | **3.3** | **4.6** |
| o/w due to higher than expected disbursements | -15.1 | -20.9 |
| o/w due to lower concessionality of the loans | 18.4 | 25.5 |
| **3. Due to changes in export** | **-7.8** | **-10.9** |
| o/w due to increase of goods | -7.1 | -9.9 |
| o/w due to increase of non factor services | -0.7 | -1.0 |
| **5. Other factors 2/** | **11.1** | **15.3** |

Sources: Staff estimates

1/ NPV of debt-to-revenue ratio after full delivery of Enhanced HIPC assistance.
2/ Due to revisions in the end-00 database and changes in the timing and mechanisms of delivery of assistance compared to the assumptions in the decision point projections (mainly due to delays in reaching the Completion Point).

## Table 20. Sierra Leone: External Debt Indicators, 2005–25
(In percent unless otherwise indicated)

| | Actuals | Projections | | | | | | | | | | | | | Averages | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2020 | 2025 | 2005-2015 | 2016-2025 |
| **After traditional debt relief mechanisms 2/** | | | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 86.9 | 72.2 | 64.7 | 58.8 | 53.1 | 47.1 | 42.8 | 39.4 | 36.8 | 34.4 | 32.5 | 31.0 | 26.9 | 22.7 | 53.6 | 27.1 |
| NPV of debt-to-exports ratio 3/ 4/ | 443.8 | 382.5 | 313.9 | 259.8 | 219.8 | 187.0 | 166.5 | 152.9 | 143.9 | 136.1 | 130.0 | 125.0 | 111.9 | 97.0 | 240.6 | 112.3 |
| NPV of debt-to-revenue ratio 5/ | 732.9 | 578.6 | 491.9 | 439.2 | 368.0 | 322.8 | 288.8 | 262.5 | 239.9 | 222.7 | 209.0 | 198.5 | 165.6 | 133.2 | 394.7 | 167.6 |
| Debt service-to-exports ratio | … | 16.2 | 22.7 | 21.4 | 19.5 | 18.2 | 13.0 | 10.9 | 9.8 | 9.3 | 7.9 | 7.1 | 6.3 | 6.7 | 15.7 | 6.7 |
| Debt service-to-revenue ratio 5/ | … | 29.3 | 42.4 | 41.5 | 36.7 | 35.2 | 24.6 | 20.0 | 17.2 | 16.1 | 13.4 | 11.9 | 9.9 | 9.7 | 29.2 | 10.5 |
| **After enhanced HIPC assistance** | | | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 98.6 | 34.1 | 33.2 | 32.6 | 31.6 | 29.9 | 28.0 | 26.4 | 25.2 | 24.2 | 23.6 | 23.2 | 22.8 | 20.9 | 36.4 | 22.5 |
| NPV of debt-to-exports ratio 3/ 4/ | 503.7 | 180.5 | 161.0 | 144.1 | 130.9 | 118.6 | 109.0 | 102.2 | 98.5 | 95.8 | 94.4 | 93.7 | 95.0 | 89.4 | 164.4 | 93.5 |
| NPV of debt-to-exports ratio (existing debt only) 3/ 4/ | 503.7 | 173.8 | 147.2 | 124.0 | 106.7 | 91.6 | 79.6 | 70.7 | 64.9 | 60.2 | 56.7 | 53.7 | 43.2 | 26.3 | 142.2 | 42.4 |
| NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/ | 202.3 | 180.5 | 161.0 | 144.1 | 130.9 | 118.6 | 109.0 | 102.2 | 98.5 | 95.8 | 94.4 | 93.7 | 95.0 | 89.4 | 134.3 | 93.5 |
| NPV of debt-to-revenue ratio 5/ | 831.9 | 273.0 | 252.3 | 243.6 | 219.2 | 204.8 | 189.0 | 175.4 | 164.3 | 156.7 | 151.7 | 148.7 | 140.6 | 122.7 | 271.0 | 138.9 |
| NPV of debt-to-revenue ratio after full delivery in 2003 5/ 6/ | 334.1 | 273.0 | 252.3 | 243.6 | 219.2 | 204.8 | 189.0 | 175.4 | 164.3 | 156.7 | 151.7 | 148.7 | 140.6 | 122.7 | 221.2 | 138.9 |
| Debt service-to-exports ratio | … | 5.6 | 3.6 | 5.2 | 5.5 | 6.4 | 7.0 | 6.9 | 6.0 | 5.6 | 4.4 | 3.8 | 3.7 | 5.9 | 5.8 | 4.5 |
| Debt service-to-revenue ratio 5/ | … | 10.1 | 6.8 | 10.1 | 10.4 | 12.5 | 13.3 | 12.6 | 10.5 | 9.6 | 7.4 | 6.5 | 5.8 | 8.5 | 10.6 | 6.9 |
| **After bilateral debt relief beyond HIPC assistance 7/** | | | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 92.0 | 30.1 | 29.5 | 29.2 | 28.4 | 27.0 | 25.3 | 23.8 | 22.8 | 22.0 | 21.5 | 21.3 | 21.3 | 19.9 | 33.0 | 21.0 |
| NPV of debt-to-exports ratio 3/ 4/ | 469.9 | 159.4 | 143.3 | 129.1 | 117.8 | 107.0 | 98.4 | 92.4 | 89.3 | 87.0 | 86.1 | 85.9 | 88.7 | 84.8 | 149.4 | 87.1 |
| NPV of debt-to-exports ratio (existing debt only) 3/ 4/ | 469.9 | 152.7 | 129.5 | 109.0 | 93.6 | 79.9 | 69.1 | 60.9 | 55.7 | 51.4 | 48.4 | 45.9 | 36.9 | 21.7 | 127.2 | 36.0 |
| NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/ | 178.8 | 159.4 | 143.3 | 129.1 | 117.8 | 107.0 | 98.4 | 92.4 | 89.3 | 87.0 | 86.1 | 85.9 | 88.7 | 84.8 | 120.3 | 87.1 |
| NPV of debt-to-revenue ratio 5/ | 776.1 | 241.1 | 224.6 | 218.3 | 197.3 | 184.7 | 170.7 | 158.7 | 148.9 | 142.4 | 138.4 | 136.3 | 131.2 | 116.4 | 246.3 | 129.3 |
| NPV of debt-to-revenue ratio after full delivery in 2003 5/ 6/ | 295.2 | 241.1 | 224.6 | 218.3 | 197.3 | 184.7 | 170.7 | 158.7 | 148.9 | 142.4 | 138.4 | 136.3 | 131.2 | 116.4 | 198.2 | 129.3 |
| Debt service-to-exports ratio | … | 5.6 | 3.0 | 4.6 | 5.0 | 6.0 | 6.6 | 6.5 | 5.6 | 5.2 | 4.0 | 3.5 | 3.5 | 5.6 | 5.3 | 4.2 |
| Debt service-to-revenue ratio 5/ | … | 10.1 | 5.5 | 8.9 | 9.4 | 11.6 | 12.4 | 11.8 | 9.8 | 9.0 | 6.8 | 5.9 | 5.4 | 8.1 | 9.8 | 6.5 |
| **After MDRI and bilateral debt relief beyond HIPC** | | | | | | | | | | | | | | | | |
| NPV of debt-to-GDP ratio | 92.0 | 8.7 | 9.8 | 11.0 | 11.9 | 12.3 | 12.5 | 12.6 | 12.6 | 12.5 | 12.6 | 12.9 | 14.5 | 15.9 | 19.6 | 14.4 |
| NPV of debt-to-exports ratio 3/ 4/ | 469.9 | 46.3 | 47.4 | 48.8 | 49.4 | 49.0 | 48.6 | 48.7 | 49.2 | 49.6 | 50.5 | 51.9 | 60.4 | 67.7 | 90.7 | 59.8 |
| NPV of debt-to-exports ratio (existing debt only) 3/ 4/ | 469.9 | 39.6 | 33.6 | 28.6 | 25.1 | 21.9 | 19.2 | 17.2 | 15.6 | 14.0 | 12.8 | 11.9 | 8.6 | 4.6 | 68.5 | 8.6 |
| NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/ | 51.9 | 46.3 | 47.4 | 48.8 | 49.4 | 49.0 | 48.6 | 48.7 | 49.2 | 49.6 | 50.5 | 51.9 | 60.4 | 67.7 | 48.9 | 59.8 |
| NPV of debt-to-revenue ratio 5/ | 776.1 | 70.0 | 74.3 | 82.4 | 82.7 | 84.6 | 84.2 | 83.6 | 82.0 | 81.2 | 81.1 | 82.4 | 89.4 | 92.9 | 150.1 | 88.3 |
| NPV of debt-to-revenue ratio after full delivery in 2003 5/ 6/ | 85.7 | 70.0 | 74.3 | 82.4 | 82.7 | 84.6 | 84.2 | 83.6 | 82.0 | 81.2 | 81.1 | 82.4 | 89.4 | 92.9 | 81.1 | 88.3 |
| Debt service-to-exports ratio | … | 5.5 | 0.7 | 0.9 | 0.8 | 1.1 | 1.4 | 1.2 | 1.2 | 1.3 | 0.9 | 0.7 | 0.7 | 0.7 | 1.6 | 0.7 |
| Debt service-to-revenue ratio 5/ | … | 10.0 | 1.3 | 1.7 | 1.5 | 2.1 | 2.6 | 2.2 | 2.2 | 2.2 | 1.6 | 1.1 | 1.0 | 1.0 | 2.9 | 1.1 |
| Memorandum items (in millions of U.S. dollars): | | | | | | | | | | | | | | | | |
| NPV of debt after enhanced HIPC assistance | 1,197.6 | 501.6 | 535.7 | 567.5 | 592.4 | 606.7 | 616.5 | 626.2 | 641.6 | 660.4 | 689.3 | 724.2 | 912.4 | 1,134.1 | 654.6 | 910.8 |
| *Of which:* existing debt only | 1,197.6 | 483.0 | 489.8 | 488.2 | 482.5 | 468.3 | 450.3 | 433.2 | 422.8 | 414.8 | 414.2 | 415.2 | 414.9 | 333.7 | 533.0 | 397.6 |
| Debt service after enhanced HIPC assistance | … | 18.5 | 14.4 | 23.5 | 28.1 | 36.9 | 43.3 | 45.0 | 41.0 | 40.5 | 33.8 | 31.4 | 37.9 | 78.7 | 32.4 | 47.4 |
| Debt service beyond HIPC assistance | … | 18.5 | 11.7 | 20.8 | 25.4 | 34.2 | 40.6 | 42.3 | 38.3 | 37.8 | 31.0 | 28.6 | 35.0 | 74.8 | 29.9 | 44.3 |
| GDP | 1,214.8 | 1,473.0 | 1,614.6 | 1,740.5 | 1,874.2 | 2,029.4 | 2,201.5 | 2,375.9 | 2,548.2 | 2,729.0 | 2,918.5 | 3,116.9 | 4,001.7 | 5,416.0 | 1,980.1 | 4,068.1 |
| Exports of goods and services 3/ | 268.4 | 332.8 | 396.8 | 451.6 | 508.8 | 573.6 | 614.5 | 650.7 | 688.5 | 729.5 | 773.1 | 816.4 | 1,012.6 | 1,340.4 | 521.5 | 1,030.8 |
| Exports of goods and services (three-year mvg. Avg.) 3/ 4/ | 237.7 | 278.0 | 332.7 | 393.7 | 452.4 | 511.4 | 565.7 | 613.0 | 651.3 | 689.6 | 730.4 | 773.0 | 960.3 | 1,268.7 | 472.5 | 976.2 |
| Government Revenue 5/ | 144.0 | 183.8 | 212.3 | 232.9 | 270.2 | 296.3 | 326.1 | 357.0 | 390.6 | 421.5 | 454.3 | 487.0 | 649.0 | 924.0 | 283.5 | 664.9 |

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

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.
2/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2005, and at least comparable action by other official bilateral and commercial creditors.
3/ Exports of goods and non-factor services as defined in IMF, *Balance of Payments Manual* , 5th edition, 1993.
4/ Based on a three-year average of exports ending in the current year (e.g., export average over 2003-2005 for NPV of debt-to-exports ratio in 2005).
5/ Revenue is defined as central government revenue, excluding grants.
6/ Assuming full delivery of HIPC assistance as of end-2005.
7/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

## Table 21. Sierra Leone: External Debt Service After Full Implementation of Debt Relief Mechanisms
(In millions of U.S. dollars)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2022 | 2026 | Annual Averages 2006-15 | Annual Averages 2016-26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Total debt service** | **53.9** | **90.1** | **96.7** | **99.3** | **104.3** | **80.2** | **71.2** | **67.3** | **67.8** | **61.0** | **74.4** | **95.3** | **79.2** | **69.5** |
| **After traditional debt-relief mechanisms 1/** | **53.8** | **89.9** | **96.0** | **98.1** | **102.5** | **75.2** | **62.8** | **55.5** | **53.6** | **45.8** | **48.2** | **49.9** | **73.3** | **46.3** |
| Multilateral | 28.1 | 39.6 | 48.1 | 52.3 | 61.2 | 64.2 | 51.6 | 44.4 | 42.5 | 34.8 | 34.7 | 34.0 | 46.7 | 33.6 |
| IDA | 13.0 | 13.4 | 13.3 | 13.2 | 14.1 | 14.5 | 16.5 | 18.8 | 20.5 | 21.2 | 23.8 | 23.8 | 15.9 | 22.9 |
| IMF | 5.3 | 16.3 | 24.2 | 28.1 | 35.9 | 37.7 | 22.9 | 14.1 | 10.0 | 2.0 | 0.0 | 0.0 | 19.7 | 0.0 |
| ADF | 4.5 | 4.5 | 4.5 | 4.6 | 4.6 | 5.2 | 5.5 | 6.0 | 6.5 | 6.4 | 7.0 | 7.5 | 5.2 | 6.9 |
| Others | 5.3 | 5.4 | 6.0 | 6.4 | 6.6 | 6.8 | 6.8 | 5.4 | 5.4 | 5.2 | 3.9 | 2.7 | 5.9 | 3.8 |
| Official bilateral | 25.6 | 50.3 | 47.9 | 45.7 | 41.3 | 11.0 | 11.2 | 11.2 | 11.2 | 11.0 | 13.4 | 15.9 | 26.6 | 12.8 |
| Paris Club | 14.1 | 10.5 | 10.5 | 10.4 | 8.0 | 8.0 | 8.2 | 8.4 | 8.7 | 9.0 | 12.7 | 15.3 | 9.6 | 11.6 |
| Other official bilateral and commercial | 11.5 | 39.8 | 37.4 | 35.3 | 33.3 | 3.0 | 3.0 | 2.7 | 2.5 | 2.0 | 0.7 | 0.6 | 17.0 | 1.2 |
| **II. Total debt service** | **18.5** | **14.4** | **23.5** | **28.1** | **36.9** | **43.3** | **45.0** | **41.0** | **40.5** | **33.8** | **57.8** | **83.9** | **32.5** | **48.7** |
| **After enhanced HIPC assistance** | **18.3** | **14.2** | **22.8** | **26.8** | **35.2** | **38.3** | **36.6** | **29.2** | **26.4** | **18.6** | **31.5** | **38.4** | **26.6** | **25.6** |
| Multilateral | 13.6 | 9.4 | 17.1 | 21.2 | 29.6 | 32.7 | 31.9 | 24.2 | 21.2 | 13.3 | 24.8 | 29.5 | 21.4 | 19.0 |
| IDA | 3.4 | 3.5 | 3.5 | 3.5 | 3.7 | 3.8 | 5.2 | 6.0 | 6.7 | 6.8 | 19.1 | 23.8 | 4.6 | 13.6 |
| IMF | 5.2 | 3.7 | 11.1 | 15.0 | 23.0 | 25.5 | 22.9 | 14.1 | 10.0 | 2.0 | 0.0 | 0.0 | 13.2 | 0.0 |
| ADF | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.3 | 2.5 | 2.7 | 3.0 | 3.0 | 3.8 | 4.3 | 2.3 | 3.6 |
| Others | 3.1 | 0.3 | 0.6 | 0.7 | 0.9 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 | 1.9 | 1.5 | 1.3 | 1.8 |
| Official bilateral | 4.7 | 4.9 | 5.7 | 5.7 | 5.6 | 5.6 | 4.7 | 5.0 | 5.1 | 5.3 | 6.7 | 8.9 | 5.2 | 6.6 |
| Paris Club | 0.2 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 2.8 | 1.7 | 2.1 |
| Other official bilateral and commercial | 4.5 | 3.0 | 3.8 | 3.8 | 3.7 | 3.7 | 2.8 | 3.1 | 3.2 | 3.4 | 4.8 | 6.1 | 3.5 | 4.5 |
| **III. Total debt service** | **18.5** | **11.7** | **20.8** | **25.4** | **34.2** | **40.6** | **42.3** | **38.3** | **37.8** | **31.0** | **54.9** | **79.8** | **30.0** | **45.6** |
| **After bilateral debt relief beyond HIPC 2/** | **18.3** | **11.5** | **20.1** | **24.1** | **32.5** | **35.6** | **33.9** | **26.5** | **23.6** | **15.8** | **28.6** | **34.4** | **24.2** | **22.5** |
| Multilateral | 13.6 | 9.4 | 17.1 | 21.2 | 29.6 | 32.7 | 31.9 | 24.2 | 21.2 | 13.3 | 24.8 | 29.5 | 21.4 | 19.0 |
| Official bilateral | 4.7 | 2.2 | 3.0 | 3.0 | 2.9 | 2.9 | 2.0 | 2.3 | 2.4 | 2.5 | 3.7 | 4.9 | 2.8 | 3.5 |
| Paris Club | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other official bilateral and commercial | 4.5 | 2.2 | 3.0 | 3.0 | 2.9 | 2.9 | 2.0 | 2.3 | 2.4 | 2.5 | 3.7 | 4.9 | 2.8 | 3.5 |
| **IV. Total debt service** | **18.3** | **2.8** | **4.1** | **4.1** | **6.3** | **8.5** | **7.8** | **8.5** | **9.1** | **7.3** | **7.4** | **9.1** | **7.7** | **7.1** |
| **After MDRI and bilateral debt relief beyond HIPC 2/** | **18.3** | **2.8** | **4.1** | **4.1** | **6.3** | **8.5** | **7.8** | **8.5** | **9.1** | **7.3** | **7.4** | **9.1** | **7.7** | **7.1** |
| Multilateral | 13.6 | 0.7 | 1.1 | 1.2 | 3.3 | 5.6 | 5.8 | 6.2 | 6.8 | 4.8 | 3.6 | 4.2 | 4.9 | 3.6 |
| IDA | 3.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.5 | 0.8 | 1.1 | 1.2 | 1.5 | 2.2 | 0.9 | 1.5 |
| IMF | 5.2 | 0.1 | 0.1 | 0.1 | 2.1 | 4.0 | 4.0 | 4.0 | 4.0 | 2.0 | 0.0 | 0.0 | 2.6 | 0.0 |
| ADF | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.5 | 0.2 | 0.3 |
| Others | 3.1 | 0.3 | 0.6 | 0.7 | 0.9 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 | 1.9 | 1.5 | 1.3 | 1.8 |
| Official bilateral | 4.7 | 2.2 | 3.0 | 3.0 | 2.9 | 2.9 | 2.0 | 2.3 | 2.4 | 2.5 | 3.7 | 4.9 | 2.8 | 3.5 |
| Paris Club | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other official bilateral and commercial | 4.5 | 2.2 | 3.0 | 3.0 | 2.9 | 2.9 | 2.0 | 2.3 | 2.4 | 2.5 | 3.7 | 4.9 | 2.8 | 3.5 |
| **Memorandum items:** | | | | | | | | | | | | | | |
| Debt service of new debt | 0.2 | 0.2 | 0.7 | 1.2 | 1.8 | 5.0 | 8.4 | 11.8 | 14.1 | 15.2 | 26.3 | 45.4 | 5.9 | 23.1 |
| Multilateral | 0.2 | 0.2 | 0.7 | 1.2 | 1.8 | 5.0 | 8.4 | 11.8 | 14.1 | 15.2 | 26.3 | 45.4 | 5.9 | 23.1 |
| Official bilateral | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal HIPC relief | | | | | | | | | | | | | | |
| Under the enhanced HIPC initiative | 35.4 | 75.7 | 73.2 | 71.2 | 67.4 | 36.9 | 26.3 | 26.3 | 27.3 | 27.2 | 16.6 | 11.4 | 46.7 | 19.9 |

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

1/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2005, and at least comparable action by other official bilateral and commercial creditors.

2/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the Enhanced HIPC framework.

# Table 22. Sierra Leone: Sensitivity Analysis [1/]

(In percent unless otherwise indicated)

| | | | | | | | Projections | | | | | | | | | | Annual Averages | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2018 | 2020 | 2022 | 2024 | 2025 | 2005-2015 | 2016-2025 |
| **Baseline scenario** | | | | | | | | | | | | | | | | | | |
| NPV of debt-to-revenue ratio 2/ | 241.1 | 224.6 | 218.3 | 197.3 | 184.7 | 170.7 | 158.7 | 148.9 | 142.4 | 138.4 | 136.3 | 133.0 | 131.2 | 127.2 | 120.2 | 116.4 | 182.5 | 128.4 |
| NPV of debt-to-exports ratio 3/ | 159.4 | 143.3 | 129.1 | 117.8 | 107.0 | 98.4 | 92.4 | 89.3 | 87.0 | 86.1 | 85.9 | 86.8 | 88.7 | 88.8 | 86.3 | 84.8 | 111.0 | 87.2 |
| Debt service-to-exports ratio 3/ | 5.6 | 3.0 | 4.6 | 5.0 | 6.0 | 6.6 | 6.5 | 5.6 | 5.2 | 4.0 | 3.5 | 3.2 | 3.5 | 4.9 | 5.5 | 5.6 | 5.2 | 4.2 |
| Memorandum items (in millions of U.S. dollars): | | | | | | | | | | | | | | | | | | |
| NPV of debt | 442.9 | 476.8 | 508.4 | 533.2 | 547.3 | 556.8 | 566.3 | 581.6 | 600.1 | 628.9 | 663.7 | 748.5 | 851.4 | 951.2 | 1,034.8 | 1,075.8 | 544.2 | 872.5 |
| *Of which:* new debt | 18.6 | 45.9 | 79.3 | 109.9 | 138.4 | 166.2 | 193.0 | 218.8 | 245.6 | 275.0 | 309.1 | 393.2 | 497.5 | 613.0 | 737.2 | 800.4 | 149.1 | 537.0 |
| Debt service | 18.5 | 11.7 | 20.8 | 25.4 | 34.2 | 40.6 | 42.3 | 38.3 | 37.8 | 31.0 | 28.6 | 29.1 | 35.0 | 54.9 | 69.8 | 74.8 | 30.0 | 45.6 |
| *Of which:* new debt | 0.2 | 0.2 | 0.7 | 1.2 | 1.8 | 5.0 | 8.4 | 11.8 | 14.1 | 15.2 | 14.4 | 14.1 | 19.0 | 26.3 | 34.9 | 40.0 | 5.9 | 23.1 |
| Exports of goods and services, three-year average | 278.0 | 332.7 | 393.7 | 452.4 | 511.4 | 565.7 | 613.0 | 651.3 | 689.6 | 730.4 | 773.0 | 862.2 | 960.3 | 1,071.3 | 1,199.0 | 1,268.7 | 521.8 | 1,000.8 |
| Exports of goods and services, annual | 332.8 | 396.8 | 451.6 | 508.8 | 573.6 | 614.5 | 650.7 | 688.5 | 729.5 | 773.1 | 816.4 | 908.8 | 1,012.6 | 1,131.4 | 1,268.3 | 1,340.4 | 572.0 | 1,056.6 |
| Revenues | 183.8 | 212.3 | 232.9 | 270.2 | 296.3 | 326.1 | 357.0 | 390.6 | 421.5 | 454.3 | 487.0 | 562.7 | 649.0 | 747.5 | 861.0 | 924.0 | 314.5 | 685.9 |
| **Sensitivity analysis** | | | | | | | | | | | | | | | | | | |
| **Alternative scenario I 4/** | | | | | | | | | | | | | | | | | | |
| NPV of debt-to-revenue ratio 2/ | 241.1 | 227.9 | 225.7 | 210.6 | 205.9 | 199.0 | 193.3 | 189.4 | 188.9 | 190.6 | 194.1 | 200.7 | 207.0 | 209.3 | 206.7 | 204.6 | 207.2 | 204.1 |
| NPV of debt-to-exports ratio 3/ | 159.4 | 148.8 | 139.9 | 136.8 | 134.0 | 132.0 | 130.7 | 131.8 | 134.0 | 137.7 | 141.7 | 151.1 | 161.6 | 168.7 | 171.3 | 171.6 | 138.5 | 160.5 |
| Debt service-to-exports ratio 3/ | 5.6 | 3.1 | 5.0 | 5.7 | 7.1 | 7.9 | 7.8 | 6.8 | 6.4 | 5.1 | 4.6 | 4.5 | 5.3 | 7.4 | 8.5 | 8.8 | 6.0 | 6.2 |
| Memorandum items (in millions of U.S. dollars): | | | | | | | | | | | | | | | | | | |
| NPV of debt | 442.9 | 484.0 | 525.7 | 568.9 | 610.0 | 648.8 | 689.9 | 739.7 | 796.1 | 865.9 | 945.3 | 1,129.4 | 1,343.3 | 1,564.3 | 1,779.9 | 1,890.2 | 637.2 | 1,404.6 |
| *Of which:* new debt | 18.6 | 53.1 | 96.6 | 145.6 | 201.2 | 258.2 | 316.6 | 377.0 | 441.5 | 512.0 | 590.7 | 774.2 | 989.4 | 1,226.1 | 1,482.3 | 1,614.8 | 242.0 | 1,069.1 |
| Debt service | 18.5 | 11.7 | 20.9 | 25.7 | 34.8 | 41.6 | 43.8 | 40.3 | 40.4 | 34.2 | 32.4 | 35.5 | 46.3 | 72.1 | 93.7 | 102.3 | 31.2 | 59.4 |
| *Of which:* new debt | 0.2 | 0.2 | 0.8 | 1.5 | 2.4 | 6.0 | 9.9 | 13.9 | 16.7 | 18.4 | 18.1 | 20.5 | 30.3 | 43.6 | 58.8 | 67.5 | 7.0 | 37.0 |
| Exports of goods and services, three-year average | 278.0 | 325.2 | 375.9 | 415.8 | 455.2 | 491.5 | 527.7 | 561.3 | 594.2 | 628.9 | 667.2 | 747.4 | 831.4 | 927.4 | 1,039.0 | 1,101.3 | 465.4 | 866.7 |
| Exports of goods and services, annual | 332.8 | 374.3 | 420.5 | 452.6 | 492.5 | 529.3 | 561.3 | 593.2 | 628.0 | 665.3 | 708.3 | 787.2 | 876.4 | 979.6 | 1,100.0 | 1,166.3 | 505.0 | 915.8 |
| Revenues | 183.8 | 212.3 | 232.9 | 270.2 | 296.3 | 326.1 | 357.0 | 390.6 | 421.5 | 454.3 | 487.0 | 562.7 | 649.0 | 747.5 | 861.0 | 924.0 | 314.5 | 685.9 |
| **Alternative scenario II 5/** | | | | | | | | | | | | | | | | | | |
| NPV of debt-to-revenue ratio 2/ | 250.0 | 260.1 | 278.1 | 271.9 | 274.0 | 271.7 | 269.5 | 267.7 | 269.6 | 272.9 | 277.6 | 283.8 | 287.4 | 285.4 | 277.1 | 271.7 | 268.5 | 281.8 |
| NPV of debt-to-exports ratio 3/ | 165.3 | 166.0 | 164.5 | 162.4 | 158.7 | 156.6 | 156.9 | 160.6 | 164.8 | 169.8 | 174.9 | 185.2 | 194.3 | 199.1 | 199.0 | 197.9 | 162.6 | 191.7 |
| Debt service-to-exports ratio 3/ | 5.6 | 3.0 | 4.7 | 5.1 | 6.1 | 6.8 | 6.7 | 5.8 | 5.4 | 4.3 | 3.8 | 3.8 | 4.3 | 5.9 | 6.7 | 6.8 | 5.3 | 5.0 |
| Memorandum items: (in millions of U.S. dollars): | | | | | | | | | | | | | | | | | | |
| NPV of debt | 459.4 | 552.2 | 647.8 | 734.6 | 811.7 | 885.9 | 961.9 | 1,045.7 | 1,136.2 | 1,239.8 | 1,352.0 | 1,596.8 | 1,865.4 | 2,133.4 | 2,385.9 | 2,510.3 | 847.5 | 1,930.5 |
| *Of which:* new debt | 35.1 | 121.3 | 218.7 | 311.3 | 402.9 | 495.3 | 588.6 | 682.9 | 781.6 | 886.0 | 997.4 | 1,241.6 | 1,511.5 | 1,795.2 | 2,088.3 | 2,234.9 | 452.4 | 1,595.0 |
| Debt service | 18.5 | 11.7 | 21.0 | 25.8 | 35.0 | 41.6 | 43.5 | 39.8 | 39.6 | 33.2 | 31.1 | 34.4 | 43.2 | 66.2 | 84.4 | 91.3 | 31.0 | 54.8 |
| *Of which:* new debt | 0.2 | 0.2 | 0.9 | 1.7 | 2.5 | 6.0 | 9.6 | 13.3 | 16.0 | 17.3 | 16.8 | 19.4 | 27.2 | 37.6 | 49.6 | 56.5 | 6.8 | 32.3 |
| Exports of goods and services, three-year average | 278.0 | 332.7 | 393.7 | 452.4 | 511.4 | 565.7 | 613.0 | 651.3 | 689.6 | 730.4 | 773.0 | 862.2 | 960.3 | 1,071.3 | 1,199.0 | 1,268.7 | 521.8 | 1,000.8 |
| Exports of goods and services, annual | 332.8 | 396.8 | 451.6 | 508.8 | 573.6 | 614.5 | 650.7 | 688.5 | 729.5 | 773.1 | 816.4 | 908.8 | 1,012.6 | 1,131.4 | 1,268.3 | 1,340.4 | 572.0 | 1,056.6 |
| Revenues | 183.8 | 212.3 | 232.9 | 270.2 | 296.3 | 326.1 | 357.0 | 390.6 | 421.5 | 454.3 | 487.0 | 562.7 | 649.0 | 747.5 | 861.0 | 924.0 | 314.5 | 685.9 |

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

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.

2/ Revenues are defined as central government revenues, excluding grants.

3/ Exports of goods and services as defined in IMF, Balance of Payments Manual, 5th edition, 1993; excludes transit trade. The NPV of debt-to-exports ratio is based on the average of three consecutive years of exports of goods and non factor services ending in the current year; the debt-service ratio is based on current export year.

4/ Scenario I assumes 50 percent decline in volume growth and 50 percent decline in price growth relative to the baseline scenario.

5/ Scenario II assumes lower grants that are replaced by increased borrowing.

## Table 23. Sierra Leone: Paris Club Creditor's Delivery of Debt Relief Under Bilateral Initiatives Beyond the HIPC Initiative [1/]

| | Countries covered | ODA (in percent) | | Non-ODA (in percent) | | Provision of relief | |
|---|---|---|---|---|---|---|---|
| | | Pre-cutoff date debt | Post-cutoff date debt | Pre-cutoff date debt | Post-cutoff date debt | Decision point (In percent) | Completion point |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Australia | HIPCs | 100 | 100 | 100 | 100 2/ | 2/ | 2/ |
| Austria | HIPCs | 100 | - | 100 | - | Case-by-case, flow | Stock |
| Belgium | HIPCs | 100 | 100 | 100 | - | 100 flow | Stock |
| Canada | HIPCs 3/ | - 4/ | - 4/ | 100 | 100 | 100 flow | Stock |
| Denmark | HIPCs | 100 | 100 5/ | 100 | 100 5/ | 100 flow | Stock |
| France | HIPCs | 100 | 100 | 100 | - | 100 flow 6/ | Stock |
| Finland | HIPCs | 100 | - 7/ | 100 | - 7/ | - | - |
| Germany | HIPCs | 100 | 100 | 100 | - 8/ | 100 flow | Stock |
| Ireland | - | - | - | - | - | - | - |
| Italy | HIPCs | 100 | 100 9/ | 100 | 100 9/ | 100 flow | Stock |
| Japan | HIPCs | 100 | 100 | 100 | - | - | Stock |
| Netherlands, the | HIPCs | 100 10/ | 100 | 100 | - | 90-100 flow 10/ | Stock 10/ |
| Norway | HIPCs | 11/ | 11/ | 12/ | 12/ | - | - |
| Russia | Case-by-case | - | - | - | - | - | Stock |
| Spain | HIPCs | 100 | Case-by-case | 100 | Case-by-case | - | Stock |
| Sweden | HIPCs | - | - 13/ | 100 | - | - | Stock |
| Switzerland | HIPCs | 100 | | 100 | Case-by-case | 100, flow 14/ | Stock |
| United Kingdom | HIPCs | 100 | 100 | 100 | 100 15/ | 100 flow 15/ | Stock |
| United States | HIPCs | 100 | 100 | 100 | 100 16/ | 100 flow | Stock |

Source: Paris Club Secretariat.

1/ Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table indicates that the debt relief provided under the enhanced HIPC Initiative framework will be topped up to 100 percent through a bilateral initiative.

2/ Australia: post-cutoff date non-ODA relief to apply to debts incurred before a date to be finalized; timing details for both flow and stock relief are to be finalized.

3/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100% cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania.

4/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

5/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

6/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

7/ Finland: no post-COD claims

8/ Germany proposes to cancel all debts incurred before June 20, 1999 depending on a consensus within Paris Club creditors

9/ Italy: cancellation of 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

10/ The Netherlands: 100 percent ODA (pre- and post-cutoff date debt will be cancelled at decision point); for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 per cent cancellation of the remaining stock of the pre-cutoff date debt.

11/ Norway has cancelled all ODA claims.

12/ Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100% debt reduction until after the completion point.

13/ Sweden has no ODA claims.

14/ Switzerland: In principle 100 percent cancellation of Pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90 percent in case of major political and/or political weaknesses.

15/ United Kingdom: "beyond 100 percent" full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

16/ United States: 100 percent post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

# Table 24. Sierra Leone: Status of Country Cases Considered Under the Initiative, September 26, 2006

| Country | Decision Point | Completion Point | Target NPV of Debt-to- Exports (in percent) | Target NPV of Debt-to- Gov. revenue (in percent) | Assistance Levels 1/ (In millions of U.S. dollars, present value) Total | Bilateral and commercial | Multi-lateral | IMF | World Bank | Percentage Reduction in NPV of Debt 2/ | Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Completion point reached under enhanced framework** | | | | | | | | | | | |
| Benin | Jul. 00 | Mar. 03 | 150 | | 265 | 77 | 189 | 24 | 84 | 31 | 460 |
| Bolivia | | | | | 1,302 | 425 | 876 | 84 | 194 | | 2,060 |
| *original framework* | *Sep. 97* | *Sep. 98* | *225* | | *448* | *157* | *291* | *29* | *54* | *14* | *760* |
| *enhanced framework* | *Feb. 00* | *Jun. 01* | *150* | | *854* | *268* | *585* | *55* | *140* | *30* | *1,300* |
| Burkina Faso | | | | | 553 | 83 | 469 | 57 | 231 | | 930 |
| *original framework* | *Sep. 97* | *Jul. 00* | *205* | | *229* | *32* | *196* | *22* | *91* | *27* | *400* |
| *enhanced framework* | *Jul. 00* | *Apr. 02* | *150* | | *195* | *35* | *161* | *22* | *79* | *30* | *300* |
| *topping-up* | *...* | *Apr. 02* | *150* | | *129* | *16* | *112* | *14* | *61* | *24* | *230* |
| Cameroon | Oct. 00 | Apr. 06 | 150 | | 1,267 | 879 | 322 | 37 | 176 | 27 | 4,917 |
| Ethiopia | | | | | 1,982 | 637 | 1,315 | 60 | 832 | | 3,275 |
| *enhanced framework* | *Nov. 01* | *Apr. 04* | *150* | | *1,275* | *482* | *763* | *34* | *463* | *47* | *1,941* |
| *topping-up* | | *Apr. 04* | *150* | | *707* | *155* | *552* | *26* | *369* | *31* | *1,334* |
| Ghana | Feb. 02 | Jul. 04 | 144 | 250 | 2,186 | 1,084 | 1,102 | 112 | 781 | 56 | 3,500 |
| Guyana | | | | | 591 | 223 | 367 | 75 | 68 | | 1,354 |
| *original framework* | *Dec. 97* | *May 99* | *107* | *280* | *256* | *91* | *165* | *35* | *27* | *24* | *634* |
| *enhanced framework* | *Nov. 00* | *Dec-03* | *150* | *250* | *335* | *132* | *202* | *40* | *41* | *40* | *719* |
| Honduras | Jul. 00 | Mar-05 | 110 | 250 | 556 | 215 | 340 | 30 | 98 | 18 | 1,000 |
| Madagascar | Dec. 00 | Oct-04 | 150 | | 836 | 474 | 362 | 19 | 252 | 40 | 1,900 |
| Malawi | | | | | 1,057 | 171 | 886 | 45 | 622 | | 1,628 |
| *enhanced framework* | *Dec. 00* | *Aug-06* | *150* | | *646* | *164* | *482* | *30* | *333* | *44* | *1,025* |
| *topping-up* | *...* | *Aug-06* | *150* | | *411* | *7* | *404* | *15* | *289* | *35* | *603* |
| Mali | | | | | 539 | 169 | 370 | 59 | 185 | | 895 |
| *original framework* | *Sep. 98* | *Sep. 00* | *200* | | *121* | *37* | *84* | *14* | *43* | *9* | *220* |
| *enhanced framework* | *Sep. 00* | *Mar. 03* | *150* | | *417* | *132* | *285* | *45* | *143* | *29* | *675* |
| Mauritania | Feb. 00 | Jun. 02 | 137 | 250 | 622 | 261 | 361 | 47 | 100 | 50 | 1,100 |
| Mozambique | | | | | 2,023 | 1,270 | 753 | 143 | 443 | | 4,300 |
| *original framework* | *Apr. 98* | *Jun. 99* | *200* | | *1,717* | *1,076* | *641* | *125* | *381* | *63* | *3,700* |
| *enhanced framework* | *Apr. 00* | *Sep. 01* | *150* | | *306* | *194* | *112* | *18* | *62* | *27* | *600* |
| Nicaragua | Dec. 00 | Jan. 04 | 150 | | 3,308 | 2,175 | 1,134 | 82 | 191 | 73 | 4,500 |
| Niger | | | | | 663 | 235 | 428 | 42 | 240 | | 1,190 |
| *enhanced framework* | *Dec. 00* | *Apr. 04* | *150* | | *521* | *211* | *309* | *28* | *170* | *53* | *944* |
| *topping-up* | *...* | *Apr. 04* | *150* | | *143* | *23* | *119* | *14* | *70* | *25* | *246* |
| Rwanda | | | | | 696 | 65 | 631 | 63 | 383 | | 1,316 |
| *enhanced framework* | *Dec. 00* | *Apr-05* | *150* | | *452* | *56* | *397* | *44* | *228* | *71* | *839* |
| *topping-up* | *...* | *Apr-05* | *150* | | *243* | *9* | *235* | *20* | *154* | *53* | *477* |
| Senegal | Jun. 00 | Apr. 04 | 133 | 250 | 488 | 212 | 276 | 45 | 124 | 19 | 850 |
| Tanzania | Apr. 00 | Nov. 01 | 150 | | 2,026 | 1,006 | 1,020 | 120 | 695 | 54 | 3,000 |
| Uganda | | | | | 1,003 | 183 | 820 | 160 | 517 | | 1,950 |
| *original framework* | *Apr. 97* | *Apr. 98* | *202* | | *347* | *73* | *274* | *69* | *160* | *20* | *650* |
| *enhanced framework* | *Feb. 00* | *May 00* | *150* | | *656* | *110* | *546* | *91* | *357* | *37* | *1,300* |
| Zambia | Dec. 00 | Apr-05 | 150 | | 2,499 | 1,168 | 1,331 | 602 | 493 | 63 | 3,900 |
| **Decision point reached under enhanced framework** | | | | | | | | | | | |
| Burundi | Aug. 05 | Floating | 150 | | 826 | 124 | 701 | 28 | 425 | 92 | 1,465 |
| Chad | May. 01 | Floating | 150 | | 170 | 35 | 134 | 18 | 68 | 30 | 260 |
| Congo, Democratic Rep. of | Jul. 03 | Floating | 150 | | 6,311 | 3,837 | 2,474 | 472 | 831 | 80 | 10,389 |
| Congo Rep. of | Mar. 06 | Floating | | 250 | 1,679 | 1,561 | 118 | 8 | 49 | 32 | 2,881 |
| Gambia, The | Dec. 00 | Floating | 150 | | 67 | 17 | 49 | 2 | 22 | 27 | 90 |
| Guinea | Dec. 00 | Floating | 150 | | 545 | 215 | 328 | 31 | 152 | 32 | 800 |
| Guinea-Bissau | Dec. 00 | Floating | 150 | | 416 | 212 | 204 | 12 | 93 | 85 | 790 |
| São Tomé and Principe | Dec. 00 | Floating | 150 | | 97 | 29 | 68 | - | 24 | 83 | 200 |
| Sierra Leone | Mar. 02 | Floating | 150 | | 600 | 205 | 354 | 123 | 122 | 80 | 950 |
| **Total assistance provided/committed** | | | | | **35,170** | **17,248** | **17,783** | **2,603** 5/ | **8,494** | | **61,849** |

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Côte d'Ivoire reached its decision point under the original framework in March 1998. The total amount of assistance committed thereunder was US$345 million in NPV terms.
4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPVof debt at the completion point in the calculation of this ratio.
5/ Equivalent to SDR 1,757 million at an SDR/USD exchange rate of 0.6749, as of September 26, 2006.
6/ It is suggested that enhanced HIPC relief for Côte d'Ivoire overtake the commitments made under the original HIPC framework.

## APPENDIX I. SIERRA LEONE

## JOINT WORLD BANK/IMF DEBT SUSTAINABILITY ANALYSIS BASED ON LOW-INCOME COUNTRY FRAMEWORK—AN UPDATE

1. **This appendix updates the debt sustainability analysis (DSA) presented in March 2006 (IMF Country Report No. 06/183, Appendix IV).** This Low Income Country (LIC)-DSA update, jointly conducted by the Fund and World Bank staffs, is based on (i) the reconciled external debt database and debt service projections prepared for the HIPC completion point DSA, and (ii) revised macroeconomic framework under the PRGF-supported program. Both the debt database and the macroeconomic projections are consistent with those used for the HIPC completion point DSA. The full effect of the MDRI relief, which was shown as a separate scenario in IMF Country Report No. 06/183, is now included in the baseline scenario. The update of the fiscal debt sustainability also takes into account the impact of the gradual conversion of non-interest bearing government securities held by the Bank of Sierra Leone (BSL) into interest bearing securities as well as the government's commitment to provide the BSL with additional securities for monetary operations and recapitalization purposes.[29] The impact of this conversion leads to higher baseline NPV of debt indicators during 2020-26 compared to the debt indicators of the same period reported in the baseline of the previous LIC DSA (March 2006), which did not incorporate the conversion of noninterest bearing liabilities into securities. In the previous LIC DSA, this impact was only analyzed in a separate bound test, which projected significantly higher NPV of debt indicators than in the updated LIC DSA presented here.

2. **The update confirms that Sierra Leone remains at moderate risk of debt distress under the LIC-DSA framework.** A full delivery of HIPC completion point assistance, bilateral assistance beyond HIPC Initiative, and MDRI relief will contribute to bringing debt indicators below the country-specific policy dependent thresholds after 2006.[31] However, stress tests revealed that the Sierra Leone's external debt sustainability is still vulnerable to

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[29] The securities will be subject to rollover on maturity.

[31] Sierra Leone remains rated as a poor performer with regard to its policies and institutions under the joint IMF-WB DSA framework for LICs. As a poor performer, the thresholds applied to Sierra Leone are: (i) 100 percent for Net Present Value (NPV) of debt-to-exports, (ii) 30 percent for NPV of debt-to-GDP, and (iii) 200 percent for NPV of debt-to-revenue. The relevant debt service thresholds are (i) 15 percent of exports, and (ii) 25 percent of revenues. ("*Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations*," www.imf.org).

external shocks that are considered under the standard template of the LIC-DSA. Debt burden indicators in some stress tests rise rapidly to above the indicative thresholds especially under the lower export stress test and less concessional borrowing scenario.

*Background and Macroeconomic Framework Projections*

3. **Sierra Leone's nominal public external debt including arrears stood at US$1,573.2 million (129.6 percent of GDP) as at end-2005.** The largest creditor is IDA (35.4 percent of total debt outstanding), followed by the African Development Fund, and the IMF. Bilateral creditors and commercial creditors accounted for 23.5 percent and 9.2 percent respectively. During the data reconciliation process for the HIPC completion point DSA, the staffs confirmed that the amount of debt to commercial creditors that could be verified by proper documentations is US$144 millions. While the amount could be increased as the verification process for IDA debt buyback progresses, this update used the currently verifiable amount for the analysis to share a consistent database with the HIPC completion point DSA.[32]

4. **The baseline scenario, which is consistent with the HIPC completion point DSA, is built on continuation of prudent macroeconomic management.** The key assumptions include: (i) an average real GDP growth rate at 6¾ percent between 2006 and 2011, then gradually declining to 5.2 percent by 2026, (ii) an increase in export growth in current dollar terms from about 15 percent in the medium term to 5¾ percent in the long term, and (iii) a gradual increase in import growth in current dollar terms from about 9½ percent in the medium term to 6 percent in the long term. The higher output and export growth in the medium-term is based on the continued expansion of rutile and bauxite production and continued strong growth of diamond export. In addition to the mining sector, Sierra Leone's economic growth will be driven by agriculture (rice and cash crops), which is supported by a food security plan as a key policy pillar. With a prudent fiscal policy aimed at fiscal consolidation to allocate enough financial resources for private sector development, the average domestic primary balance will be -2.2 percent of GDP through 2026 compared to -3.1 percent in 2005.

5. **External donor assistance (both grants and loans) is assumed to decrease gradually in terms of GDP over the projection period.** External borrowing is expected to decline gradually from 3 percent of GDP on average in the medium-term to 2 percent by 2026. IDA borrowing is assumed to constitute about 60 percent of new borrowing until 2015, with increased borrowing from other creditors including bilaterals on less concessional terms

[32] The amount could possibly increase by about US$100 million at maximum including to some creditors that have recently not been reachable by the authorities.

during the remaining projection period. External grant is also assumed to decline from over 8 percent of GDP in 2006 to 4 percent by 2026.

### *External Debt Sustainability*

6. **Under the staff baseline scenario, the NPV of the debt indicators will remain below the corresponding thresholds once the completion point of the HICP initiative is reached and the HIPC/MDRI relief is delivered.** The NPV of debt-to-export ratio is expected to decline to 36 percent in 2006 once the country reaches the HIPC completion point and qualify for the MDRI. This scenario reflects the continuous rehabilitation and development of the rich mineral resources that has substantially increased exports in percent of GDP. The NPV of debt-to-GDP ratio would remain substantially below the threshold (30 percent) during the entire projection period. In addition, given the significant impacts of the HIPC and MDRI debt service saving, the debt service ratio would stay around 1-2 percent of exports under the baseline scenario in the medium term, against the 15 percent threshold.

7. **Careful interpretation should be given to the bound tests, which reveal that external debt indicators could deteriorate substantially under the historical scenario and in the face of adverse external development.** Either or both of the NPV of debt-to-GDP and debt-to-exports ratio will deteriorate significantly to levels that are above the corresponding thresholds and would not return to sustainable paths under these two tests (A.1 and B.2 in Table 2). Given that the historical averages and their standard deviations reflect the period of intensified civil conflict and the costly process that followed, these tests indicate the importance of keeping the security that has been achieved.

8. **The test, however, clearly indicate the need for prudent external debt policy.** Under the alternative scenario that assumes external borrowing on less concessional terms (A.2), the debt burden becomes heavier over the long-term and surpass corresponding thresholds without returning to the sustainable path. For example, the NPV of debt-to-exports ratio would reach 105 percent by 2026, and the NPV of debt-to-GDP would approach to its threshold. Therefore, it is a crucial element of prudent debt management to rely on grants or concessional loans to maintain the external debt sustainable.

### *Fiscal Debt Sustainability*

9. **Sierra Leone's large domestic debt represents a significant additional burden.** Adding the NPV of domestic debt, including arrears, to the NPV of external obligations raises the debt-to-GDP ratio in 2005 by 28 percentage points of GDP to a total of 64 percent of GDP (Table 3). The NPV of debt-to-revenue ratio for 2005 stands at 320 percent (if the revenue base includes grants) while the debt-service-to-revenue ratio is 25 percent.

10. **The NPV of debt indicators would fall rapidly after the completion point but increase again by 2020.** Table 4 shows that the NPV of debt-to-GDP ratio drops to 29 percent by 2007 and an average of 25 percent during 2008-19 before increasing to an average of 30 percent from 2020 onward driven by the impact of the conversion of noninterest bearing government securities. The NPV of debt-to-revenue ratio (including grants) follows a similar trend, falling to 134 percent by 2007 and further to an average of 127 percent during 2008-19 followed by an increase to an average of 161 percent from 2020 onward. The debt-service-to-revenue ratio (including grants) increases gradually to 23 percent in 2026 from 12 percent in 2007. All debt sustainability indicators for 2025 are significantly lower than in the comparable bound test (Bound test C1) of the March 2006 LIC DSA. The previous LIC DSA did not include the impact of debt stock relief under MDRI, and it assumed a one-off conversion in 2009 of all noninterest bearing government securities into marketable securities[33]. The current LIC DSA assumes MDRI and a more gradual conversion of government debt into securities, consistent with the need to recapitalize the BSL and provide securities for open market operations.

11. **A lower primary deficit would help reduce debt but hinder PRSP implementation.** The primary domestic deficit in 2005 was 3.1 percent of GDP, while a drop to 1.5 percent of GDP is projected in 2006. The baseline scenario assumes a primary domestic deficit of 2.7 percent of GDP in 2007, which would slowly rise to an average of 3.5 percent during 2008-12 before declining to 2.3 percent of GDP by 2019 where it would broadly remain through 2026. The higher deficit during 2008-12 reflects the initial cost of poverty reduction strategy implementation in a post-conflict country. By contrast, the alternative scenario A2 (Table 4) maintains the primary domestic balance constant at the 2006 GDP share of -1.5 percent. As a result, the NPV of debt-to-GDP ratio falls from 27 percent of GDP in 2007 to 0.3 percent in 2026, compared to 34 percent in the baseline scenario. The tension between high spending requirements and debt sustainability can only be resolved through a combination of concessional borrowing, grant financing, stronger revenue effort, and efficiency gains in the delivery of public services.

12. **Temporary or permanently lower GDP growth represents the most significant risk to fiscal debt sustainability in Sierra Leone.** Reflecting the limited room to adjust expenditures and collect additional revenue, the government would have to recur to significant additional financing in the face of lower GDP growth. If real GDP growth were permanently lower (by 3 percentage points below the baseline rate), then financing with additional borrowing at concessional terms would increase the NPV of debt-to-GDP to 121 percent of GDP by 2026 compared to 34 percent of GDP as in the baseline scenario (Alternative scenario A3 in Table 4). If real GDP growth were temporarily negative (-7 percent

[33] See IMF Country Report No. 06/183, Appendix IV, Paragraph 19.

in 2007 and 2008), then the NPV of debt-to-GDP ratio would increase to 87 percent of GDP by 2026 (Bound test B1 in Table 4).

***Conclusions***

13. **The staffs conclude that Sierra Leone continues to face a moderate risk of debt distress.** A full delivery of MDRI relief would bring all external debt burden indicators substantially below the corresponding thresholds during the entire projection period. However, some of the standard alternative scenario and bound tests exacerbate debt indicators by breaching or nearing the relevant thresholds, indicating how debt sustainability critically hinges on prudent macroeconomic and external debt management policies.

14. **To ensure future debt sustainability a gradual reduction of the domestic debt stock is as vital as the successful fiscal adjustment programmed under the baseline.** A lower domestic debt stock would lessen the liquidity and the rollover risks associated with the short maturities of this debt. In order to extend the maturity of domestic borrowing, the government should promote the development of the domestic debt market, which would also facilitate the conversion of the current non-interest bearing, non-maturing domestic debt into a longer-term security. Under the current terms at which the government plans to convert this liability (mainly through high yielding treasury bills), debt service is likely to rise substantially and lead to additional borrowing. In light of this, and also to avoid crowding out of the private sector, fiscal tightening or new external borrowing could become necessary. These considerations would warrant a reassessment of Sierra Leone's risk of debt distress at a later stage.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2005-2026 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | Historical Average 6/ | Standard Deviation 6/ | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2006-11 Average | 2016 | 2026 | 2012-26 Average |
| **External debt (nominal) 1/** | **168.7** | | | **127.5** | **88.4** | **82.1** | **76.0** | **69.7** | **63.9** | | **45.7** | **30.4** | |
| o/w public and publicly guaranteed (PPG) | 129.5 | | | 95.4 | 59.4 | 55.8 | 52.1 | 48.4 | 45.0 | | 34.8 | 29.7 | |
| Change in external debt | -36.0 | | | -41.3 | -39.0 | -6.3 | -6.2 | -6.3 | -5.8 | | -3.0 | -0.4 | |
| Identified net debt-creating flows | -19.8 | | | -6.6 | -3.7 | -2.0 | -1.9 | -1.7 | -1.4 | | 0.2 | 0.1 | |
| **Non-interest current account deficit** | **6.8** | **6.5** | **5.2** | **5.0** | **4.9** | **4.4** | **4.1** | **4.0** | **3.9** | | **4.3** | **3.9** | 4.1 |
| Deficit in balance of goods and services | 18.0 | | | 13.3 | 12.6 | 11.5 | 10.8 | 10.5 | 10.4 | | 10.6 | 10.7 | |
| Exports | 22.1 | | | 22.6 | 24.6 | 25.9 | 27.1 | 28.3 | 27.9 | | 26.2 | 24.7 | |
| Imports | 40.1 | | | 35.9 | 37.2 | 37.4 | 37.9 | 38.8 | 38.3 | | 36.8 | 35.4 | |
| Net current transfers (negative = inflow) | -13.1 | -6.1 | 7.2 | -10.3 | -9.3 | -8.8 | -8.4 | -8.2 | -7.9 | | -8.0 | -8.6 | -8.1 |
| Other current account flows (negative = net inflow) | 2.0 | | | 1.9 | 1.6 | 1.8 | 1.7 | 1.6 | 1.5 | | 1.7 | 1.8 | |
| **Net FDI (negative = inflow)** | **-3.5** | **-0.8** | **1.2** | **-1.7** | **-1.3** | **-1.4** | **-1.4** | **-1.5** | **-1.6** | | **-2.0** | **-2.7** | -2.2 |
| **Endogenous debt dynamics 2/** | **-23.0** | | | **-9.8** | **-7.3** | **-5.0** | **-4.6** | **-4.2** | **-3.8** | | **-2.2** | **-1.0** | |
| Contribution from nominal interest rate | 0.8 | | | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | | 0.5 | 0.5 | |
| Contribution from real GDP growth | -13.1 | | | -10.3 | -7.6 | -5.3 | -5.0 | -4.6 | -4.2 | | -2.6 | -1.5 | |
| Contribution from price and exchange rate changes | -10.8 | | | … | … | … | … | … | … | | … | … | |
| **Residual (3-4) 3/** | **-16.2** | | | **-34.7** | **-35.3** | **-4.3** | **-4.3** | **-4.6** | **-4.4** | | **-3.1** | **-0.6** | |
| o/w exceptional financing | -2.7 | | | -2.2 | -1.9 | -2.0 | -1.8 | -1.5 | -1.2 | | -0.9 | -0.3 | |
| | | | | | | | | | | | | | |
| NPV of external debt 4/ | 75.0 | | | 40.2 | 38.3 | 36.9 | 35.4 | 33.3 | 31.1 | | 23.7 | 16.8 | |
| In percent of exports | 339.5 | | | 178.0 | 155.8 | 142.3 | 130.3 | 117.8 | 111.5 | | 90.5 | 68.0 | |
| **NPV of PPG external debt** | **35.8** | | | **8.1** | **9.2** | **10.6** | **11.5** | **12.0** | **12.2** | | **12.8** | **16.0** | |
| In percent of exports | 161.9 | | | 35.9 | 37.6 | 40.8 | 42.5 | 42.5 | 43.7 | | 48.8 | 64.9 | |
| Debt service-to-exports ratio (in percent) | 10.8 | | | 7.3 | 2.1 | 3.9 | 4.1 | 4.8 | 5.5 | | 5.5 | 7.7 | |
| **PPG debt service-to-exports ratio (in percent)** | 10.0 | | | 5.5 | 0.8 | 1.1 | 1.1 | 1.4 | 2.2 | | 2.4 | 3.8 | |
| Total gross financing need (billions of U.S. dollars) | 0.1 | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | 0.1 | 0.2 | |
| Non-interest current account deficit that stabilizes debt ratio | 42.8 | | | 46.2 | 43.9 | 10.7 | 10.3 | 10.3 | 9.7 | | 7.3 | 4.3 | |
| | | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.3 | 5.3 | 12.6 | 7.4 | 6.5 | 6.5 | 6.5 | 6.6 | 6.6 | 6.7 | 5.8 | 5.2 | 5.6 |
| GDP deflator in US dollar terms (change in percent) | 5.6 | -0.8 | 9.5 | 12.9 | 2.9 | 1.2 | 1.1 | 1.6 | 1.8 | 3.6 | 1.0 | 0.6 | 1.0 |
| Effective interest rate (percent) 5/ | 0.5 | 0.8 | 0.5 | 0.3 | 0.2 | 0.4 | 0.5 | 0.6 | 0.7 | 0.5 | 1.0 | 1.8 | 1.2 |
| Growth of exports of G&S (US dollar terms, in percent) | 15.3 | 6.0 | 22.8 | 24.0 | 19.2 | 13.8 | 12.7 | 12.7 | 7.1 | 14.9 | 5.6 | 5.7 | 5.7 |
| Growth of imports of G&S (US dollar terms, in percent) | 32.9 | 16.4 | 18.1 | 8.6 | 13.6 | 8.4 | 9.2 | 10.8 | 7.2 | 9.6 | 5.8 | 6.0 | 6.0 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 44.7 | 44.1 | 46.4 | 49.0 | 52.3 | 52.2 | 48.1 | 50.3 | 41.6 | 46.9 |
| | | | | | | | | | | | | | |
| *Memorandym item:* | | | | | | | | | | | | | |
| Nominal GDP (billions of US dollars) | 1.2 | | | 1.5 | 1.6 | 1.7 | 1.9 | 2.0 | 2.2 | | 3.1 | 5.7 | |

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and $\rho$ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

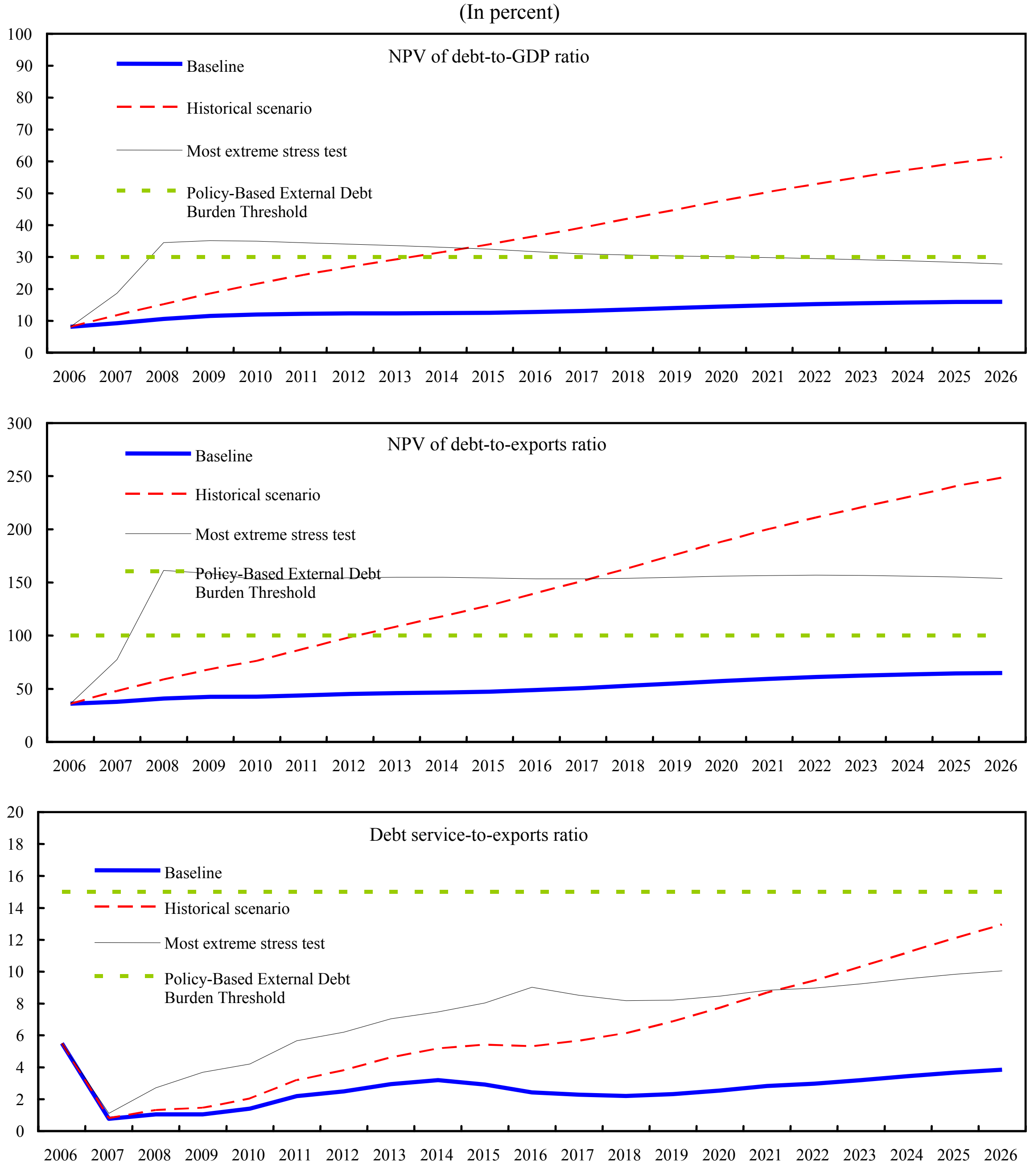
Table 2. Sierra Leone: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26
(In percent)

| | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | **2016** | 2021 | **2026** |
| **NPV of debt-to-GDP ratio** | | | | | | | | | |
| **Baseline** | 8 | 9 | 11 | 12 | 12 | 12 | **13** | 15 | **16** |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 8 | 12 | 15 | 19 | 22 | 24 | **37** | 50 | **61** |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 8 | 10 | 12 | 14 | 15 | 15 | **19** | 23 | **26** |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 8 | 11 | 14 | 15 | 16 | 16 | **17** | 20 | **21** |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 8 | 13 | 21 | 22 | 22 | 22 | **20** | 20 | **19** |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 8 | 11 | 14 | 15 | 16 | 16 | **17** | 19 | **21** |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 8 | 16 | 23 | 24 | 24 | 23 | **22** | 21 | **20** |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 8 | 19 | 35 | 35 | 35 | 34 | **32** | 30 | **28** |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 8 | 13 | 15 | 16 | 17 | 17 | **18** | 21 | **23** |
| **NPV of debt-to-exports ratio** | | | | | | | | | |
| **Baseline** | 36 | 38 | 41 | 42 | 43 | 44 | **49** | 59 | **65** |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 36 | 48 | 59 | 68 | 76 | 88 | **140** | 200 | **249** |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 36 | 40 | 46 | 50 | 52 | 55 | **71** | 91 | **105** |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 36 | 38 | 41 | 42 | 43 | 44 | **49** | 59 | **65** |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 36 | 77 | 161 | 158 | 153 | 153 | **153** | 156 | **154** |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 36 | 38 | 41 | 42 | 43 | 44 | **49** | 59 | **65** |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 36 | 64 | 90 | 88 | 84 | 84 | **83** | 83 | **81** |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 36 | 82 | 150 | 145 | 139 | 139 | **136** | 133 | **127** |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 36 | 38 | 41 | 42 | 43 | 44 | **49** | 59 | **65** |
| **Debt service ratio** | | | | | | | | | |
| **Baseline** | 6 | 1 | 1 | 1 | 1 | 2 | **2** | 3 | **4** |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 6 | 1 | 1 | 1 | 2 | 3 | **5** | 9 | **13** |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 6 | 1 | 1 | 1 | 2 | 2 | **3** | 5 | **6** |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 6 | 1 | 1 | 1 | 1 | 2 | **2** | 3 | **4** |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 6 | 1 | 3 | 4 | 4 | 6 | **9** | 9 | **10** |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 6 | 1 | 1 | 1 | 1 | 2 | **2** | 3 | **4** |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 6 | 1 | 2 | 2 | 2 | 3 | **5** | 5 | **5** |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 6 | 1 | 2 | 3 | 4 | 5 | **8** | 8 | **9** |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 6 | 1 | 1 | 1 | 1 | 2 | **2** | 3 | **4** |
| *Memorandum item:* | | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 46 | 46 | 46 | 46 | 46 | 46 | **46** | 46 | **46** |

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. Country: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2006-2026
(In percent)




Source: Staff projections and simulations.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2026
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Estimate | | | | | | Projections | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | Historical Average 5/ | Standard Deviation 5/ | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2006-11 Average | 2016 | 2026 | 2012-26 Average |
| **Public sector debt 1/** | 199.4 | | | 150.5 | 113.8 | 101.1 | 91.9 | 84.9 | 78.7 | | 57.2 | 48.6 | |
| o/w foreign-currency denominated | 171.3 | | | 127.9 | 94.2 | 84.3 | 77.8 | 71.3 | 65.5 | | 46.6 | 31.0 | |
| Change in public sector debt | -50.1 | | | -48.8 | -36.7 | -12.8 | -9.2 | -7.0 | -6.2 | | -3.4 | 1.0 | |
| Identified debt-creating flows | -38.2 | | | -39.2 | -6.5 | -9.9 | -10.0 | -4.7 | -3.9 | | -1.8 | 1.0 | |
| Primary deficit | -0.1 | 4.3 | 2.3 | -1.9 | 0.9 | 3.9 | -0.3 | 2.9 | 2.7 | 1.3 | 1.4 | 1.8 | 1.7 |
| Revenue and grants | 20.1 | | | 20.0 | 22.0 | 20.8 | 20.2 | 20.0 | 20.0 | | 19.3 | 18.2 | |
| *of which*: grants | 8.3 | | | 7.5 | 34.6 | 7.4 | 5.8 | 5.4 | 5.1 | | 4.3 | 3.0 | |
| Primary (noninterest) expenditure | 20.0 | | | 18.1 | 22.8 | 24.7 | 19.8 | 22.9 | 22.6 | | 20.8 | 20.0 | |
| Automatic debt dynamics | -35.4 | | | -34.7 | -5.0 | -10.3 | -6.2 | -5.8 | -5.1 | | -2.3 | -0.5 | |
| Contribution from interest rate/growth differential | -19.0 | | | -17.1 | -10.3 | -7.5 | -6.8 | -6.0 | -5.4 | | -2.8 | -0.9 | |
| *of which*: contribution from average real interest rate | -2.1 | | | -3.4 | -1.1 | -0.6 | -0.6 | -0.4 | -0.1 | | 0.6 | 1.5 | |
| *of which*: contribution from real GDP growth | -16.9 | | | -13.6 | -9.2 | -7.0 | -6.2 | -5.7 | -5.3 | | -3.3 | -2.4 | |
| Contribution from real exchange rate depreciation | -16.4 | | | -17.6 | 5.3 | -2.8 | 0.6 | 0.3 | 0.3 | | ... | ... | |
| Other identified debt-creating flows | -2.7 | | | -2.5 | -2.4 | -3.5 | -3.4 | -1.8 | -1.5 | | -0.9 | -0.3 | |
| Privatization receipts (negative) | 0.0 | | | -0.3 | -0.5 | -1.5 | -1.6 | -0.3 | -0.3 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | -2.7 | | | -2.2 | -1.9 | -2.0 | -1.8 | -1.5 | -1.2 | | -0.9 | -0.3 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | -11.9 | | | -9.6 | -30.2 | -2.9 | 0.8 | -2.3 | -2.3 | | -1.6 | 0.0 | |
| **NPV of public sector debt** | 64.4 | | | 30.8 | 29.5 | 27.6 | 25.9 | 25.9 | 25.7 | | 23.7 | 33.9 | |
| o/w foreign-currency denominated | 36.3 | | | 8.1 | 9.9 | 10.9 | 11.8 | 12.3 | 12.5 | | 13.1 | 16.4 | |
| o/w external | 36.3 | | | 8.1 | 9.9 | 10.9 | 11.8 | 12.3 | 12.5 | | 13.1 | 16.4 | |
| NPV of contingent liabilities (not included in public sector debt) | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Gross financing need 2/ | 16.8 | | | 12.0 | 12.4 | 15.6 | 10.6 | 13.1 | 13.9 | | 13.7 | 20.6 | |
| NPV of public sector debt-to-revenue ratio (in percent) 3/ | 319.7 | | | 154.0 | 134.2 | 132.8 | 128.3 | 129.5 | 128.8 | | 122.3 | 186.3 | |
| o/w external | 180.2 | | | 40.7 | 44.9 | 52.2 | 58.5 | 61.5 | 62.7 | | 67.5 | 89.8 | |
| Debt service-to-revenue ratio (in percent) 3/ 4/ | 25.2 | | | 17.7 | 11.8 | 13.5 | 13.2 | 14.2 | 15.5 | | 15.5 | 22.6 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 50.0 | | | 46.9 | 37.6 | 16.7 | 8.8 | 9.9 | 8.9 | | 4.8 | 0.8 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.2 | 5.3 | 12.6 | 7.3 | 6.5 | 6.5 | 6.5 | 6.6 | 6.6 | 6.7 | 5.8 | 5.2 | 5.6 |
| Average nominal interest rate on forex debt (in percent) | 0.5 | 0.9 | 0.5 | 0.3 | 0.2 | 0.4 | 0.5 | 0.6 | 0.7 | 0.5 | 1.0 | 1.8 | 1.3 |
| Average real interest rate on domestic currency debt (in percent) | -2.6 | -2.6 | 9.6 | -6.3 | 0.3 | 2.7 | 3.6 | 5.1 | 6.1 | 1.9 | 9.9 | 9.8 | 9.2 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -8.2 | 2.7 | 19.5 | -11.2 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 12.9 | 13.5 | 10.4 | 15.7 | 10.5 | 7.4 | 6.5 | 6.6 | 6.5 | 8.9 | 5.5 | 4.7 | 5.3 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 11.4 | 9.4 | 27.5 | -3.1 | 34.6 | 15.1 | -14.5 | 23.3 | 5.1 | 10.1 | 5.0 | 4.6 | 4.7 |
| Grant element of new external borrowing (in percent) | 0.0 | 0.0 | 0.0 | 44.7 | 44.1 | 46.4 | 49.0 | 52.3 | 52.2 | 48.1 | 50.3 | 41.6 | ... |

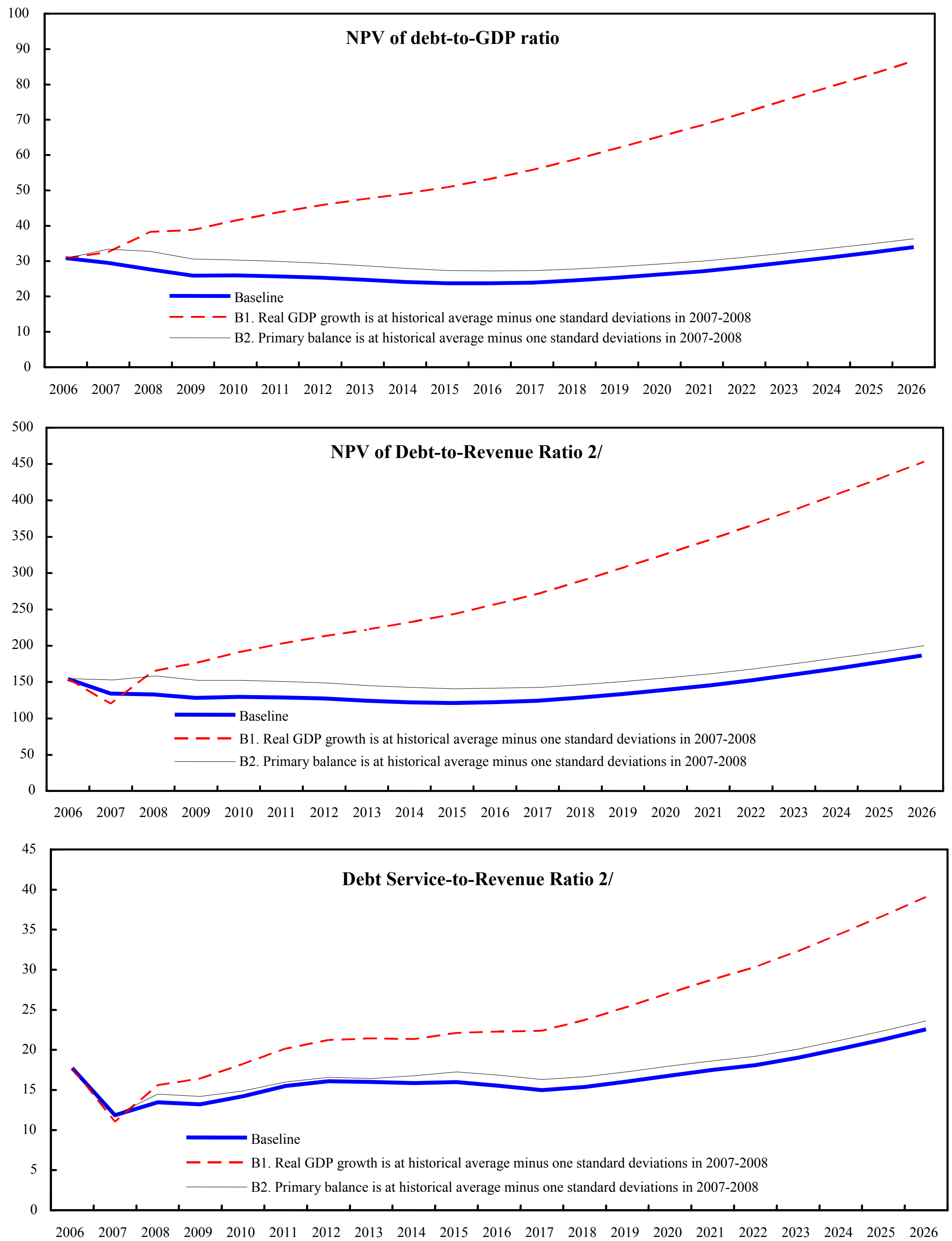
Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt 2006-2026

| | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2016 | 2026 |
| **NPV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 31 | 29 | 28 | 26 | 26 | 26 | 24 | 34 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 31 | 32 | 30 | 32 | 33 | 34 | 39 | 60 |
| A2. Primary balance is unchanged from 2006 | 31 | 27 | 22 | 20 | 17 | 14 | 4 | 0.3 |
| A3. Permanently lower GDP growth 1/ | 31 | 30 | 29 | 29 | 31 | 33 | 45 | 121 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 31 | 33 | 38 | 39 | 41 | 44 | 53 | 87 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 31 | 33 | 33 | 31 | 30 | 30 | 27 | 36 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 31 | 35 | 35 | 32 | 31 | 30 | 25 | 33 |
| B4. One-time 30 percent real depreciation in 2007 | 31 | 50 | 47 | 44 | 44 | 43 | 37 | 44 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 31 | 36 | 33 | 31 | 31 | 31 | 28 | 37 |
| **NPV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 154 | 134 | 133 | 128 | 129 | 129 | 122 | 186 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 154 | 144 | 145 | 157 | 161 | 165 | 198 | 321 |
| A2. Primary balance is unchanged from 2006 | 154 | 125 | 105 | 98 | 84 | 71 | 22 | 2 |
| A3. Permanently lower GDP growth 1/ | 154 | 131 | 139 | 141 | 150 | 159 | 220 | 593 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 154 | 120 | 165 | 176 | 191 | 203 | 257 | 452 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 154 | 152 | 158 | 151 | 151 | 150 | 141 | 199 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 154 | 141 | 161 | 154 | 151 | 147 | 126 | 178 |
| B4. One-time 30 percent real depreciation in 2007 | 154 | 229 | 226 | 221 | 218 | 214 | 190 | 242 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 154 | 165 | 160 | 155 | 155 | 153 | 144 | 201 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 18 | 12 | 13 | 13 | 14 | 15 | 16 | 23 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 18 | 12 | 14 | 14 | 16 | 17 | 19 | 31 |
| A2. Primary balance is unchanged from 2006 | 18 | 12 | 13 | 12 | 13 | 14 | 12 | 13 |
| A3. Permanently lower GDP growth 1/ | 18 | 12 | 14 | 14 | 16 | 17 | 21 | 47 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 18 | 11 | 16 | 16 | 18 | 20 | 22 | 39 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 18 | 12 | 14 | 14 | 15 | 16 | 17 | 24 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 18 | 11 | 16 | 15 | 16 | 17 | 18 | 24 |
| B4. One-time 30 percent real depreciation in 2007 | 18 | 12 | 14 | 14 | 15 | 17 | 17 | 25 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 18 | 12 | 15 | 14 | 15 | 16 | 17 | 24 |
| **Debt Service-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 4 | 3 | 3 | 3 | 3 | 3 | 4 | 6 |
| A2. Primary balance is unchanged from 2005 | 4 | 3 | 3 | 2 | 3 | 3 | 2 | 2 |
| A3. Permanently lower GDP growth 1/ | 4 | 3 | 3 | 3 | 3 | 4 | 4 | 10 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 4 | 3 | 4 | 4 | 4 | 4 | 5 | 7 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 4 | 3 | 3 | 3 | 3 | 4 | 4 | 4 |
| B4. One-time 30 percent real depreciation in 2007 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2006-2026 1/




Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

## APPENDIX II. SIERRA LEONE: EXTERNAL DEBT MANAGEMENT

***Institutional Framework***

1. Sierra Leone's external debt-monitoring and debt-management system is run by two units: one is the International Finance Department in the Bank of Sierra Leone (BSL), and the other is the Public Debt Management Unit in the Ministry of Finance (MoF). The BSL is in charge of maintaining the external debt database and effectuating debt survive payments, while the MoF is responsible for the policy aspects of the debt strategy such as contracting new loans or guarantees and negotiating debt relief. The MoF also monitors external debts incurred by public enterprises. The collaboration and communication are efficient between the two units.

***Developments and Challenges on Debt Management***

2. Improvement has been observed on managing debt statistics and disseminating information to public. The windows-based Commonwealth Secretariat-Debt Reporting Management System (CS-DRMS) software has been installed at both relevant sections in MoF and BSL. The system captures a comprehensive record of public and publicly guaranteed external debts. The CS-DRMS staff assisted staffs of MoF and BSL to reconcile the debt database in early 2005. Staffs of the MoF and BSL have participated in a series of training workshops, courses, and seminars organized by outside institutions such as the West Africa Institute for Financial and Economic Management and Debt Relief International. In 2005, the first annual bulletin of Public Debt Management was launched. The bulletin, which complements existing economic publications by the MoF and BSL, intends to disseminate comprehensive information on Sierra Leone's public debt profile and operations. The second bulletin was published in April 2006.

3. Measures are being taken to avoid incurring technical arrears. After misreporting case under the previous PRGF arrangement pertaining to accumulating external arrears in 2005, the BSL and MoF have made efforts to enhance their coordination. All external debt service payments are effected by the BSL at least 5 working days prior to the due data of the payment. Also, the BSL will be acquiring a V-SAT system, which would provide an independent and continuous connection to SWIFT platform. The completion of this project is expected by the end 2006.

4. The country's debt management capacity would benefit from more training on debt management and debt sustainability analysis. The number of staffs who have technical skill and understanding on the analytical software in debt management has been limited. While a report on debt sustainability analysis was drafted in 2005 with a support from other institutions, participating in trainings regularly and increasing diffusing the knowledge to keep it as an institutional memory is particularly important to enhance ability in debt management.