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Sierra Leone: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waivers of Nonobservance of Performance Criterion, Extension of the Arrangement, and Rephasing of Disbursements—Staff Report; Staff Supplement and Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone

In the context of second review under the three-year arrangement under the Poverty Reduction and Growth Facility, financing assurances review, and request for waivers of nonobservance of a performance criterion, extension of the arrangement, and rephasing of disbursements, the following documents have been released and are included in this package:

- The staff report for Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waivers of Nonobservance of Performance Criterion, Extension of the Arrangement, and Rephasing of Disbursements, prepared by a staff team of the IMF, following discussions that ended on February 29, 2008, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 6, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of July 7, 2008 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its July 7, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Sierra Leone.

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

Letter of Intent sent to the IMF by the authorities of Sierra Leone*
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
*Also included in Staff Report

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

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SIERRA LEONE

Second Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waivers of Nonobservance of Performance Criteria, Extension of the Arrangement, and Rephasing of Disbursements

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

Approved by Thomas Krueger and Adnan Mazarei

June 6, 2008

PRGF arrangement. Approved on May 10, 2006 in an amount equivalent to SDR 31.1 million (30 percent of quota). Two disbursements totaling SDR 9.11 million were made upon approval and upon completion of the first review.

Discussions. Discussions were held in Freetown (April 2007, November 2007, and February 2008) and in Washington DC (April 2007 and 2008). The most recent mission comprised Messrs. Toé, Nsengiyumva, Kalonji, Sitima-wina (all AFR), Takats (PDR), and Hilaire (Resident Representative). Messrs. Aboobaker (OED) and Addison (World Bank) participated in the policy discussions. The mission met with President Koroma, Finance Minister Carew, Central Bank Governor Kamara, other government officials, parliamentarians, and representatives of the private sector, academia, civil society, labor unions, and donors.

Program status. Policy slippages in late 2006-early 2007 undermined the program objectives for revenue mobilization and priority spending and led to the nonobservance of three end-December quantitative PCs. Staff supports the authorities' request for waivers for the nonobservance of these PCs and a one-year extension of the PRGF arrangement.

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Abbreviations and Acronyms

ACC	Anti-Corruption Commission
AfDB	African Development Bank
AFR	African Department
AGD	Accountant General's Department
BOP	Balance of payments
BSL	Bank of Sierra Leone
DfID	Department for International Development
EITI	Extractive Industries Transparency Initiative
EPP	Emergency Power Project
EU	European Union
FAD	Fiscal Affairs Department
GDP	Gross domestic product
GST	Goods and services tax
IDA	International Development Association
HIPC	Highly indebted poor countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPP	Independent power provider
LIC-DSA	Low-income Country External Debt Sustainability Analysis
MDAs	Ministries, departments, and agencies
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MoFED	Ministry of Finance and Economic Development
NEER	Nominal effective exchange rate
NPA	National Power Authority
NPV	Net present value
NRA	National Revenue Authority
PC	Performance criterion
PDR	Policy Development and Review Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PFM-NAP	Public Financial Management National Action Plan
PPA	Public Procurement Act
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate
SDR	Special drawing rights
TA	Technical assistance
TMU	Technical Memorandum of Understanding
ToT	Terms of trade

Executive Summary

- Performance under the Fund-supported program was mixed. Output growth was strong at 6.8 percent and broad-based, but key fiscal revenue and spending objectives were missed and progress on the structural reform front was slow.

- Significant revenue shortfalls in the second half of 2006 (0.7 percent of GDP) and 2007 (2.4 percent of GDP) derailed the PRGF arrangement. Comprehensive progress proved difficult during the general elections, which were completed in September 2007.

- The authorities' program for 2008 aims to: (i) mobilize more domestic revenue; (ii) reorient public spending to infrastructure projects and poverty-reducing programs; (iii) prevent rapid accumulation of public debt; and (iv) accelerate implementation of structural reforms.

- A key challenge for the authorities is to preserve the integrity and credibility of the 2008 budget amid rising social pressures stemming from the surging world fuel and food prices and a potential contingent liability related to provision of fuel to an independent power provider (IPP). They are appropriately focusing on strengthening expenditure commitment controls and taking steps to shield the budget by renegotiating the contract with the IPP and seeking donor financing if needed.

- The structural reform agenda is being revitalized to sustain growth in order to progress toward the MDGs. Key reform areas include public financial management, governance, and the financial sector.

- Risks to the program remain, notably the surging world oil and food prices and delays in budget support if donors' concerns about transparency and accountability are not adequately addressed, but these should be manageable. Staff recommends completion of the second review and supports the request for waivers, and an extension of the PRGF arrangement.

I. Background

1. **The three-year PRGF arrangement went off track after the first review was completed in December 2006**. Major fiscal slippages in the second half of 2006—largely due to revenue shortfalls—prevented completion of the second review; three end-December 2006 PCs (primary fiscal deficit, net bank credit to government, and net domestic assets of the central bank) were missed (Table 1). With their attention focused on forthcoming elections, the authorities could not commit to comprehensive correctives measures.

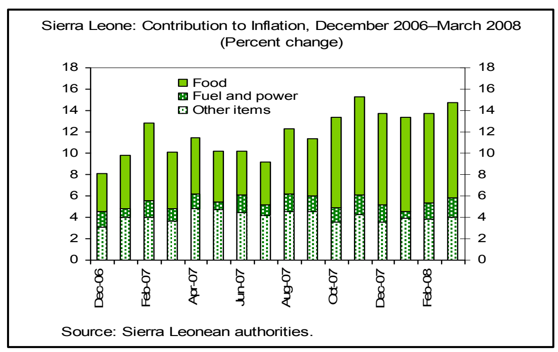
2. **A new administration took office in September 2007 and committed to reviving the program**. It agreed with the staff on: (i) a budget framework that seeks to redress the fiscal situation; and (ii) measures to reinvigorate structural reforms.

II. Recent Economic Developments and Program Performance

3. **Macroeconomic performance in 2007 and early 2008 was mixed:**

- **Real GDP grew by an estimated 6.8 percent**, led by solid agricultural and mining production and buoyant construction and service sectors (Table 4, Figure 1).

- **Headline inflation reverted to double digits in 2007 and stayed high through the first quarter of 2008 (14.8 percent)** driven by higher food[1] and energy prices, and, to some extent, monetary expansion during the first quarter of 2007. Underlying inflation (excluding food and energy) was stable at just under 10 percent.



- **Reserve money growth exceeded the program target in 2007 (26 percent against 15.6 percent) due to unexpectedly high banks' reserves caused mainly by the establishment of two new foreign banks** (Table 7). Credit to the private sector also grew rapidly (by 39.4 percent), as commercial banks continued to increase their lending to the buoyant construction and service sectors. However, by the end of March 2008, reserve money growth had decelerated to within the program target.

- **The external current account deficit, including official transfers, improved compared to the program (3.8 percent of GDP versus 5.1 percent),** as the ToT

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[1] Partly caused by supply disruptions resulting from a ban on export of agricultural products by Guinea.

deteriorated less than anticipated. International reserves increased to about US$208 million (4.5 months of imports coverage) at end-2007.

- **The NEER depreciated enough in 2006–07 to offset the rise in inflation, keeping the REER fairly stable**. Preliminary analysis indicates the REER to be in line with fundamentals, despite the ToT deterioration. Based on the behavioral equilibrium exchange rate methodology, the REER has fluctuated around the equilibrium value with episodes of significant over or undervaluations, but has been broadly in line with equilibrium values in recent years. Staff will analyze Sierra Leone's competitiveness in the context of the next Article IV mission (September 2008).

4. **Adoption of a cash-budget management system in April 2007 helped improve performance**. To preserve macroeconomic stability during the elections, the authorities adopted a cash-budget management system with no recourse to bank financing. This brought improvement in the overall fiscal balance and observance of most quantitative targets in 2007 (Table 2).

5. **However, budget execution suffered setbacks**. In particular:

- **Shortfalls in domestic revenue in the second half of 2006 continued, and external budgetary assistance was delayed**. The poor revenue performance was mostly caused by: (i) inadequate collection efforts across revenue departments; (ii) uncertainties created by the election process; and (iii) the adverse impact of the energy crisis on corporate profits (MEFP, ¶ 4).[2] Donor support was delayed because of fiduciary concerns related to the elections. The indicative targets on poverty-related expenditures and domestic revenue were missed at all test dates by a wide margin.

- **Arrears to domestic suppliers accumulated because of weak expenditure controls**. The authorities had agreed to clear all outstanding spending commitments at end-September 2007 (1.5 percent of GDP) and avoid accumulating new arrears. By year-end, domestic arrears amounted to Le 41 billion (0.8 percent of GDP), because MDAs entered into contracts that were not approved by the MoFED, though they were consistent with budget allocations.

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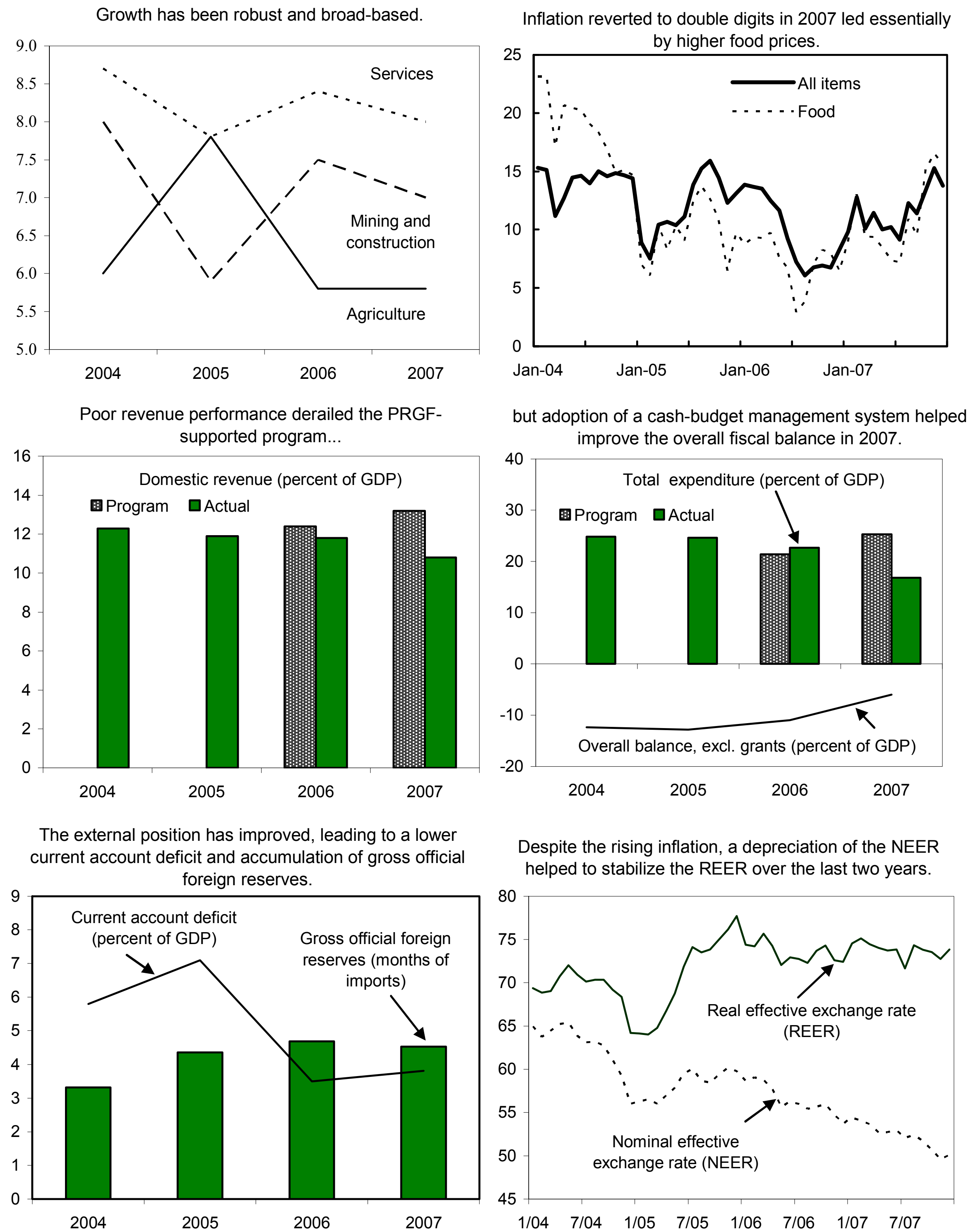
[2] Domestic revenue fell short of the 2007 target by 2.4 percent of GDP.

Figure 1. Sierra Leone: Selected Macroeconomic Indicators, 2004–07



Sources: Sierra Leonean authorities; and IMF staff estimates.

6. **Structural reforms lagged disappointingly in 2007 (Table 3), but there has been progress since**.[3] One problem was political inertia in the period leading up to the elections. However, the unfinished agenda from the 2007 program has been addressed upfront and all missed structural PCs have now been fully implemented (MEFP, ¶ 40).

III. Program discussions

7. **Discussions focused on: (i) revising the medium-term macroeconomic framework; (ii) the 2008 budget; and (iii) a renewed structural reform agenda**. The authorities recognized the need for continued prudent macroeconomic policies and the importance of creating fiscal space for increased investment in infrastructure and pro-poor spending.

A. Program Objectives and Policies

8. **Key medium-term objectives of the PRGF-supported program have been revised.** Real GDP growth is projected to be slightly lower but still strong at 6 percent, and double-digit inflation is expected to linger beyond 2010, assuming lagged spillovers from higher food and energy prices. Also, the objective of raising the domestic revenue-to-GDP ratio above 13 percent by 2008 has been postponed to 2011. Economic growth will benefit from increased public and private investment and a more reliable power supply. Gross official reserves would hold at around 4 months of imports, given that donors' assistance is expected to be high. The authorities are preparing a PRS for 2009–10 that will articulate their plans for meeting the MDGs (MEFP, ¶ 18).

Sierra Leone: Medium-Term Macroeconomic Indicators, 2006–10
(Percent of GDP, unless otherwise indicated)

	2006		2007		2008		2009	2010
	Prog. [1]	Act.	Prog. [1]	Est.	Prog. [1]	Proj.	Proj.	
Real GDP (annual percentage change)	7.4	7.4	6.5	6.8	6.5	6.0	6.0	6.0
Consumer prices (percentage change; annual average)	10.1	9.5	9.3	11.7	8.0	14.1	12.2	10.4
Reserve money (annual percentage change)	1.3	10.7	15.6	26.0	15.2	17.2	15.1	14.3
Gross domestic investment	15.0	15.5	18.1	13.4	15.1	16.0	19.0	20.5
Public	5.1	5.1	8.6	3.5	9.6	5.7	7.7	7.9
Private	9.9	10.4	9.4	9.9	5.5	10.3	11.3	12.6
Gross domestic saving	-1.4	7.8	5.4	6.1	3.7	5.8	9.5	12.0
External current account balance, including official grants	-6.9	-3.5	-5.1	-3.8	-4.8	-6.5	-6.1	-5.9
Gross official reserves (months of imports)	3.1	4.7	3.4	4.5	3.5	3.5	3.9	4.1

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.
[1] IMF Country Report No. 07/68.

9. **The policy objectives for 2008 are to consolidate macroeconomic stabilization and prepare for sustained high growth over the medium term.** The macroeconomic framework for 2008 foresees real GDP growth of 6 percent, based on further expansion of agricultural, manufacturing, construction and service activities. Average inflation has been revised upward to 14.1 percent (against 11.7 percent in 2007), reflecting increases in global energy and food

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[3] All three structural PCs for 2007 (modernization plan for the NRA, comprehensive strategy for the reform of the financial sector, and reconciliation of fiscal and monetary data) were missed.

prices, but a tighter monetary stance should prevent price pressures from becoming entrenched. Core inflation is expected to remain at about 10 percent per annum in 2008 before dipping into the single digits. The external current account deficit is projected to widen because of a sharp ToT deterioration (13.5 percent). The BSL has set its gross official reserve target at 3.5 months of imports coverage and will let the nominal exchange rate vis-à-vis the U.S. dollar depreciate to absorb part of the shock.

Fiscal policy

10. **The fiscal program for 2008 seeks to recapture the momentum lost in mobilizing domestic revenue, reorient expenditures toward priority sectors, and reduce domestic arrears**. The primary fiscal deficit would increase marginally to 2.4 percent of GDP to accommodate critical spending in priority sectors (Table 5). However, domestic financing would decline to 1.3 percent of GDP,[4] consistent with the authorities' policy of limiting debt-creating domestic financing over the medium term.

11. **A substantial revenue collection effort is needed**. Domestic revenue is projected at 11.9 percent of GDP, up from 10.8 percent in 2007. New revenue-enhancing measures introduced in the 2008 budget are being implemented and administrative measures to make the NRA more efficient include: (i) tightening fiscal controls, (ii) collecting tax due from oil importers; and (iii) adopting a code of conduct for NRA staff (MEFP, ¶ 21). Achievement of the revenue target for the first quarter of 2008 bodes well for the rest of the year. Since the NRA modernization plan was adopted, attention has turned to preparing for the introduction of the GST early in 2009, consistent with a recent FAD TA recommendations.

Sierra Leone: Fiscal Indicators, 2006–08
(Percent of GDP, unless otherwise indicated)

	2006		2007		2008	
	Prog. [1]	Act.	Prog. [1]	Act.	Prog. [1]	Proj.
Revenue and grants (excluding MDRI assistance)	21.1	20.0	22.9	15.6	22.9	18.4
Domestic revenue	12.5	11.8	13.2	10.8	13.4	11.9
Total expenditure and net lending	21.4	22.7	25.3	17.7	27.3	20.8
Of *which* : Current expenditure	16.4	17.6	15.4	13.3	16.0	15.2
Capital expenditure	5.0	5.1	8.6	3.5	9.6	5.7
Domestic primary fiscal balance	-1.5	-3.1	-2.7	-1.9	-3.5	-2.4
Overall fiscal balance, commitment basis						
Excluding grants	-9.0	-11.0	-12.2	-6.8	-13.9	-9.0
Including grants	11.4	9.3	23.3	25.2	-4.4	-2.5
Domestic financing	-11.7	-10.5	1.3	1.7	0.1	1.3
Excluding MDRI assistance	-11.7	-10.5	-0.1	0.9	-1.3	-0.4
Poverty-reducing expenditures	4.5	4.4	5.0	3.0	5.0	5.6

Sources: Sierra Leonean authorities, and IMF staff estimates and projections.
[1] IMF Country Report No. 07/68.

[4] Domestic financing will gradually decline to 1 percent of GDP by 2010.

12. **The profile of total expenditures reflects the new government's decision to boost poverty-reducing and infrastructure spending and to clear arrears accumulated in 2007**. The authorities agreed to clear the arrears, after they are audited, within the FY 2008 resource envelope.[5] They also agreed to shield the budget from a contingent liability stemming from a contract signed in December 2007 with an IPP outside normal procurement procedures and on terms less favorable than these of a World Bank-supported IPP.[6] Poverty-reducing expenditures will increase significantly, to 5.6 percent of GDP; MDRI resources will contribute 1.7 percent. Reflecting mostly investment in the energy sector, capital expenditures are projected to increase by 2.2 percentage points of GDP. The authorities intend to implement most of the FAD recommendations on PFM to enforce budget execution procedures and restore budget credibility (MEFP, ¶ 24). In particular, commitment controls will be strengthened by requiring MDAs to seek prior approval by the MoFED before entering into contracts and by accelerating the rollover of the IFMIS to all key MDAs. Internal audit capacity in key MDAs will also be strengthened. Should revenue fall short of the target, the authorities will make offsetting cuts in nonessential current expenditures (MEFP, ¶ 25).

Monetary and financial sector policies

13. **The goal of monetary policy in 2008 is to contain inflation pressures**. The reserve money target is slightly below projected nominal GDP growth (17.2 percent) to help mitigate second-round inflation risks stemming from the recent spike in world food and oil prices. Broad money growth is set to accommodate the drawdown of MDRI resources and a projected growth in private sector credit by close to 20 percent. To meet the monetary targets, staff emphasized the need for flexibility in the exchange rate and an appropriate mix of treasury bills and foreign exchange sales to partly sterilize donor inflows and the use of MDRI resources. Staff also urged the authorities to strengthen the BSL's ability to conduct monetary policy by: (i) increasing its stock of government securities (MEFP, ¶ 27); and (ii) enhancing its liquidity forecasting capacity.

Other structural reforms

14. **Structural reforms focus on macrocritical areas to raise economic growth and improve public services**. Efforts in 2008 will be directed at

- **Financial sector reforms**. To deepen financial intermediation and strengthen banking supervision, the BSL will implement the action plan formulated in the comprehensive strategy for the reform of the financial sector. A broader financial sector development

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[5] Domestic arrears accumulated before 2007, amounting to Le 35 billion (0.6 percent of GDP), will also be audited and cleared over the medium term as fiscal space is created.

[6] The contract would require the government to pay fuel for electricity generation (estimated at US$3 million per month), in case the NPA is unable to pay.

plan is being prepared with support from the Fund and the World Bank and will be finalized by year-end.[7]

- **The financial viability of the power and water public utility companies**. The authorities plan to adopt a comprehensive electricity tariff policy by year-end with a view to covering the generation and distribution costs. The water company will also review its tariffs.

- **Governance and the use of public resources**. The government has approved a revised Anti-Corruption Act and tabled it before parliament. It allows the ACC to prosecute cases without going through the Attorney General's Office (MEFP, ¶ 34). A Steering Committee for the implementation of the national anti-corruption strategy has been established and will be made operational during 2008.

B. Program Monitoring, Financing, and Extension of the Arrangement

15. **The proposed conditionality for the third review is consistent with program goals**. It has been streamlined and focused on fiscal and financial measures (the rationale of the measures is provided in Table 2 of the MEFP). Two changes in quantitative conditionality are proposed: (i) removal of the quantitative benchmark on the government's wage bill, given progress in controlling the payroll;[8] and (ii) introduction of a PC on domestic revenue—weaknesses in this area were at the root of the fiscal slippages that undermined the authorities' poverty-reduction objectives.

16. **The program for 2008 is fully financed but the recent oil and food price increases may give rise to a BOP need if they continue.** The equivalent of US$65 million in budget support is expected from donors with disbursement starting in the second half.[9] The financial program thus allows for an temporary increase in the float—expenditures committed but not paid—to be settled in the second half. [10] If the recent surge in fuel and food prices continue, a BOP need might arise. Based on the

Sierra Leone: External Budget Support Programmed for 2008
(In million of US dollars)

	2008				
	Q1	Q2	Q3	Q4	Total
United Kingdom	0.0	0.0	20.1	5.0	25.1
European Union	0.0	0.0	16.3	6.1	22.4
World Bank	0.0	0.0	0.0	10.0	10.0
African Development Bank	0.0	0.0	8.0	0.0	8.0
Total	0.0	0.0	44.4	21.1	65.5
Memorandum item:					
Domestic revenue	46.4	54.6	56.3	57.2	214.5

Source: Sierra Leonean authorities.

[7] Sierra Leone is one of the pilot countries for the joint Fund-Bank initiative to support country-led financial sector reforms.

[8] A comprehensive personnel file for the civil service payroll has been created and anomalies corrected.

[9] Adjusters are built in the program to allow aid shortfalls to be offset by higher domestic financing, up to 1 percent of GDP for the whole year; and aid windfalls to be spent, up to a maximum of 1 percent of GDP.

[10] Donors indicated their intentions to resume budgetary assistance after the conclusion of the second review.

latest WEO world oil price projection, the external current account balance would deteriorate by 2.7 percentage points of GDP more compared to the 2007 outcome. While the additional BOP need could be financed by a drawdown of reserves, the authorities intend to seek additional donor support and may request augmentation of access during the third review.

17. **A financing assurance review was conducted because of arrears to private creditors**. The authorities continued to engage external commercial creditors and have made goodwill payments to some of them to avoid litigation. The current status of Sierra Leone's relations with its external creditors provides sufficient financing assurances for the Fund-supported program.

18. **The authorities are requesting a one-year extension of the PRGF arrangement and a rephasing of disbursements**. Given the setback to program implementation in 2006–07, such an extension will provide sufficient time to achieve the program objectives and complete the final two reviews.

C. Debt Sustainability, Capacity to Repay, and Program Risks

19. **As indicated in the LIC-DSA, Sierra Leone is at moderate risk of debt distress (Supplement 2)**. Under the baseline scenario, the LIC-DSA indicates that the NPV of external debt to export would increase from about 41 percent in 2007 to 75 percent by 2028, against a policy-based threshold of 100 percent. External debt service ratio would stay under 5 percent of exports, well below the 15 percent threshold. However, some of the alternative scenarios highlight the need to maintaining prudent external debt management and refrain from nonconcessional borrowing. The LIC-DSA projects a declining burden from domestic debt, offsetting the increase in external debt. Staff encouraged the authorities to pursue efforts to get debt relief from commercial creditors under IDA-debt reduction Facility and to reach debt relief agreements with official bilateral creditors consistent with the enhanced HIPC Initiative framework.

20. **Capacity to repay the Fund has improved significantly since HIPC and MDRI relief** (Table 10). Obligations to the Fund as a percentage of exports of goods and services declined from 3.8 percent in 2005 to 0.1 percent in 2007.

21. **There are three major risks to the program:**

- Surging world oil and food prices may increase pressure on the government to either eliminate import duties on key products or raise expenditures (subsidies and salary increases), thus causing revenue shortfalls or increasing public spending beyond what is budgeted for 2008.

- Execution of the 2008 budget may be impacted by the contingent liability related to the IPP should the NPA's financial position not improve as expected.

- Although the programmed donor support is based on firm indication, delays may occur if the government does not satisfactorily address fiduciary concerns raised by donors and the emerging governance issues related to the IPP.[11]

22. **The authorities provided reasonable assurances to address these risks**. In May 2008 they revised the pricing mechanism for petroleum products to ensure that the revenue expected from the sector is achieved. They also indicated that the IPP contract is being renegotiated and they will ensure that the outcome does not affect the budget (MEFP, ¶ 23).

IV. Staff Appraisal

23. **Performance under the Fund-supported program was mixed; significant revenue shortfalls exacerbated by delayed external budgetary assistance undermined progress on key objectives**. The lack of fiscal space led to a severe compression of priority spending and the accumulation of domestic arrears owing to ineffective expenditure controls. Structural reforms were considerably behind schedule though, the new administration has resolved to move faster in many areas. On the other hand, real GDP remained strong and inflation, though rising, was contained to low double digits despite severe external shocks.

24. **The proposed fiscal stance for 2008 strikes the right balance between expanding poverty-reducing and infrastructure spending and preventing excessive accumulation of debt**. Generating additional revenue should remain a priority: the authorities need to stay the course with the modernization of the NRA and introduce the GST. Firm control over expenditure commitments by ministries is also needed to lend credibility to the authorities' objective of slowing down the accumulation of domestic debt.

25. **Monetary policy should be more active**. The BSL needs to strengthen the monetary framework and monitor closely developments in the monetary aggregates. This is all the more important given the need to limit inflationary pressures from the use of MDRI resources and surging food and fuel prices. The provision by the government of additional treasury bills to the central bank for its open market operations is a step in the right direction.

26. **Structural reforms need to be accelerated to strengthen growth**. Staff welcomes the adoption of the comprehensive strategy and action plan for the reform of the financial sector and urges the BSL to start implementing it without delay. Reestablishing the financial viability of the NPA is essential to sustain private sector growth and broaden the tax base. Also, strengthening the ACC will be critical to promoting good governance and accountability, and ensuring transparency in all public procurement contracts.

27. **Domestic debt accumulation should be kept in check**. The interest burden of domestic debt has been rising and crowds out other spending priorities. This calls for lowering domestic debt accumulation and changing the profile, which is currently skewed toward short-

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[11] The case has already been brought before the ACC for inquiry and possible prosecution if legal procurement procedures have been breached.

term and high interest rate instruments. All new public sector external financing should be in the form of grants or on highly concessional terms.

28. **Staff recommends completion of the second review and the extension of the PRGF arrangement**. Staff supports the authorities' request for waivers for the nonobservance of three quantitative PCs on the basis of the corrective measures taken and because the deviations were temporary, as evidenced by the observance of the quantitative targets in 2007. Staff believes that the risks to the program have been reasonably mitigated by the corrective actions taken and the authorities' renewed commitment to the reform agenda.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for January–December 2006

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated)[1]

	January–December 2006															
	March				June				September				December			
	Indicative Targets	Adjusted Targets	Act.	Met or Not Met	Performance Criteria	Adjusted Targets	Act.	Met or Not Met	Indicative Targets	Adjusted Targets	Act.	Met or Not Met	Performance Criteria	Adjusted Targets	Act.	Met or Not Met
Performance criterion																
Net domestic bank credit to the central government (ceiling)	20,216	37,679	17,572	Met	-15,478	-39,555	-44,597	Met	7,199	22,681	54,641	Not met	6,558	-516,853	-462,738	Not met
Unadjusted target (ceiling)		20,216				-15,478				7,199				6,558		
Adjustment for the shortfall (excess) in external budget support [2]		199				5,818				-3,331				523,853		
Adjustment for the issuance of treasury securities to the private sector		-17,662				18,258				-12,150				-442		
Net domestic assets of the central bank (ceiling)	30,216	-563,748	8,385	Not met	522	-4,700	-41,065	Met	29,199	33,963	19,011	Met	39,558	-490,460	-479,357	Not met
Unadjusted target (ceiling)		30,216				522				29,199				39,558		
Adjustment for the shortfall (excess) in external budget support [2]		199				5,818				-3,331				523,853		
Adjustment for exchange rate depreciation (appreciation)		-593,765				597				1,433				-6,164		
Domestic primary budget balance of the central government (floor)	-29,180	-29,180	-11,083	Met	-26,470	-26,470	-11,930	Met	-56,744	-56,744	-77,360	Not met	-77,542	-77,542	-129,400	Not met
Subsidies to National Power Authority (ceiling) [3]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0.0	0.0	Met
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-0.40	-0.41	173.27	Met	10.67	10.50	196.88	Met	-1.46	-3.73	183.82	Met	-0.12	3.61	200.8	Met
Unadjusted target (floor)		-0.40				10.67				-1.46				-0.12		
Adjustment for the shortfall (excess) in external budget support		0.01				0.17				2.27				-3.73		
Adjustment for the shortfall in the US$ value of IMF disbursement		0.0				0.0				0.0				0.00		
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [3]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [3]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
External payment arrears of the public sector (ceiling) [3]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
Indicative target																
Total domestic government revenue (floor)	111,409	111,409	118,966	Met	248,973	248,973	260,570	Met	379,972	379,972	383,019	Met	532,573	532,573	495,644	Not met
Government wage bill (ceiling)	66,500	66,500	67,140	Not met	129,666	129,666	136,497	Not met	196,666	196,666	206,585	Not met	265,005	265,005	271,531	Not met
Poverty-related expenditures (floor)	43,320	43,320	31,404	Not met	89,254	89,254	69,209	Not met	139,254	139,254	139,318	Met	202,254	202,254	185,805	Not met
Memorandum items:																
External budgetary assistance [4]	22,424		22,623		107,514		113,332		120,138		113,475		170,420		181,361	
MDRI grant from the IMF															512,912	
Net credit to government by nonbank private sector [5]	20,782		3,120		-15,478		2,780		7,199		-4,951		6,558		6,116	
Disbursements under the PRGF (US$ millions)	6.73		0.00		6.73		6.86		6.73		6.86		13.02		13.40	

Sources: Sierra Leonean authorities; and IMF staff estimates.

[1] Variables are based on definitions in the TMU of March 2006.
[2] The MDRI grant from the Fund is included.
[3] These apply on a continuous basis.
[4] Including program grants and program loans.
[5] Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for January–December 2007

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) [1]

	March				June				September				December			
	Indicative Targets	Adjusted Targets	Act.	Met or Not Met	Performance Criteria	Adjusted Targets	Act.	Met or Not Met	Indicative Targets	Adjusted targets	Act.	Met or Not met	Performance Criteria	Adjusted targets	Prelim.	Met or Not met
Performance criteria																
Net domestic bank credit to the central government (ceiling)	15,840	20,012	67,418	Not met	4,406	44,535	43,050	Met	63,806	81,786	56,565	Met	42,609	69,310	46,052	Met
Unadjusted target (ceiling)		15,840				4,406				63,806				42,609		
Adjustment for the shortfall (excess) in external budget support		8,014				35,772				19,845				35,994		
Adjustment for the issuance of treasury securities to the private sector		-3,842				4,358				-1,864				-9,292		
Net domestic assets of the central bank (ceiling)	17,084	25,098	27,137	Not met	5,116	40,887	25,034	Met	65,408	85,253	9,302	Met	35,323	71,317	-998	Met
Unadjusted target (ceiling)		17,084				5,116				65,408				35,323		
Adjustment for the shortfall (excess) in external budget support		8,014				35,772				19,845				35,994		
Domestic primary budget balance of the central government (floor)	-16,322	-16,322	-40,485	Not met	-34,718	-34,718	-1,286	Met	-81,089	-81,089	-27,539	Met	-136,450	-136,450	-95,204	Met
Subsidies to National Power Authority (ceiling) [2]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-6.17	-11.45	10.7	Met	4.08	-19.49	9.6	Met	-13.04	-26.12	16.8	Met	13.56	-10.16	31.7	Met
Unadjusted target (floor)		-6.17				4.08				-13.04				13.56		
Adjustment for the shortfall (excess) in external budget support		5.28				23.57				13.08				23.72		
Adjustment for the shortfall in the US$ value of IMF disbursement	0.00	0.00				0.00				0.00				0.00		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities																
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [2]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [2]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met
External payment arrears of the public sector (ceiling) [2]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met
Indicative targets																
Total domestic government revenue (floor)	148,199	148,199	125,322	Not met	331,383	331,383	284,409	Not met	502,823	502,823	410,974	Not met	674,908	674,908	536,864	Not met
Government wage bill (ceiling)	75,196	75,196	71,284	Met	150,638	150,638	139,030	Met	227,493	227,493	215,137	Met	304,603	304,603	296,509	Met
Poverty-related expenditures (floor)	47,463	47,463	40,857	Not met	115,018	115,018	59,517	Not met	188,199	188,199	102,719	Not met	258,912	258,912	108,899	Not met
Memorandum items:																
External budgetary assistance [3]	30,375	30,375	14,347		85,890	85,890	14,347		85,890	85,890	46,200		197,683	197,683	125,696	
Net credit to government by nonbank private sector [4]	952	952	4,794		1,252	1,252	-3,106		1,452	1,452	3,316		2,000	2,000	11,292	
Disbursements under the PRGF (US$ millions)	0	0.00	0.00		6.50	6.50	0.00		6.50	6.50	0.00		12.99	12.99	0.00	

Sources: Sierra Leonean authorities; and IMF staff calculations.

[1] Variables are based on definitions in the TMU of November 2006.
[2] These apply on a continuous basis.
[3] Including program grants and program loans.
[4] Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 3. Sierra Leone: Status of Implementation of Structural Conditionality for 2007

Measures	Timing	Status
Structural performance criteria		
A three-year modernization plan for the National Revenue Authority (NRA), including a separation of HQ and operations functions, has been adopted by the cabinet and tabled before parliament.	June 30	Not met.
A comprehensive strategy for the reform of the financial sector has been adopted by the BSL, drawing on the recommendations of the FSAP, as described on pages 9 and 10 of the Financial System Stability Assessment.	September 30	Not met.
Prepare a reconciliation of fiscal data with the expanded monetary data produced by the BSL and ensure consistency of the fiscal database with the monetary database.	December 31	Not met.
Structural benchmarks		
A Revenue Reform Steering Committee has been established with membership and charter agreed.	March 31	Met.
Coverage of the Integrated Financial Management Information System (IFMIS) has been extended to key ministries, departments, and agencies (MDAs) to facilitate better expenditure control.	April 30	Met.
Consistent with the MOU, formal procedures with the Ministry of Finance (MOF) have been initiated to restore compliance with the BSL Act 2000 by establishing the terms and conditions for BSL's receipt of interest-earning securities to replenish the prescribed minimum paid-up capital.	March 31	Not met.
A Steering Committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement has been established and produced its first report.	March 31	Not met.
Key MDAs have established and adequately staffed statistics units to collect and assemble information relevant for the compilation of socio-macroeconomic data by Statistics Sierra Leone (SSL), and a framework for cooperation between SSL and these units has been agreed upon.	June 30	Not met.
Aggregated data for all extrabudgetary agencies and projects have been consolidated with the budgetary accounts of the Accountant General Office for the purpose of compiling analytical data of the whole central government.	June 30	Not met.
The action plan on public expenditure tracking surveys (PETS) has been integrated into the broader public financial management (PFM) action plan to improve service delivery and reduce leakages.	September 30	Met.
The implementation framework for the Extractive Industries Transparency Initiative (EITI) has been developed in collaboration with key donors.	December 31	Met.

Table 4. Sierra Leone: Selected Economic and Financial Indicators, 2006–10

	2006	2007		2008		2009	2010
	Act.	Prog.[1]	Est.	Prog.[1]	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
Income and expenditure							
Real GDP	7.4	6.5	6.8	6.5	6.0	6.0	6.0
GDP deflator	11.8	10.5	10.3	7.4	11.0	8.0	6.6
Nominal GDP	20.0	17.7	17.9	14.4	17.7	14.4	13.0
Consumer prices (end of period)	8.3	8.5	13.8	7.5	13.4	11.0	9.7
Consumer prices (annual average)	9.5	9.3	11.7	8.0	14.1	12.2	10.4
Money and credit							
Broad money	18.9	17.1	25.9	16.4	20.5	15.7	14.8
Velocity (level)	4.7	5.6	4.4	5.5	4.3	4.2	4.2
Domestic credit [2]	-48.7	17.5	27.2	15.0	30.6	23.7	20.9
Government [2]	-63.9	20.7	17.6	9.3	41.3	24.4	20.5
Private sector	18.5	14.7	39.4	22.6	19.8	23.3	21.8
Reserve money	10.7	15.6	26.0	15.2	17.2	15.1	14.3
Interest rate [3]	14.2	...	21.3	...	...	...	...
External sector							
Exports (US$)	28.3	20.7	3.9	12.1	11.6	24.6	12.4
Imports (US$)	1.9	13.8	4.6	7.2	18.1	15.2	6.8
Terms of trade (= – deterioration)	-6.2	-3.2	-0.4	1.6	-13.5	0.5	0.8
Real effective exchange rate (= – depreciation; eop)	-7.4	…	0.5	…	…	…	…
	(Percent of GDP)						
Gross domestic saving	7.8	5.4	6.1	3.7	5.8	9.5	12.0
Government	-1.3	0.9	0.3	0.6	-0.8	0.3	0.8
Private	9.1	4.5	5.7	3.0	6.5	9.2	11.2
Gross domestic investment	15.5	18.1	13.4	15.1	16.0	19.0	20.5
Government	5.1	8.6	3.5	9.6	5.7	7.7	7.9
Private	10.4	9.4	9.9	5.5	10.3	11.3	12.6
Current account balance, including official transfers	-3.5	-5.1	-3.8	-4.8	-6.5	-6.1	-5.9
Current account balance, excluding official transfers	-8.8	-10.1	-7.3	-9.3	-10.3	-9.4	-8.5
Overall balance of payments	10.2	-1.9	1.4	-1.2	-1.9	1.2	1.1
Government domestic revenue	11.8	13.2	10.8	13.4	11.9	12.4	13.4
Total expenditure and net lending	22.7	25.3	17.7	27.3	20.8	22.6	22.8
Of which : current expenditure	17.6	15.4	13.3	16.0	15.2	14.9	14.9
Overall fiscal balance							
(excluding grants and MDRI)	-11.0	-12.2	-6.8	-13.9	-9.0	-10.2	-9.5
(including grants and MDRI) [4]	9.3	23.3	25.2	-4.4	-2.5	-4.2	-4.4
Domestic primary fiscal balance [5]	-3.1	-2.7	-1.9	-3.5	-2.4	-1.7	-1.5
Domestic financing	-10.4	1.3	1.7	0.1	1.3	1.3	1.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of exports of goods and nonfactor services)						
Debt service due (incl. to IMF) after debt relief [6]	6.6	0.8	4.1	1.1	3.3	2.9	2.9
Debt service due (incl. to IMF) before debt relief	18.9	125.2	135.7	12.5	4.1	3.5	3.3
Net present value of debt-to-exports ratio [7]	52.1	37.6	41.1	40.8	45.2	45.9	47.7
	(US$ millions, unless otherwise indicated)						
Memorandum items:							
External current account balance, excluding official transfers	-125.7	-162.6	-122.1	-162.2	-186.7	-176.3	-166.3
Gross international reserves	184.2	182.5	207.7	208.5	185.9	220.9	240.9
(months of imports) [8]	4.7	3.4	4.5	3.5	3.5	3.9	4.1
GDP	1,422.6	1,614.6	1,663.5	1,740.5	1,813.7	1,882.8	1,964.0
GDP (Le billions)	4,213.7	5,132.2	4,965.9	5,872.8	5,845.4	6,688.5	7,557.7

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

[1] IMF Country Report No. 07/68.

[2] The numbers reflect the impact of MDRI.

[3] Treasury bill rate (end of period).

[4] For 2006, MDRI relief from IMF; for 2007, MDRI relief from IDA and AfDF (both as stock of debt relief).

[5] Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure.

[6] Percent of exports of goods and services; after Naples (2001) and Cologne flow reschedulings (2002–04) and delivery of full HIPC Initiative and MDRI assistance.

[7] Net present value (NPV) of debt under the LIC DSF.

[8] Months of imports of goods and services of subsequent year.

Table 5. Sierra Leone: Central Government Financial Operations, 2007–08
(Le billions, unless otherwise indicated)

	2007		2008					
			Q1		Q2	Q3	Q4	Full year
	Prog. [1]	Actual	Proj.	Prel.				Proj.
Total revenue and grants	2,498.4	2,129.3	196.3	210.5	211.2	364.8	287.5	1,074.0
Domestic revenue	674.9	536.9	149.5	151.0	175.9	181.5	184.3	692.7
Income Tax Department	198.1	146.2	42.3	45.0	49.7	52.8	49.1	196.5
Customs and Excise Department	364.5	308.4	82.4	82.4	96.5	94.1	97.8	370.9
Mines Department	30.0	18.6	5.7	3.6	6.6	6.5	9.4	26.2
Other departments	45.0	29.4	7.3	9.0	8.3	15.1	12.9	45.3
Road user charges	37.3	34.4	11.9	11.0	14.8	13.0	15.1	53.8
Grants	1,823.5	1,592.5	46.8	59.5	35.2	183.3	103.2	381.3
Program	244.9	168.7	1.8	0.4	1.3	145.0	75.6	222.3
Of which: HIPC assistance	47.2	35.0	1.8	0.4	1.3	1.9	7.5	11.1
Projects	254.5	70.6	45.0	59.1	34.0	38.3	27.6	159.0
MDRI assistance from IMF, IDA, and AfDF	1,324.2	1,353.2	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	1,300.4	876.6	302.6	284.4	312.0	304.0	318.0	1,218.4
Current expenditure	790.8	660.9	215.7	184.3	233.4	216.7	252.6	887.0
Wages and salaries	304.6	296.5	88.8	76.8	88.9	89.2	101.3	356.2
Current noninterest, nonwage expenditure	357.8	252.3	98.2	77.4	117.0	99.3	116.2	409.8
Goods and services	225.2	157.3	65.7	54.1	76.8	70.3	77.8	278.9
Transfers to local councils	47.1	19.3	12.7	5.1	15.7	6.9	13.9	41.5
Grants to educational institutions	31.6	27.4	6.1	6.1	7.5	7.0	6.7	27.2
Transfers to Road Fund	37.3	34.4	11.9	11.0	14.8	13.0	15.1	53.8
Elections	15.1	13.8	1.7	1.1	2.1	1.9	2.4	7.5
Interest payments	128.5	112.1	28.7	30.2	27.4	28.3	35.1	121.0
Domestic	84.3	96.3	27.0	28.3	24.1	26.4	30.8	109.6
Foreign	44.2	15.9	1.7	1.9	3.3	1.9	4.3	11.3
Capital expenditure and net lending	442.5	176.7	86.9	100.1	78.6	87.3	65.4	331.4
Capital expenditure	442.5	173.8	86.9	100.1	79.5	88.3	65.4	333.3
Externally financed	360.6	132.4	77.8	71.5	59.0	68.4	68.4	267.3
Domestically financed	81.9	41.4	9.1	28.6	20.5	19.9	-3.0	66.0
Net lending	0.0	2.9	0.0	0.0	-1.0	-1.0	0.0	-1.9
Contingency spending related to MDRI relief [2]	67.1	39.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)								
Excluding grants	-625.5	-339.7	-153.1	-133.5	-136.0	-122.5	-133.7	-525.7
Including grants and MDRI assistance from IDA and AfDF	1,197.9	1,252.7	-106.4	-73.9	-100.8	60.8	-30.5	-144.4
Total financing	-1,197.9	-1,252.7	106.4	73.9	100.8	-60.8	30.5	144.4
Foreign	-1,265.5	-1,333.8	25.5	8.3	18.2	19.4	24.2	70.1
Borrowing	106.1	61.8	32.8	12.4	25.1	30.0	40.8	108.3
Project	106.1	61.8	32.8	12.4	25.1	30.0	40.8	108.3
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization [3]	-1,436.6	-1,395.6	-7.3	-4.1	-6.9	-10.6	-16.6	-38.2
Change in foreign arrears	0	0	0.0	0	0	0	0	0
Debt relief obtained [3]	65.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.5	83.5	80.9	81.8	82.6	-80.2	-9.9	74.3
Bank financing	42.6	28.0	83.0	52.1	64.7	-31.8	42.2	127.2
of which: change in MDRI-related deposits	-50.1	39.0	37.6	57.2	20.7	20.2	0.2	98.3
Nonbank financing	24.9	55.4	-2.1	29.6	17.9	-48.4	-52.1	-52.9
Government bonds	2.0	11.3	-1.0	20.6	-10.1	3.7	-21.2	-6.9
Privatization receipts	25.0	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-2.1	39.0	-1.1	-1.1	-2.0	-22.1	-20.8	-46.0
Float (including checks payable/receivable)	0.0	0.0	0.0	10.1	30.0	-30.0	-10.1	0.0
Unaccounted (– = overfinancing of the budget)	0.0	-2.4	0.0	-16.2	0.0	0.0	16.2	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (Le billions)	5,132	4,966	5,845	5,845	5,845	5,845	5,845	5,845
Total HIPC assistance (percent of GDP)	0.9	0.7	1.8	0.0	0.0	0.0	0.1	0.2
Total poverty expenditures (percent of GDP)	5.0	3.0	1.2	1.2	1.5	1.5	1.4	5.6
(Le billions)	258.9	147.8	70.2	67.6	90.1	85.7	83.3	326.7
			(Percent of GDP, unless otherwise indicated)					
Domestic revenue	13.2	10.8	2.6	2.6	3.0	3.1	3.2	11.9
Total expenditure and net lending	25.3	17.7	5.2	4.9	5.3	5.2	5.4	20.8
Of which: current expenditure	15.4	13.3	3.7	3.2	4.0	3.7	4.3	15.2
capital expenditure	8.6	3.6	1.5	1.7	1.3	1.5	1.1	5.7
Overall fiscal balance								
Including grants and MDRI [4]	23.3	25.2	-1.8	-1.3	-1.7	1.0	-0.5	-2.5
Excluding grants	-12.2	-6.8	-2.6	-2.3	-2.3	-2.1	-2.3	-9.0
Domestic primary balance [5]	-2.7	-1.9	-0.8	-0.5	-0.8	-0.4	-0.5	-2.4
(Le billions)	-136.5	-95.2	-46.6	-31.8	-49.6	-25.9	-30.2	-137.4
Domestic financing	1.3	1.7	1.4	1.4	1.4	-1.4	-0.2	1.3
Total wages and salaries	5.9	6.0	1.5	1.3	1.5	1.5	1.7	6.1
Total wages and salaries (percent of domestic revenue)	45.1	55.2	59.4	50.9	50.6	49.1	55.0	51.4

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

[1] IMF Country Report No. 07/68.

[2] The authorities had intended to use these resources in a supplementary budget for 2007.

[3] HIPC Initiative relief is shown as program grants, consistent with revised presentation in the balance of payments from 2002 onward.

[4] For 2007, MDRI relief from IDA and AfDF (as a stock of debt relief).

[5] Domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the DDR program.

Table 6. Sierra Leone: Central Government Financial Operations, 2006–10
(Le Billions, unless otherwise indicated)

	2006	2007		2008		2009	2010
	Act.	Prog. [1]	Act.	Prog. [1]	Proj.	Proj.	Proj.
Total revenue and grants	1,351.2	2,498.4	2,129.3	1,344.0	1,074.0	1,235.1	1,390.7
Domestic revenue	495.6	674.9	536.9	785.9	692.7	831.5	1,010.9
Income Tax Department	137.9	198.1	146.2	224.2	196.5	232.5	285.0
Customs and Excise Department	278.8	364.5	308.4	417.7	370.9	456.7	560.4
Mines Department	14.7	30.0	18.6	38.0	26.2	34.7	46.9
Other departments	24.5	45.0	29.4	56.7	45.3	52.7	62.6
Road user charges	39.7	37.3	34.4	49.3	53.8	54.9	56.2
Grants	855.5	1,823.5	1,592.5	558.1	381.3	403.7	379.7
Program	224.0	244.8	168.7	323.6	222.3	215.1	190.3
Of which: HIPC assistance [1]	42.6	47.2	35.0	123.0	11.1	12.3	13.3
Projects	122.6	254.5	70.6	234.5	159.0	188.5	189.5
MDRI assistance from IMF, IDA, and AfDB [2]	509.0	1,324.2	1,353.2	...	...	...	...
Total expenditure and net lending	957.5	1,300.4	876.6	1,601.7	1,218.4	1,513.2	1,726.5
Current expenditure	741.3	790.8	660.9	938.1	887.0	997.2	1,128.7
Wages and salaries	271.5	304.6	296.5	353.7	356.2	416.2	472.4
Current noninterest, nonwage expenditure	307.7	357.8	252.3	432.6	409.8	436.9	524.9
Goods and services	205.5	225.2	157.3	288.5	278.9	284.3	345.0
Transfers to local councils	26.9	47.1	19.3	56.5	41.5	54.0	72.8
Grants to educational institutions	29.6	31.6	27.4	36.3	27.2	41.4	48.4
Transfers to Road Fund	39.7	37.3	34.4	49.3	53.8	54.9	56.2
Elections	6.1	15.1	13.8	0.4	7.5	0.4	0.6
Interest payments	162.0	128.5	112.1	151.9	121.0	144.1	131.4
Domestic	89.1	84.3	96.3	82.2	109.6	130.9	117.6
Foreign	72.9	44.2	15.9	69.6	11.3	13.2	13.8
Capital expenditure and net lending	216.3	442.5	176.7	563.3	331.4	516.1	597.8
Capital expenditure	214.6	442.5	173.8	563.3	333.3	517.1	597.8
Externally financed	170.5	360.6	132.4	457.4	267.3	424.0	473.0
Domestically financed	44.1	81.9	41.4	105.9	66.0	93.1	124.8
Net lending	0.0	0.0	2.9	0.0	-1.9	-1.0	0.0
Contingency spending related to MDRI	...	67.1	39.0	100.2	0.0	0.0	0.0
Overall balance (commitment basis)							
Excluding grants	-461.9	-625.5	-339.7	-815.7	-525.7	-681.8	-715.6
Including grants	393.7	1,198.0	1,252.7	-257.6	-144.4	-278.1	-335.8
Total financing	-393.7	-1,198.0	-1,252.7	257.6	144.4	278.1	335.8
Foreign	28.4	-1,265.5	-1,333.8	166.3	70.1	192.0	240.5
Borrowing	47.9	106.1	61.8	223.0	108.3	235.5	283.5
Project	47.9	106.1	61.8	223.0	108.3	235.5	283.5
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization [2]	-119.2	-1,436.6	-1,395.6	-183.0	-38.2	-43.4	-43.0
Debt relief obtained [2]	99.7	65.0	0.0	126.3	0.0	0.0	0.0
Domestic	-437.8	67.5	83.5	91.4	74.3	86.1	95.3
Bank financing	-446.5	42.6	28.0	23.1	127.2	106.0	110.9
Central bank	---	---	30.0	---	98.3	99.4	130.3
Of which: change in MDRI-related deposits	---	25.3	39.0	---	98.3	99.4	130.3
Commercial banks	---	---	-2.0	---	28.9	6.6	-19.4
Nonbank financing	8.6	24.9	55.4	68.3	-52.9	-20.0	-15.6
Government bonds	6.1	2.0	11.3	-17.6	-6.9	-6.7	-4.7
Privatization receipts	3.0	25.0	5.2	88.0	0.0	0.0	0.0
Change in arrears	-0.5	-2.1	39.0	-2.1	-46.0	-13.2	-10.9
Of which: arrears to local councils	0.0	0.0	0.0	0.0	-15.3	0.0	0.0
Float (checks payable)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unaccounted (– = overfinancing of the budget)	15.8	0.0	-2.4	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items							
Nominal GDP	4,213.7	5,132.2	4,965.9	5,872.8	5,845.4	6,688.5	7,557.7
Total HIPC assistance (percent of GDP)	1.0	0.9	0.7	2.1	0.2	0.2	0.2
Total poverty expenditures (percent of GDP)	4.4	5.0	3.0	5.0	5.6	5.8	6.0
(Le billions)	185.8	258.9	147.8	295.7	326.7	387.9	453.5
	(Percent of GDP, unless otherwise indicated)						
Domestic revenue	11.8	13.2	10.8	13.4	11.9	12.4	13.4
Total expenditure and net lending	22.7	25.3	17.7	27.3	20.8	22.6	22.8
Of which: current expenditure	17.6	15.4	13.3	16.0	15.2	14.9	14.9
capital expenditure	5.1	8.6	3.5	9.6	5.7	7.7	7.9
Overall fiscal balance (commitment basis)							
Including grants [3]	9.3	23.3	25.2	-4.4	-2.5	-4.2	-4.4
Excluding grants	-11.0	-12.2	-6.8	-13.9	-9.0	-10.2	-9.5
Domestic primary balance [4]	-3.1	-2.7	-1.9	-3.5	-2.4	-1.7	-1.5
(Le billions)	-129.4	-136.5	-95.2	-206.4	-137.4	-113.7	-111.2
Domestic financing	-10.5	1.3	1.7	0.1	1.3	1.3	1.3
Total wages and salaries	6.4	5.9	6.0	6.0	6.1	6.2	6.3
Total wages and salaries (percent of domestic revenue)	54.8	45.1	55.2	45.0	51.4	50.1	46.7

Sources: Sierra Leonean authorities, and IMF staff estimates.

[1] IMF Country Report No. 07/68.

[2] HIPC Initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward.

[3] For 2006, MDRI relief from IMF; for 2007, MDRI relief from IDA and AfDF (both as stock of debt relief).

[4] Domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditure.

Table 7. Sierra Leone: Monetary Survey, 2006–09

(Le billions; at actual exchange rates unless otherwise indicated)

	2006	2007								2008					2009
	Dec.	Mar.		Jun.		Sep.		Dec.		Mar.		Jun.	Sep.	Dec.	Dec.
	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Proj.	Prel.	Projections			Proj.
onetary survey															
Net foreign assets	657.4	608.2	680.5	676.2	696.3	698.8	703.9	676.2	882.6	882.7	824.3	979.6	800.4	828.3	1,017.0
Net domestic assets	242.2	258.3	306.9	241.0	305.0	321.9	312.7	241.0	273.1	292.6	341.6	418.6	407.4	531.6	557.0
Domestic credit	455.7	466.3	538.3	461.6	539.2	551.7	571.3	461.6	579.5	593.6	667.7	687.8	691.2	756.9	936.6
Net credit to government	261.3	276.5	538.3	248.8	539.2	339.2	571.3	248.8	307.3	353.7	359.3	424.0	392.2	434.4	540.4
Narrow definition [2]	-220.6	-203.8	-153.0	-281.4	-175.5	-138.6	-162.4	-281.4	-192.5	-126.5	-140.4	-75.7	-107.5	-65.3	40.7
Claims on nonfinancial public enterprises	5.2	5.3	6.9	9.2	11.0	11.0	6.5	9.2	8.4	6.6	11.0	6.6	6.6	6.6	6.7
Claims on private sector	189.2	184.5	202.7	204.6	223.9	201.6	246.9	203.6	263.7	233.3	297.3	257.3	292.3	315.9	389.5
Other items (net)	-213.5	-208.0	-231.3	-220.6	-234.3	-229.8	-258.6	-220.6	-306.4	-300.9	-326.1	-269.2	-283.8	-225.4	-379.5
Broad money	896.6	866.5	991.9	917.2	999.1	1,020.7	1,015.2	917.2	1,128.5	1,175.3	1,165.9	1,398.2	1,207.8	1,359.9	1,574.1
Money	489.3	431.2	519.1	425.4	516.8	485.1	506.7	425.4	549.6	521.8	547.5	593.9	519.0	544.9	611.9
Quasi–money	407.3	435.2	472.8	491.8	482.4	535.6	508.5	491.8	578.9	653.5	605.2	804.4	688.7	814.9	962.2
Memorandum items:								(Annual percentage change)							
Broad money	18.9	17.1	34.0	18.9	29.5	23.6	21.4	17.1	25.9	19.0	17.5	39.9	19.0	20.5	15.7
Reserve money	10.7	-5.9	18.3	23.6	19.6	16.6	12.7	15.6	26.0	19.8	18.4	45.8	21.8	17.2	15.1
Net credit to the government	-63.9	-62.7	-55.7	-63.4	-55.2	-56.6	-59.2	20.7	17.6	7.6	9.3	39.3	23.4	41.3	24.4
Claims on private sector	18.5	7.7	18.3	14.7	28.5	13.8	39.4	14.7	39.4	15.1	46.7	14.9	18.4	19.8	23.3
Velocity (GDP/M2)	4.7	5.7	5.0	5.6	5.0	4.9	4.9	5.6	4.4	5.0	5.0	4.2	4.8	4.3	4.2
Money multiplier (M2/base money)	2.7	3.1	2.8	2.6	2.9	2.9	2.9	2.6	2.7	2.8	2.8	2.8	2.9	2.7	2.8

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

[1] IMF Country Report No. 07/68.

[2] Excluding noninterest-bearing government securities, government securities held for monetary operations, recapitalization bond and deposits in the sterilization account.

Table 8. Sierra Leone: Summary Accounts of Central Bank and Deposit Money Banks, 2006–09

(Le billions; at actual exchange rates unless otherwise indicated)

	2006	2007								2008					2009
	Dec.	Mar.		Jun.		Sep.		Dec.		Mar.		Jun.	Sep.	Dec.	Dec.
	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Prog. [1]	Act.	Proj.	Prel.	Projections			Proj.
ank of Sierra Leone															
Net foreign assets	447.8	353.4	432.5	386.0	428.2	329.8	446.4	419.9	536.2	450.4	502.7	520.5	473.8	429.7	559.2
Net domestic assets	-111.4	-85.0	-84.3	-96.9	-86.4	-36.6	-102.1	-66.7	-112.4	-33.2	-90.6	-22.4	-54.4	66.8	12.0
Net credit to government	27.0	57.7	60.3	46.3	65.6	105.7	51.5	77.0	75.0	183.8	98.2	164.0	122.7	173.2	272.6
Narrow definition [2]	-454.9	-472.5	-421.4	-483.9	-414.3	-424.5	-428.7	-453.2	-424.8	-296.4	-401.6	-335.7	-377.0	-326.5	-227.1
Claims on nonfinancial public enterprises	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	0.0
Claims on private sector	2.8	3.4	6.3	3.4	5.6	3.4	4.4	3.4	2.9	3.6	6.2	6.2	6.2	2.9	2.9
Claims on deposit money banks	3.1	0.0	5.6	0.0	4.9	0.0	3.9	0.0	0.8	4.9	3.6	3.6	3.6	0.8	0.8
Other items (net)	-144.3	-146.1	-156.5	-146.7	-162.6	-145.8	-162.0	-147.2	-191.2	-225.5	-198.6	-196.2	-186.9	-110.1	-264.3
Reserve money	336.3	268.5	348.2	289.1	341.8	293.2	344.3	353.2	423.8	417.2	412.1	498.2	419.5	496.5	571.2
Currency outside banks	275.4	245.3	282.0	273.5	278.0	295.4	266.8	276.4	309.8	335.7	299.6	389.0	336.0	431.3	499.3
Reserves of deposit money banks	42.9	7.0	47.0	-3.6	42.6	-23.0	57.2	57.4	92.7	58.8	92.1	79.5	59.3	39.5	42.4
Other deposits	18.0	17.2	19.1	19.2	21.1	20.7	20.3	19.4	21.2	22.8	20.4	29.6	24.1	25.6	29.6
eposit money banks															
Net foreign assets	209.6	265.3	248.0	328.8	268.1	394.5	257.5	256.3	346.4	432.3	321.6	459.1	326.5	398.6	457.8
Net domestic assets	393.5	284.1	442.7	286.1	431.9	269.7	470.6	365.2	451.0	384.6	511.2	520.5	521.0	504.3	587.4
Net credit to government	234.3	164.3	268.4	164.3	238.8	164.3	266.3	171.8	232.3	169.9	261.1	260.0	269.6	261.2	267.8
Claims on nonfinancial public enterprises	5.2	9.1	6.9	9.1	11.0	9.2	6.5	9.2	8.4	6.6	11.0	6.6	6.6	6.6	6.7
Claims on private sector	186.4	177.1	196.3	189.8	218.3	192.6	242.5	200.2	260.8	229.7	291.1	251.1	286.2	313.0	386.5
Reserves	39.9	7.0	51.5	-3.6	40.5	-23.0	55.7	57.4	65.5	58.8	78.9	79.5	59.3	39.5	42.4
Other items (net)	-72.3	-73.5	-80.4	-73.5	-76.7	-73.5	-100.5	-73.5	-116.0	-80.4	-131.1	-76.7	-100.5	-116.0	-116.0
Total deposits	603.1	549.4	690.8	615.0	700.0	664.2	728.1	621.4	797.4	816.9	832.7	979.6	847.6	903.0	1,045.2
Local currency deposits	411.2	333.2	468.6	380.3	473.6	418.5	494.9	378.8	523.9	544.9	545.2	650.2	569.1	550.0	617.7
Foreign currency deposits	192.0	216.2	222.2	234.7	226.4	245.6	233.2	242.7	273.5	272.0	287.5	329.4	278.5	353.0	427.5

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

[1] IMF Country Report No. 07/68.

[2] Excluding noninterest-bearing government securities, government securities held for monetary operations, recapitalization bond and deposits in the sterilization account.

Table 9. Sierra Leone: Balance of Payments, 2005–11

(US$ millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011
	Act.	Est.	Prel.		Proj.		
Current account balance	-86.4	-49.8	-63.5	-117.7	-115.8	-116.8	-117.0
Balance on goods	-147.6	-93.7	-100.1	-136.9	-127.9	-114.3	-101.3
Exports, f.o.b.	214.1	274.8	285.4	318.5	396.9	446.2	488.7
Of which: rutile	0.0	29.6	39.4	81.8	97.3	113.8	125.7
bauxite	0.0	23.6	32.7	33.4	33.9	34.4	34.7
diamonds[1]	170.6	146.9	168.6	143.9	183.3	201.6	222.1
Of which: kimberlite	18.1	15.0	17.1	14.9	19.1	21.2	23.6
Imports, f.o.b.	-361.7	-368.5	-385.6	-455.3	-524.8	-560.5	-590.0
Of which: petroleum	-74.1	-107.3	-105.7	-159.9	-170.9	-181.2	-191.4
rice	-21.6	-20.8	-20.9	-31.3	-30.7	-30.1	-30.1
Balance on services	-12.6	-15.0	-22.6	-49.9	-50.6	-52.6	-54.3
Credit	78.0	80.1	63.1	54.8	59.2	62.5	66.0
Debit	-90.6	-95.1	-85.7	-104.7	-109.8	-115.1	-120.3
Income	-63.4	-57.8	-34.9	-39.4	-41.4	-43.0	-46.0
Credit	5.4	7.5	7.6	7.6	7.7	7.8	7.8
Debit	-68.8	-65.3	-42.5	-47.0	-49.1	-50.7	-53.9
Interest payments due before debt relief [2]	-24.0	-24.6	-5.3	-3.5	-3.7	-3.6	-5.0
Current transfers	137.2	116.7	94.2	108.4	104.1	93.0	84.6
Public (net) [3]	86.2	76.0	58.6	69.0	60.6	49.5	41.0
Of which: HIPC grants	21.1	14.5	12.0	3.5	3.5	3.5	3.5
Private (net) [4]	51.0	40.7	35.6	39.4	43.6	43.6	43.6
Current account balance, excl. public transfers	-172.6	-125.7	-122.1	-186.7	-176.3	-166.3	-158.0
Capital and financial account	98.7	195.4	87.0	82.7	137.5	139.0	144.0
Capital account	67.8	218.5	472.1	52.3	56.1	52.2	38.5
Project grants	66.1	41.8	23.3	49.3	53.1	49.2	35.5
Other transfer (MDRI grant) [5]	0.0	174.9	0.0	0.0	0.0	0.0	0.0
Debt forgiveness (MDRI relief from IDA and AfDB) [5]	0.0	0.0	445.9	0.0	0.0	0.0	0.0
Private capital transfers	1.7	1.8	3.0	3.0	3.0	3.0	3.0
Financial account	30.8	-23.0	-385.2	30.4	81.4	86.7	105.5
Direct investment and portfolio investment [6]	48.3	42.2	69.1	49.4	24.4	30.9	32.8
Other investment	-17.4	-65.3	-454.2	-19.1	57.0	55.8	72.7
Public sector loans (net)	-11.0	-23.9	-447.1	21.8	54.1	62.5	72.3
Of which: disbursements	37.0	16.3	20.3	33.6	66.3	73.7	79.0
program loans	11.0	0.0	0.0	0.0	0.0	0.0	0.0
project loans	26.0	16.3	20.3	33.6	66.3	73.7	79.0
amortization due	-47.9	-40.2	-467.5	-11.8	-12.2	-11.2	-6.8
Private sector loans (net) [7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of commercial banks	0.0	-20.2	-45.8	-16.2	-16.7	11.2	11.7
Other, including errors and omissions	-6.5	-21.2	38.7	-24.6	19.6	-17.9	-11.3
Overall balance	12.3	145.6	23.5	-35.1	21.7	22.1	27.0
Financing	-12.3	-145.6	-23.5	35.1	-21.7	-22.1	-27.0
Change in net foreign assets of the central bank (– = increase)	-45.5	-193.1	-23.5	21.8	-35.0	-22.1	-27.0
Change in reserve assets (– = increase)	-57.8	-15.9	-23.5	21.8	-35.0	-20.0	-22.0
Net Fund credit	12.3	-177.1	0.0	0.0	0.0	-2.1	-5.0
Disbursements	20.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayments [6]	-8.4	-177.1	0.0	0.0	0.0	-2.1	-5.0
Exceptional financing	33.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (+ = increase)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief [8]	33.3	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	47.4	0.0	13.2	13.3	0.0	0.0
Debt relief [8]	0.0	34.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement under new PRGF	0.0	13.4	0.0	13.2	13.3	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:		(Percent of GDP unless otherwise indicated)					
Current account	-7.1	-3.5	-3.8	-6.5	-6.1	-5.9	-5.7
Current account, excluding public transfers	-14.2	-8.8	-7.3	-10.3	-9.4	-8.5	-7.7
Overall balance of payments	1.0	10.2	1.4	-1.9	1.2	1.1	1.3
MDRI debt service savings (in millions of US dollars)	0.0	0.0	21.3	29.2	33.1	39.1	39.4
Of which: IMF	0.0	0.0	16.2	24.1	28.0	33.9	33.7
AfDF	0.0	0.0	1.8	1.9	1.9	1.9	2.2
IDA	0.0	0.0	3.2	3.2	3.2	3.3	3.5
Gross official reserves (US$ millions) [9]	168.3	184.2	207.7	185.9	220.9	240.9	262.9
Gross official reserves (months of imports) [10]	4.4	4.7	4.5	3.5	3.9	4.1	4.2

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

[1] Includes unrecorded diamond exports estimated from partner-country data.

[2] Official interest payments due, including Fund charges.

[3] Includes mostly program grants.

[4] Includes worker remittances and transfers to NGOs.

[5] For 2006, assumes the MDRI relief from the IMF as a stock of debt reduction. For 2007, assumes the MDRI relief from IDA and AfDF as a stock of debt reduction.

[6] Includes investment related to the rehabilitation of the Koidu kimberlite mine and assumes investment into rutile mining financed by foreign loans, foreign investment, and government on-lending of an EU grant.

[7] Includes capital outflows associated with unrecorded diamond exports, and change in trade credits.

[8] This reflects the rescheduling on Cologne terms for 2002-05 agreed by the Paris Club at the decision point in February 2002 and assumptions of the extended consolidation period retroactively from July 2005 under the new PRGF program. Comparable relief by other creditors is assumed.

[9] Some of the foreign assets that were not readily available to the Bank of Sierra Leone but included as foreign reserves were excluded after 2005.

[10] Months of imports of total goods and services of subsequent year.

Table 10. Sierra Leone: Indicators of Capacity to Repay the Fund, 2005–16 [1]

(US$ millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Proj.					
Fund credit outstanding (end of period)												
SDR millions	134.4	23.1	23.1	31.9	40.7	43.7	40.4	35.8	31.2	24.8	18.1	13.2
US$ millions	198.6	34.0	35.4	48.0	61.5	66.3	61.7	54.6	47.6	37.8	27.6	20.1
percent of quota	129.6	22.3	22.3	30.8	39.3	42.2	39.0	34.5	30.1	23.9	17.4	12.7
Fund obligations	9.3	5.5	0.2	0.2	0.3	2.4	5.2	7.2	9.8	12.4	11.6	7.4
Fund total charges and interests	1.0	1.0	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.0
Existing drawings	1.0	1.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Prospective drawings	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fund total repayments/repurchases	8.4	4.5	0.0	0.0	0.0	2.1	4.9	7.0	9.6	12.2	11.5	7.4
Existing drawings	8.4	4.5	0.0	0.0	0.0	2.1	5.0	7.0	7.0	7.0	4.9	2.1
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7	5.4	5.4
Fund credit outstanding as percent of:												
Exports of goods and services	80.4	11.2	11.3	13.8	14.3	13.8	11.8	9.6	7.8	5.7	4.0	2.8
Total external debt	12.6	2.3	3.5	4.7	5.8	6.0	5.4	4.6	3.9	3.0	2.2	1.5
Gross official reserves	118.0	18.5	17.0	25.8	27.8	27.5	23.5	18.9	14.7	10.5	6.9	4.6
Fund obligations as percent of:												
Exports of goods and services	3.8	1.8	0.1	0.1	0.1	0.5	1.0	1.3	1.6	1.9	1.7	1.0
Gross international reserves	5.5	3.0	0.1	0.1	0.1	1.0	2.0	2.5	3.0	3.4	2.9	1.7
Memorandum items:												
Exports of goods and services (US$ millions)	247.1	302.6	312.1	347.3	428.9	479.0	521.8	566.8	612.7	659.8	692.4	724.1
Gross official reserves (months of imports of goods and services)	4.4	4.7	4.5	3.5	3.9	4.1	4.2	4.4	4.7	5.0	5.3	5.6

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

[1] After HIPC and MDRI assistance, and includes the remaining disbursements under the current PRGF arrangement.

Table 11. Sierra Leone: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006–10 [1]
(In millions of SDRs)

Date	Disbursements	Subject to
May 10, 2006	4.71	Approval of arrangement
December 21, 2006	4.40	First review and performance criteria (PCs) for end-June 2006
June 2008	4.40	Completion of the second review and waivers for the nonobservance of end-December 2006 PCs
November 2008	4.40	Third review and quantitative PCs for end-June 2008, and structural PCs for end-June and end-September 2008, as described in the MEFP, Table 2
May 2009	4.40	Fourth review and quantitative PCs for end-December 2008 and structural PC as described in the MEFP, Table 2
November 2009	4.40	Fifth review and PCs for end-June 2009
May 2010	4.40	Sixth review and PCs for end-December 2009
Total disbursements	31.11	

[1] Assuming a one-year extension of the PRGF arrangement.

Table 12. Sierra Leone: Millennium Development Goals, 1990–2005

	1990	1995	1998	2001	2004	2005
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	*1*	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	29	..	..	*27*	..	..
Poverty gap at $1 a day (PPP) (%)	*41*	..	..	..	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	*57*	..	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	*83*	..	..	..	*70*	..
Prevalence of undernourishment (% of population)	..	..	*44*	..	*50*	..
Goal 2: Achieve universal primary education						..
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	48	..
Persistence to grade 5, total (% of cohort)	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	..	..
School enrollment, primary (% net)	*43*	..	..	..	..	..
Goal 3: Promote gender equality and empower women						..
Proportion of seats held by women in national parliament (%)	..	..	*6*	9	15	14.5
Ratio of girls to boys in primary and secondary education (%)	*66.8*	..	..	70.6	74.3	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	63	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	21	..	..	..	..	..
Goal 4: Reduce child mortality						..
Immunization, measles (% of children ages 12-23 months)	..	..	*62*	50	64	67
Mortality rate, infant (per 1,000 live births)	175	171	..	*167*	165	165
Mortality rate, under-5 (per 1,000)	302	293	..	*286*	283	282
Goal 5: Improve maternal health						..
Births attended by skilled health staff (% of total)	..	..	..	*41.7*	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*2000*	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						..
Children orphaned by HIV/AIDS	..	..	..	..	*31000*	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	*4*	..	4
Incidence of tuberculosis (per 100,000 people)	223.7	..	..	..	443.2	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	*1*	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	*2*	..
Tuberculosis cases detected under DOTS (%)	..	27.9	36.2	33.9	35.6	..
Goal 7: Ensure environmental sustainability						..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	..	..
Forest area (% of land area)	43	..	..	*40*	*38*	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	39	..
Improved water source (% of population with access)	..	..	..	..	57	..
Nationally protected areas (% of total land area)	..	..	..	..	2.1	..
Goal 8: Develop a global partnership for development						..
Aid per capita (current US$)	14.9	49.9	24.9	73.7	67.4	..
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	10	63	9	73	10	..
Fixed line and mobile phone subscribers (per 1,000 people)	3.3	4	4.1	10.6	27.2	..
Internet users (per 1,000 people)	0	0	0.1	1.5	1.9	..
Personal computers (per 1,000 people)	..	..	..	..	..	..
Total debt service (% of exports of goods, services and income)	10	54	33	105	11	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..
Other						..
Fertility rate, total (births per woman)	6.5	6.5	*6.5*	*6.5*	6.5	6.5
GNI per capita, Atlas method (current US$)	200	190	160	160	210	220
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.7	0.8	1.1	1.2
Gross capital formation (% of GDP)	10	5.6	5.3	6.7	10.6	15
Life expectancy at birth, total (years)	38.8	39.1	*39.6*	*40.6*	41.1	41.4
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	35.1	..
Population, total (millions)	4.1	4.1	4.3	4.7	5.3	5.5
Trade (% of GDP)	46.2	45.1	35.3	50.3	60.2	66.7

Source: World Development Indicators database, 2007.

APPENDIX I. SIERRA LEONE: LETTER OF INTENT

June 5, 2008

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

Dear Mr. Strauss-Kahn:

1. On December 15, 2006, the Executive Board completed the first review under the three-year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF). On the same date, our country reached the completion point under the enhanced HIPC Initiative and qualified for MDRI relief.

2. In the attached Memorandum on Economic and Financial Policies (MEFP), we review recent economic developments and progress in the implementation of the PRGF-supported program during 2007 and sets out our main economic objectives over the medium term, as well as the policies that we intend to implement during the remainder of 2008.

3. Important fiscal slippages during the second half of 2006 prevented the completion of the second review as three end-December 2006 quantitative performance criteria (PCs) were missed. Owing to political inertia in the period surrounding the 2007 legislative and presidential elections, performance on the structural front was weak, but notable progress has been made since the beginning of 2008.

4. In order to address the fiscal situation and bring the PRGF-supported program back on track, the government took corrective actions, including the adoption of a cash–budget management system in April 2007. The cash–budget management system enabled the government to meet all quantitative PCs for end-June and end-December 2007 and most of the indicative targets for end-September. Also, the three structural PCs missed in 2007 have been implemented as prior actions for this second review, as were four structural benchmarks for 2007.

5. With the PRGF-supported program back on track and the promising progress in 2008 that will be consolidated in the period ahead, we are requesting waivers for the nonobservance of the three end-2006 quantitative PCs.

6. In support of our policies described in the MEFP, the government of Sierra Leone requests the completion of the second review under the PRGF arrangement and the disbursement of the third loan of SDR 4.4 million. The government also requests a one-year extension of the PRGF arrangement to provide sufficient time to complement the fifth and sixth reviews.

7. The government of Sierra Leone believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program for 2008, but stands ready to take any further measures that become necessary for this purpose, in close consultation with the Fund. The third and fourth reviews shall take place in November 2008 and May 2009, respectively based on the end-June 2008 and end-December 2008 quantitative PCs and the applicable structural PCs. The government of Sierra Leone will also continue to provide the staff of the Fund with the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. Furthermore, it will continue to consult with the IMF on its economic and financial policies, in accordance with the Fund's policies on such consultations.

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

Very truly yours,

/s/

David O. Carew
Minister of Finance and Economic Development

Attachments

APPENDIX I. ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2008

June 5, 2008

I. INTRODUCTION

1. Sierra Leone continues making progress in consolidating political stability as demonstrated by the smooth and peaceful Presidential and Parliamentary elections held in August and September of 2007. However, important challenges remain, including widespread poverty, high unemployment, poor infrastructure and weak institutional and human capacity. The government is committed to addressing these challenges through policies aimed at maintaining a stable macroeconomic environment, strengthening public financial management, improving transparency and governance, and stimulating pro-poor economic growth.

2. In this memorandum, the government of Sierra Leone describes recent economic and financial developments and performance under the program in 2007, and the economic and financial policies to be implemented during 2008 in the context of the Poverty Reduction and Growth Facility (PRGF) arrangement with the Fund.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. **Macroeconomic performance in 2007 was uneven**. Output growth is estimated to have reached 6.8 percent based on solid agricultural and mining production and buoyant construction and service sectors. Consumer price inflation reverted to double digits, increasing to 13.8 percent year-on-year in December, and driven by higher food and petroleum prices.[1] The external current account deficit, including official transfers, is estimated to have slightly increased (from 3.5 percent of GDP in 2006 to 3.8 percent of GDP in 2007), owing to the continued deterioration in our terms of trade. International reserves were accumulated, reaching US$208 million (4.5 months of imports coverage). The nominal exchange rate of the Leone against the US dollar, as well as the real effective exchange rate remained broadly stable.

4. **Shortfalls in revenue and delays in the disbursement of external budgetary support complicated budget execution**. The shortfall in domestic revenue that occurred during the second half of 2006 continued in 2007 and reached 2.4 percent of GDP. The shortfalls were mainly explained by: (i) uncertainties created by the prolonged election process, which led businesses to adopt a "wait-and-see" attitude; (ii) the adverse impact of the energy crisis on corporate profits; (iii) discretionary duty waivers and other tax exemptions granted to selected importers; (iv) late enactment of the 2007 finance bill which prevented the timely

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[1] Partly caused by supply disruptions resulting from a ban on export of agricultural products by Guinea and a shortage of imported goods during the election period.

implementation of new rates for royalties and excise taxes; (v) a reduction in the taxation of petroleum products that was adopted to limit increases in pump prices; and (vi) inadequate collection efforts across all revenue departments. Delays in external budgetary assistance[2] were caused in part by a lack of adequate fiduciary controls by the Sierra Leone government (unpublished audited financial statements). Donors also adopted a cautious stance as the second PRGF review could not be completed.

5. **The government adopted in April 2007 a cash-budget management system to preserve macroeconomic stability in the face of continued shortfalls in revenue and delays in external budget support.**[3] Adherence to the cash–budget system prompted the government to severely curtail expenditure payments and limit bank financing, resulting in a lower-than-programmed overall fiscal deficit on a cash basis. However, due to absence of appropriate mechanisms to control expenditure commitments, cuts in cash expenditures were not accompanied by a commensurate compression in spending commitments. As a result, unpaid claims amounting to Le 41.1 billion (0.8 percent of GDP) were accumulated throughout the year.

6. **The cash-budget management system enabled the government to meet the quantitative performance criteria (PCs) under the PRGF-supported program**. All quantitative PCs for end-June and end-December 2007, and most of the indicative targets for end-September 2007 were met. However, the cash-budget management system deprived the government of the fiscal space to meaningfully implement its poverty reduction strategy. Thus, the target for poverty-reducing spending was missed at all test dates.

7. **On the other hand, there were notable delays in structural reforms in 2007.** In particular, a comprehensive strategy for the reform of the financial sector was not adopted (end-September PC), and fiscal and monetary data were not reconciled (end-December PC). Also, four of eight structural benchmarks were missed. The government has given a new impetus to the structural reform agenda and has made significant progress since the beginning of 2008 (¶ 40).

8. **Growth in monetary aggregates on a year-on-year basis to end-December 2007 was significantly higher than the program targets, reflecting primarily an increase in foreign assets.** As of end-December 2007, reserve money grew by 26 percent against projections of 15.6 percent due to higher-than-anticipated banks' reserves. Growth in broad money, at 25.9 percent, was higher than projected, partly due to increased demand for currency during the festive season, which translated into an increase in currency in circulation. Inward remittances were also significant causing an increase in the net foreign assets of the commercial banks, which in turn translated into an increase in foreign deposits at the commercial banks.

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[2] From the European Union, the World Bank, and the United Kindgom's Department for International Development (DfID).

[3] Budgetary assistance expected in the fourth quarter of 2007 from DfID was disbursed towards end-December and budgetary assistance expected from the European Union was delayed until March 2008.

While the expansion of bank credit to government was contained, private sector credit largely exceeded projections as commercial banks continued to increase their lending activities. The year-on-year growth in bank credit to the private sector reached almost 40 percent at end-December 2007.

9. **Nonperforming loans have risen alongside the expansion of private sector credit**. Medium-term loans to finance construction activities took a larger part of banks' lending portfolios—traditionally dominated by short-term commercial credits (in the form of lines of credit to finance imports). This increase along with the growing number of non-performing loans in banks' balance sheet has raised concerns about asset quality (nonperforming loans accounted for 31.7 percent of gross loans at end-2007). Further compounding the situation was the delay in government payment to suppliers, which has led the latter to default on their loans. In addition, capacity constraints continue to hamper the BSL's banking supervision efforts, particularly in enforcing prudential norms and regulations. In accordance with the BSL Act 2000 and on the basis of the memorandum of outstanding (MOU) reached with the government on October 14, 2006, a five-year interest-bearing bond equivalent to Le 50 billion was issued in January 2008 to partially recapitalize the BSL by providing it with the minimum paid-up capital.

10. **We maintained budget discipline during the first quarter of 2008.** Domestic revenue collection improved in quarter 1, 2008 with total revenue collected exceeding the quarterly target of Le 149.5 billion by Le 1.4 billion. The better outturn is mainly due to a stricter enforcement of tax laws. Total expenditures were less than budgeted due to under-spending in recurrent and externally-funded capital expenditures. Domestically-financed capital expenditure was, however, higher-than-budgeted due to the payment of Government's contribution (of Le 22.2 billion) towards the completion of the Bumbuna Hydroelectric Project. The overall budget deficit, on a commitment basis, and the domestic primary deficit were within targets. Domestic financing of the budget deficit was less than projected.

11. **Growth in monetary aggregates slowed down in the first quarter of 2008, due to a reduction in net foreign assets.** On a year-on-year basis, broad money and reserve money grew by 17.5 and 18.4 percent respectively (against projections of 19.0 and 19.8 percent, respectively) as the increase in net foreign assets was lower than anticipated due to the nondisbursement of anticipated budgetary assistance.

III. Medium-term Macroeconomic Framework

12. **Our main objectives over 2008-10 are to maintain a stable macroeconomic environment, promote sustained and broad-based high real growth, and revitalize the structural reform agenda.** The macroeconomic framework projects average real growth of around 6 percent during 2008–10, driven by the agricultural, mining, construction, and services sectors. Economic activity will be sustained by increased public investment in infrastructure,

more reliable power supplies,[4] and reforms geared to improving the business environment. End-of-period inflation will be reduced to single digits by 2010 and gross external reserves are programmed to remain in the range of 3.5–4 months of imports coverage.

13. **Fiscal policy over the medium term will aim at limiting debt-creating domestic financing while stepping up investment in infrastructure**. Domestic revenue is expected to improve, rising from 10.8 percent of GDP in 2007 to 13.4 percent by 2010 predicated on an improvement in the tax and customs administrations and a broadening of the tax base (¶ 14). Current expenditure will be stabilized at about 15 percent of GDP while making room for a gradual increase in poverty-related expenditures from 3 percent of GDP in 2007 to 6 percent by 2010 and will be targeted to improving access to basic social services (education, health) and public facilities (water, electricity, feeder roads). The domestic primary fiscal deficit will be lowered to 1.5 percent of GDP by 2010. Program financing will mostly rely on donor support of the government's poverty reduction strategy and the use of MDRI resources.

14. **Improvement in domestic revenue mobilization will remain a key objective of fiscal policy.** The government approved the NRA modernization plan in February 2008 and commenced its implementation, drawing on recommendations of recent IMF technical assistance missions. The NRA will be strengthened to enable it to improve field audits, enforce tax payment, collect tax arrears, and step up anti-smuggling activities. The design and plans for implementation in early 2009 of a value added tax (called the Goods and Services tax—GST) are at a very advanced stage. The government will also seek to minimize tax incentives and holidays that narrow the tax base, notably by reviewing existing mining contracts. The government has established a Mining Agreement Review Committee, comprising key ministers and heads of government agencies to examine the terms of each agreement, and assess the extent to which the government of Sierra Leone is deriving optimal benefits from the exploitation of its natural resources.

15. **Monetary policy will aim at controlling base money growth so as to contain inflation**. The government will continue to strengthen the operational capacity of the BSL by: (i) recapitalizing it; (ii) looking at ways to improve its income situation until full recapitalization is achieved; and (iii) providing it with additional interest bearing securities to support its monetary policy operations. Monetary policy will continue to be conducted using market-based instruments, mainly interventions on the weekly foreign exchange auctions, and open market operations using treasury bills and bearer bonds.

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[4] Since the World Bank-supported EPP became operational in late December 2007, there has been a marked improvement in power generation. Also, the Bumbuna Hydroelectric Project is expected to be completed in early 2009.

16. **Public financial management (PFM) will be improved to ensure greater transparency, accountability and efficiency in the use of public resources.** The government recognizes that the efficient and strategic use of public resources is critical to fighting poverty. In this context, the legal and regulatory framework for PFM will continue to be strengthened, in light of Fund TA recommendations. Efforts will continue to deepen the medium–term expenditure framework process, with emphasis on strategic planning and performance-based budgeting to ensure that the budget activities are consistent with the PRSP objectives. Due to technical problems, only a few ministries are currently using the Integrated Financial Management Information System (IFMIS) to process transactions. Efforts to extend the system to strengthen commitments and expenditure controls will be accelerated. Internal audit capacity will also be fortified by establishing functional internal audit units in key MDAs. An update of the PFM national action plan (NAP) reflecting these priorities and taking into account the finding of the recent World Bank-led Public Expenditure and Financial Accountability Assessment is being prepared with donors' assistance and should be completed by end-2008. An integrated and prioritized PFM reform program is under preparation with support from our development partners to consolidate the progress made in the first phase of PFM reforms.

17. **The government will continue reforming the public procurement system.** To this end, the National Public Procurement Authority (NPPA) will be adequately staffed and made operational. Also, as required by the Public Procurement Act, quarterly procurement bulletins will be issued on a timely basis and information on approved procurement plans, notice of invitations to bid, contracts awarded and unit prices for contracts will be published on the NPPA website.

18. **A new generation poverty reduction strategy (PRS) that will anchor our economic policies for the next three years is being prepared.** The first PRS, which covered 2005–07, had three main pillars. Pillar I focused on achieving good governance, peace and security, Pillar II on achieving sustainable economic growth for food security and job creation, and Pillar III on human development. Preparations are underway to finalize by end-2008 a second PRSP following wide public consultation. The new PRSP will cover up to 2011 and will aim at consolidating the progress made in implementing the programs and policies outlined in the first PRSP with a shift in priorities towards growth-enhancing sectors, in particular infrastructure (roads, energy) and agriculture, while facilitating private sector development.

IV. Policies for the Remainder of 2008

19. The economic program for 2008 aims to achieve real GDP growth of 6 percent, based on a projected significant increase in public and private investment. Average inflation is now targeted at 14.1 percent (against the original 8 percent and 11.7 percent in 2007), to take into account price surges in late 2007 and continued increases in world oil and food prices. The

external current account deficit is expected to widen because of a drop in exports[5] and an increase in investment-related imports as well as and fuel and food imports. Gross official reserves are expected to drop to 3.5 months of imports coverage.

Fiscal policy

20. **Fiscal policy in 2008 will be geared at laying solid foundations for achieving higher economic growth and improving the welfare of the population.** The 2008 budget reflects policy aspirations of the new government and draws largely on Sierra Leone's PRS and donor-supported policy initiatives. Its key objectives are to (i) preserve macroeconomic stability through enhanced domestic revenue collection; (ii) promote sustainable economic growth through higher investments in basic infrastructures; (iii) strengthen capacities of public sector institutions; and (iv) enhance the quality of service delivery by improved efficiency, transparency, and accountability in public financial management.

21. **Measures are being taken to reverse the weak domestic revenue performance of the past two years and create fiscal space.** Projected domestic revenue for 2008 (11.9 percent of GDP) is predicated on the full impact of increases in licenses fees and royalties specified in the 2007 finance bill[6] and a steadfast implementation of new revenue-enhancing measures introduced in the budget for 2008. To ensure that the revenue target will be reached, the government will take the following additional short-term measures: (i) strengthening of fiscal controls, especially for enterprises that have declared successive losses over the course of several years; (ii) transferring all off-budget revenue items into the Consolidated Revenue Fund (proceeds from the sale of essential drugs at cost-recovery and fees paid by telecom services providers are yet to be transferred); (iii) eliminating discretionary tax and customs exemptions; (iv) requiring oil importers to pay duty upfront before the product is lifted to minimize revenue leakage resulting from under-declaration and pilferage; (v) strict enforcement of the tax code to ensure the payment of current tax liabilities and a significant amount of arrears owed by private enterprises; and (vi) adoption and enforcement of a code of conduct for all NRA staff. In May 2008, the government reinstated the import duty on petroleum products from a specific to an ad-valorem rate to protect revenue expected from the petroleum sector.

22. **On the expenditure side, the government will reallocate the 2008 budget envelope approved by parliament to make room for the clearance of arrears accumulated in 2007.** The budget provides for an increase in total expenditures of 3.1 percentage points of GDP from the depressed level in 2007 and reorients allocations to poverty-reducing programs and infrastructure projects. The wage bill, to be held at 6.1 percent of GDP, includes a 10 percent

[5] Brought about by a temporary shutdown of the kimberlite mine to allow excavation work in 2008.

[6] The finance bill and statutory instrument for 2007 were enacted very late in the year.

increase in basic pay for civil servants and the hiring of more teachers and security personnel. Poverty-related expenditures would increase from 3 percent of GDP in 2007 to 5.6 percent in 2008, helped by MDRI resources (1.7 percent of GDP). Domestic interest payments are projected to increase slightly to finance the interest cost associated with the conversion of the non-interest bearing securities held by the BSL into interest bearing securities. Capital expenditure will rise from 3.5 percent of GDP in 2007 to 5.7 percent. The expenditure envelope is in line with conservative projections of external budget support and the need to limit domestic bank financing. The domestic primary fiscal deficit would be contained at 2.4 percent of GDP.

23. **The 2008 budget will be protected from any contingent liability stemming from the contract we entered into with a second independent power provider (IPP) in December 2007**. To this end, we have taken the following steps: (i) renegotiate the contract, with a view to reducing its cost and protecting the budget from any contingent liability; (ii) strengthen the billing and collection capacity of the NPA to enhance its ability to meet obligations; and (iii) initiate discussions with donors to seek additional financing if needed. In parallel, we have brought the contract before the Anti-corruption Commission (ACC) for investigation and possible prosecution if the legal procurement rules have been breached.

24. **Existing weaknesses in budget process and execution will be corrected**. Controlling expenditure commitment has been particularly challenging due in part to a lack of appropriate mechanisms requiring MDAs to seek prior approval by the MoFED. Thus, the government will adopt by end-June 2008 a decree that forbids MDAs from issuing local purchase orders or committing any other spending outside the commitment controls system at the Accountant General's Department. The government will, in addition, implement the following short-term measures to improve budget process and execution: (i) review commitment control procedures for different types of expenditures, including bulk purchasing, and strengthen adherence through training; (ii) streamline budget execution procedures and forms to improve efficiency and reduce delays; (iii) strengthen the functioning of Budget Committees to improve the management of budget execution in MDAs; and (iv) involve MDAs in cash flow planning through a modified PETS 1 form.

25. **The government will monitor closely budgetary developments to avoid the recurrence of domestic payment arrears.** The government will prepare and follow monthly cash flow plans consistent with available financial resources. A supplementary budget will be prepared in consultation with Fund staff if additional budget support becomes available. Should the government experience revenue and grant shortfalls in 2008, measures will be taken to cut nonessential current expenditures.

26. **The government will continue to conduct regular public expenditure tracking surveys (PETS)**. Two surveys will be conducted in 2008 covering poverty reducing lines of expenditure. In addition, a special survey will be conducted to ascertain the number of health centers and primary schools that post information on their notice boards regarding resources received from the central government, local councils, and donors. Appropriate and stringent follow-ups will be instituted to ensure the full implementation of PETS recommendations by all concerned MDAs.

Monetary Policy and Exchange Rate Policy

27. **Monetary policy in 2008 will aim at preventing inflation expectations from becoming entrenched**. The disbursement of external budgetary support and the use of MDRI resources are expected to increase inflationary pressures given their potential impact on money supply.[7] The BSL will conduct open market operations to control the growth of reserve money. The central bank's capacity to conduct monetary operations in 2008 will be enhanced by the conversion of an additional Le 47.5 billion from the outstanding non-interest bearing securities into marketable securities, in the context of the October 2006 MOU. In addition, the government is considering options to provide the BSL with a new capital injection, based on estimates of its streamlined medium-term expenditure needs and income-generating potential by converting an additional part of the BSL's holding of noninterest-bearing debt into interest-bearing securities. Secondary market operations will be enhanced and the spread in the BSL rediscount window will be reviewed to further deepen the inter-bank market. The Treasury bill and the Treasury bearer bond auction systems will be harmonized by end-2008, and the BSL will examine the market demand for the newly introduced one-year Treasury bill with a view to introducing more medium-term government papers. The BSL will pursue its efforts to create an efficient national payments system and will also explore the possibility of initiating a Real Time Gross Settlement System (RTGS), which is better suited for high-value transactions with lower settlement risks.

28. **The authorities will aim at increasing the flexibility of the exchange rate while minimizing short-term volatility.** The official exchange rate will continue to be determined through weekly foreign exchange auctions to meet the gross reserve target of the program. The foreign exchange market will remain free from restrictions on the making of payments and transfers for current transactions. Official foreign reserves are programmed to slightly decrease to US$185.9 million at end-2008, equivalent to 3.5 months of imports (against 4.5 months of imports at end-2007).

[7] Resumption of normal commercial activities by importers and the lifting of the ban on export of agricultural products by Guinea should alleviate some of the pressures on food prices in 2008.

External Sector Policies

29. **The government will continue to improve external debt management capacity and will adhere to its commitment to avoid nonconcessional external borrowing.** It will remain current on its obligations to multilateral creditors. The government is continuing negotiations with non-Paris Club creditors to reach debt relief agreements consistent with the enhanced HIPC Initiative framework and on comparable terms to those that were granted by the Paris Club in January 2007. Preparations for another IDA supported debt buyback operation to extinguish long outstanding commercial and pipeline debts are in progress.

30. **The government remains committed to a liberal trade regime.** Sierra Leone's trade regime is already substantially liberalized and the alignment of external tariffs to the ECOWAS common external tariff has been completed. The government will rescind the ban imposed on exports of rice and palm oil by end-September 2008.

Other structural reforms

31. **The government will implement structural measures supportive of the private sector**. With the private sector expected to play a larger role in economic development, our structural reform agenda will be directed at strengthening the financial sector, reestablishing the financial viability of public utility companies, reinforcing governance and the judicial system, and privatization of public enterprises. The support of our development partners will remain critical to implementing the structural reforms envisaged in each of these areas.

32. **The government will actively pursue reform of the financial sector to deepen financial intermediation and ensure a more competitive and vibrant financial environment**. A comprehensive strategy for the reform of the financial sector, which benefited from the results of the 2006 FSAP, was finalized by the central bank in May 2008. We also plan to finalize by end-2008 a broader financial sector development plan with the support from the Fund and the World Bank. Specific actions that will be taken to improve financial intermediation include: (i) establishing the administrative and regulatory structures for the commencement of full-fledged stock market trading in 2008; (ii) increases in required capital for banks; (iii) improvement to the check clearing system; (iv) introduction of RTGS and enhancement of the domestic payments platform; (v) establishment of community banks; (vi) development of an operational securities market, and (vii) establishment of a Financial Intelligence Unit to underpin implementation of the Anti-Money Laundering Act.

33. **The government is committed to strengthening the financial situation of the power and water utilities.** The NPA will be made more efficient and its financial viability reestablished. NPA's management will be strengthened and a comprehensive electricity tariff policy with a view to cover the generation and distribution costs will be adopted by end-December 2008 on the basis of detailed quarterly financial reports, for the first and second

quarters of 2008; these reports will be finalized by end-September. The new tariff structure will include automatic adjustments for changes in NPA's costs and an acceptable power purchase agreement between the owners of the Bumbuna Hydroelectric Project and NPA, which should ensure that the full cost of the power is passed on to the consumers. With regard to the water company, the government will undertake a tariff review as well as improve billing and fee collection and put in place legislation to prevent illegal connections.

34. **The government is committed to promoting good governance.** A key component is strengthening the ACC. We have already appointed a new Commissioner and revised the Anti-Corruption Act. An important constraint is that the ACC is not responsible for prosecution as cases of corruption are referred to the Attorney-General and the Minister of Justice. The government has adopted a revised Anti-corruption Act and tabled it before Parliament. The revised ACC Act allows for more efficient resolution of corruption cases and brings the Act into conformity with the UN and African Union conventions. A new national anti-corruption strategy and action plan have been prepared and agreed on by all stakeholders (ACC, government, and civil society).

35. **The privatization program will be revitalized**. The scheduled 2007 privatization of three state-owned enterprises, two of them commercial banks, was delayed. With funding from DfID, work is in progress to commence the privatization of these two commercial banks. A number of other state-owned enterprises are scheduled to be privatized in the medium term. The National Commission for Privatization has prepared terms of reference for consultancy studies on three other state-owned enterprises. The government will ensure that the privatization program remains on track and that the divestiture process be conducted in a transparent way in line with existing regulations.

36. **The legal framework governing the operation and output of the mining sector will be revised.** The government will update the general fiscal regime for the mining sector as reflected in relevant legislations such as the Mines and Minerals Act, the Income Tax Act, and the Customs Tariff Act. The aim will be to increase transparency and accountability in the sector's fiscal regime and to make the sector internationally competitive. The government will also fulfill its commitments under the EITI, including the establishment of an operational secretariat which will be in charge of the implementation of the EITI in Sierra Leone.

V. Risks

37. **Two major risks may affect the implementation of the program but measures are being taken to mitigate them**. First, adverse external shocks, such as continued increases in world oil and food prices, may fuel demands to reduce tax and import duties on certain products, further undermining revenue performance. Second, public pressures to quickly improve social indicators, including wage increases could make it difficult for the government to adhere to the agreed spending envelope for 2008. The government continues to endeavor to

strengthen consensus among political and social players concerning the need to quickly improve revenue mobilization. The government will enhance its capacity to deal with exogenous shocks by taking proactive monetary and fiscal policies and seeking to mobilize additional external resources.

VI. Program Monitoring

38. The program will be monitored based on quantitative performance criteria and benchmarks set for end-June and end-December 2008 and structural performance criteria and benchmarks during 2008, as indicated in Tables 1 and 2 annexed to this attachment.

39. To ensure effective monitoring, the Economic Policy and Research Unit (EPRU) in the Ministry of Finance will be restructured to undertake a more proactive role in program monitoring and consistent with the new broader ministerial structure. The EPRU's activities will be supported by weekly meetings of the Net Domestic Financing (NDF) Technical Committee. The Inter-Agency Committee for National Statistics will meet monthly with a view to improving the timeliness and reliability of relevant statistics. The government will provide the statistical data and information as described in the Technical Memorandum of Understanding (Attachment II), as well as any other information deemed necessary or requested by Fund staff for program monitoring.

40. **To keep the program firmly on track, we have completed a number of the prior actions agreed with the staff.** In the fiscal sector,

- a three-year modernization plan for the NRA has been adopted by the cabinet and approved by parliament;
- the 2008 finance bill and the statutory instrument have been enacted; and
- the revenue target for the first quarter of 2008 (Le 149.5 billion) has been met.

On the structural front,

- a comprehensive strategy for the reform of the financial sector has been adopted by the BSL, drawing on the recommendations of the FSAP;
- the fiscal data and the expanded monetary data produced by the BSL for end-June 2007 have been reconciled;
- a Steering Committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement has been established; and
- statistics units have been established in key MDAs to collect and assemble information relevant for the compilation of socio-macroeconomic data by Statistics Sierra Leone (SSL); a framework for cooperation between SSL and these units has been agreed upon.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2008–09

(Cumulative change from beginning of calendar year to end of month indicated; Le millions , unless otherwise indicated) [1]

	2008					2009
	March		June	September	December	March
	Proj.	Act.	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets
Performance criteria						
Net domestic bank credit to the central government (ceiling)	50,871	52,124	116,820	85,039	127,200	153,709
Net domestic assets of the central bank (ceiling)	37,565	21,810	90,080	58,043	179,209	138,436
Domestic primary budget balance of the central government (floor)	-46,798	-31,787	-81,355	-107,265	-137,446	-10,569
Subsidies to National Power Authority (ceiling) [2]	0	0	0	0	0	0
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-2.8	-1.2	4.5	-9.8	-23.2	7.3
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [2]	0	0	0	0	0	0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [2]	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) [2]	0	0	0	0	0	0
Total domestic government revenue (floor)	149,492	150,955	326,874	508,354	692,697	181,108
Indicative target						
Poverty-related expenditures (floor)	70,247	67,619	157,680	243,362	326,700	80,292
Memorandum items:						
External budgetary assistance [3]	32,230	0	0	143,043	211,200	26,900
Net credit to government by nonbank private sector [4]	-1,036	20,646	10,574	14,258	-6,909	-1,684
Disbursements under the PRGF (US$ millions)	0.00	0.00	6.92	0.00	13.84	0.00

Sources: Sierra Leonean authorities; and IMF staff calculations.

[1] The performance criteria and indicatives targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).
[2] These apply on a continuous basis.
[3] Including program grants and program loans.
[4] Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Structural Conditionality, 2008

Structural performance criteria	Timing	Macroeconomic Rationale
• Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast	On a continuous basis, starting in June.	To enhance liquidity management at the AGD and monetary forecasting at the BSL
• Promulgate the interest rate and penalties for under/late payment of tax and make them effective starting October 1, 2008.	End-September	To raise taxpayer compliance
• Adoption by the cabinet of the implementation decree for the Goods and services tax (GST).	End-December	To broaden the tax base and improve the efficiency of indirect taxation.
Structural Benchmarks		
• Adoption by cabinet and submission to parliament of the legislation for the introduction of the GST.	End-June	To ensure that the introduction of the GST in early 2009 is on track.
• Introduce a Tax Identification Number (TIN) system and make it effective.	End-September	To enhance taxpayer compliance.
• Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority.	End-December	To improve financial viability of the public utility and prevent potential fallout on public finances.

APPENDIX I. ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

June 5, 2008

I. INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria (PCs) and benchmarks for the reminder of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) of the Government of Sierra Leone (GoSL) for 2008.

2. **Program exchange rates.** For the purpose of this TMU, foreign currency denominated transactions will be converted into Sierra Leonean currency (leones) using the program exchange rates shown in the box below and the market exchange rate against the US$ in effect on March 31, 2008 (as published in *International Financial Statistics*) for transactions in other currencies than the US dollar, the Euro, the U.K. Pound, and the Special Drawing Rights (SDR).

Leone/US$	3,223
US$/Euro	1.41
US$/Pound	2.01
US$/SDR	1.64

II. QUANTITATIVE PERFORMANCE CRITERIA

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

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

4. **Adjustment clauses.** The floor on gross foreign exchange reserves will be adjusted (a) downward (or upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance—the downward adjustment will be capped at the

equivalent of US$20 million while the upward adjustment will be equal to the amount—if any, exceeding US$20 million;[20] (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the PRGF arrangement; and (c) upward (or downward) for any increase (or decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation and required reserves on leone deposits. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities (defined below). Foreign liabilities are defined as short-term (one year or less in original maturity) foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit.

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

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

7. **Definition.** NCG refers to the net banking system's claims on the central government and is defined as follows:

- the net position of the government with commercial banks, including: (a) treasury bills; (b) bonds issued by the GoSL; (c) loans and advances; less (a) Central government deposits (defined to include account balances under the authority of controlling officers, but excluding deposits in the sterilization account); plus

- BSL holdings of (a) GoSL statutory bonds; (b) ordinary GoSL bonds; (c) bonds in respect of loans to current and former parastatals; (d) treasury bills on the trading portfolio of BSL; (e) other government stock; (f) HIPC debt relief deposits; less (a) special noninterest-bearing government stocks to cover foreign exchange valuation losses; (b) treasury bills and treasury bearer bonds held by the BSL for

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

monetary policy operations; and (c) bonds issued by the GoSL in subscription to the paid-up capital of the BSL.

8. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward (downward) by up to the amount of the shortfall (excess) in external budgetary assistance. The upward adjustment will be capped at the equivalent of US$20 million while the downward adjustment will be equal to the amount—if any, exceeding US$20 million. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rates. The ceiling will also be adjusted downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program target (specified in the memorandum items in Table 1 of the MEFP).

9. **Data source**. The data source for the above will be the series "Claims on Government (Net)" submitted to Fund staff and reconciled with the monthly monetary survey prepared by the BSL. These data will be reconciled with monthly reports with the monetary data (Treasury bill transactions, ways-and-means account, and Treasury bearer bond transactions).

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

D. Domestic Revenue of Central Government

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

E. Domestic Primary Budget Balance of Central Government

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

F. Subsidies to the National Power Authority (NPA)

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

G. External Payment Arrears of the Public Sector

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

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

15. **Definition**. Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector.[21] This PC applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the "public sector" is as defined in ¶ 14 above. This PC will apply on a continuous basis.

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

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

III. Quantitative Performance Indicators

Poverty-related Expenditures

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

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

IV. Structural Performance Criteria

18. The government will complete the following actions:

- The Ministry of Finance will provide monthly projections for government revenue and expenditures to the BSL for use in producing a monthly liquidity forecast to be transmitted to the Monetary Policy Committee, which will meet monthly to provide guidance on the stance of monetary policy in the month ahead. Minutes of each meeting will be transmitted to Fund staff (on a continuous basis).

- Promulgate the interest rate and penalties for under/late payment of tax and make them effective starting October 1, 2008 (by end-September 2008); and

- Adoption by the cabinet of the implementation decree for the Goods and services tax (GST) (by end-December 2008).

V. Structural Benchmarks

19. The government will complete the following actions by the specified dates:

- Adoption by cabinet and submission to parliament of the legislation for the introduction of the GST (by end-June 2008);

- Introduce a Tax Identification Number (TIN) system and make it effective (by end-September 2008); and

- Adopt, with assistance from the World Bank, a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the NPA (by end-December 2008).

VI. Program Monitoring

20. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance and Economic Development; the Bank of Sierra Leone, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. In addition, the Net Domestic Financing Technical Committee shall provide the Fund with weekly minutes of its meetings complemented with the minutes of the monthly meetings of the Inter-Agency Committee for National Statistics progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

Implementation of the Revised Guidelines on Performance

Criteria with Respect to Foreign Debt

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

Sierra Leone: Summary of Data to Be Reported to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 4 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash basis	Monthly	End of month + 4 weeks
	Petroleum product pricing formula, tax receipts by categories of petroleum products	Monthly	End of month + 4 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 4 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the central bank	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 3 days
	Stocks of government securities	Monthly	End of month + 6 weeks
	Banking supervision ratios	Quarterly	End of quarter + 8 weeks
	Gross official foreign reserves	Weekly	End of week + 3 days
	Foreign exchange cashflow table	Quarterly	End of quarter + 4 weeks

Sierra Leone: Summary of Data to Be Reported to IMF Staff (concluded)

Type of Data	Tables	Frequency	Reporting Deadline
Balance of payments	Balance of payments	Annual	End of year + 3 months
	Revised balance of payments data	Variable	When revisions occur
	Exports and imports of goods (including a volume of key minerals and fuels)	Monthly	End of month + 3 months
External debt	Outstanding external arrears and repayments (if applicable)	Monthly	End of month + 4 weeks
	Details of all new external borrowing and guarantees provided by government on new borrowing	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor	Monthly	End of month + 4 weeks
HIPC Initiative and MDRI Monitoring	Statement of special account at the BSL, that receives resources generated by the HIPC Initiative and tracks their use	Monthly	End of month + 4 weeks
	Statement of special MDRI account at the BSL and the corresponding poverty-reducing spending financed	Monthly	End of month + 4 weeks
	Minutes of the meeting of the Net Domestic Financing (NDF) Technical Committee	Weekly	End of meeting + 2 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks

APPENDIX II. SIERRA LEONE: INFORMATIONAL ANNEX

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 23.11 million (22.3 percent of quota) at end-March 2008.

- **Relations with the World Bank.** Describes the status of World Bank Group program and portfolio at end-April 2008.

- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, the prolonged civil war resulted in serious deficiencies in the macroeconomic database which hamper economic analysis.

Sierra Leone: Relations with the Fund
(As of April 30, 2008)

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

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

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	17.46	100.00
Holdings	19.81	113.47

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	23.11	22.29

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/10/06	5/9/09	31.11	9.11
PRGF	9/26/01	6/25/05	130.84	130.84
PRGF	3/28/94	5/04/98	101.90	96.85

VI. Projected Payments to Fund [22]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			1.40	3.27	4.62
Charges/interest	0.12	0.12	0.12	0.11	0.09
Total	0.12	0.12	1.52	3.38	4.71

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002
Assistance committed (NPV terms)	
Total assistance by all creditors (US$ million) [23]	

675.20

[22] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

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

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

I. MDRI-eligible debt (SDR Million)1/	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
December 2006	N/A	117.34	117.34

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

IX. Safeguards Assessment

Under the IMF safeguards assessment policy, the Bank of Sierra Leone was subject to a safeguards assessment with respect to the PRGF arrangement approved on May 10, 2006. The assessment, which was completed on June 12, 2006, proposed recommendations to address new and continuing vulnerabilities in the financial reporting, internal audit, and internal controls areas. The implementation of these measures is being monitored by IMF staff.

X. Exchange Rate Arrangement

The BSL calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial banks' mid-rate and the bureaus' mid-rate in the previous week, for customs valuation purposes and for official transactions. Commercial banks may buy and sell foreign exchange from/to individual customers, as well as trade among themselves or with the BSL on a freely negotiable basis. As of May 20, 2008, the BSL mid-

[23] Net present value (NPV) terms at the decision point under the enhanced framework.

rate was Le 2,968.02=US$1. In March 2008, the exchange rate regime was reclassified as "conventional peg" to reflect the nominal stability of exchange rate developments under de facto management by the BSL through the auction as the only seller of foreign exchanges.

With effect from December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4. On June 29, 2001, Sierra Leone removed the remaining exchange restriction, in the form of a tax clearance certificate required for payments and transfers of certain types of current international transactions. Sierra Leone continues to maintain an exchange system free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultation

The 2006 Article IV consultation was concluded by the Executive Board on December 15, 2006. The next Article IV consultation with Sierra Leone will be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

XII. Technical Assistance

Department	**Purpose**	**Date**
FAD	Implementation of public financial management reforms.	March 2008
	Tax administration reforms for successful VAT implementation.	February 2008
	Evaluation of progress of revenue administration modernization.	November 2007
	Assist the authorities in developing a comprehensive revenue administration reform strategy.	February 2006
	Review the system of fiscal incentives, especially the special tax regimes applied to mining and petroleum sectors.	March/April 2004
	Review the tariff and indirect tax system, National Revenue Authority, and tax and customs administration.	February 2004
LEG	Provision of TA on a legal review of the Bank of Sierra Leone Act of 2000.	March/April 2007
MCM	Recapitalization of the Bank of Sierra Leone.	February 2008
	Assist the Bank of Sierra Leone in bringing its accounting practices up to international best practice.	November/December 2007

Department	Purpose	Date
	Foreign exchange, monetary operations, and central bank recapitalization.	November 2007
	Assist the Bank of Sierra Leone in setting up an action plan for implementing FSAP recommendations/financial sector reforms.	June 2007
	Foreign exchange, monetary operations, and central bank recapitalization.	January/February 2007
MFD	Multi-topic technical assistance.	November 2005
	Multi-topic technical assistance.	November 2004
STA	GDDS mission to review the methodological basis for compiling national accounts aggregates.	January 2008
	GDDS project on implementation of SRF.	June 2007
	GDDS project on monetary-fiscal accounts reconciliation.	August 2006
	GDDS project on national accounts.	January 2006
	GDDS project on national accounts.	February 2005
	GDDS project on monetary-fiscal accounts reconciliation.	February 2005
	GDDS project on monetary-fiscal accounts reconciliation.	October 2004
	GDDS project on BOP issues.	September/October 2004
	GDDS project on national accounts.	September 2004
	GDDS project study tour for Sierra Leonean officials to Kenya on strategic planning.	August 2004
	GDDS project on national accounts.	April 2004
	GDDS project on strategic planning.	March 2004
FAD	Implementation of public financial management reforms.	March 2008
	Tax administration reforms for successful VAT implementation	February 2008
	Evaluation of progress of revenue administration modernization.	November 2007

Department	Purpose	Date
	Assist the authorities in developing a comprehensive revenue administration reform strategy.	February 2006
	Review the system of fiscal incentives, especially the special tax regimes applied to mining and petroleum sectors.	March/April 2004
	Review the tariff and indirect tax system, National Revenue Authority, and tax and customs administration.	February 2004

XII. Resident Representative

Mr. Alvin Hilaire assumed responsibility for the Fund office in November 2006. Mr. Hilaire is also the Fund's resident representative in the Republic of Guinea and is stationed in Conakry.

Sierra Leone: World Bank–IMF Relations
(As of April 30, 2008)

A. Partnership in Sierra Leone's development strategy

1. Sierra Leone's development strategy increasingly emphasizes growth and poverty reduction. Its final PRSP (adopted by the government in March 2005) highlights growth as a precondition for poverty reduction, and comprises three pillars: (i) Good governance, Security, and Peace Building; (ii) Pro-poor Sustainable Growth for Food Security and Job Creation; and (iii) Human Development.

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes regular participation of Bank staff in the meetings with the government on the Fund's program review missions, IMF staff participation in Bank development policy missions, and Bank internal review meetings. The IMF takes the lead in macroeconomic stabilization and the World Bank in economic growth and poverty reduction, with close collaboration on overlapping issues. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's dialogue and conditionality have maintained consistency with the macroeconomic framework endorsed by the Fund. IMF and World Bank staff are assisting the authorities to develop country-led financial sector reforms in the context of the joint Fund-Bank initiative for "Coordinated Support for Growth Critical Reforms in Africa".

B. World Bank Group strategy

3. In June 2005 the Bank's Board discussed a new IDA Country Assistance Strategy (CAS) for Sierra Leone for FY2006–09 following continued progress in establishing security and governance as well as the completion of the new PRSP. The new CAS supports the strategy outlined in the PRSP for a transition to policies and programs for sustained growth and poverty reduction with gradually decreasing emphasis on post-conflict needs. The continued maintenance of a stable macroeconomic framework is considered to be a prerequisite for World Bank program support.

4. Under the CAS, the World Bank, through IDA, is assisting the government in pursuing progress under three strategic priorities: (i) Governance, Decentralization, and Public Financial Management; (ii) Sustainable Growth, Food Security and Jobs Creation; and (iii) Human Development.

5. As of April 30, 2008, the World Bank has approved 41 loans, credits and grants for a total of US$843.9 million. The current portfolio consists of eight operations, as summarized in the table below, in the areas of infrastructure, decentralization, agriculture, and government services totaling about US$229.6 million with an undisbursed amount of US$122.14 million.

Sierra Leone: Financial Relations with the World Bank
(As of April 30, 2008; in millions of U.S. dollars)

Project Name	Approval Date	IDA Commitments		Undisbursed Amount
Rehabilitation of Basic Education	02/25/2003	20.0	G	5.68
Health Sector Reconstruction	02/25/2003	28.0	G	10.26
National Social Action Project	04/24/2003	35.0		0.79
Institutional Reform & Cap. Bldg.	05/11/2004	25.1	G	2.16
Power and Water	07/01/2004	35.0		27.22
Bumbuna Hydroelectric Project-Environmental and Social	06/16/2005	12.5	G	5.76
Infrastructure Development Project (Transport)	12/06/2005	44.0	G	38.74
Rural Development and Private Sector Development Project	05/22/2007	30.0	G	31.52
TOTAL		**229.6**		**122.14**

Source: World Bank.
G: Loan Type = IDA Grant (all others are IDA Credits)

6. For FY2008 – 09, the Bank's proposed remaining lending program will consist of additional financing for the Infrastructure Development Project in Transport; one development policy lending operation; technical assistance for public financial management; technical assistance for the mining sector, and a basic services operation. The latter two operations are under discussion with the Government and subject to IDA availability.

C. IMF-World Bank collaboration

7. **Areas in which the Fund leads.** The Fund takes the lead in macroeconomic stabilization including macro-fiscal policy, monetary policy, exchange rate policy, and financial stability and risk management.

8. **Areas in which the Bank leads.** The Bank takes the lead in economic growth and poverty reduction. The Bank therefore leads the policy dialog on policy choices that could affect growth and/or poverty including selected aspects of macroeconomic policy (such as the determinants of savings and investment), microeconomic policies and structural issues.

9. The current policy dialog covers anti-corruption efforts, public financial management, the budgetary process and outcomes, public service reform, decentralization, the business and investment climate, trade promotion, financial sector reforms, public enterprise reforms and mining sector reforms.

Areas of shared responsibility. The staffs of the Bank and Fund consult with each other on a regular basis on all aspects of the policy dialog in order to ensure a well coordinated approach. Bank and Fund staffs are expected to attend Board discussions in each other's institutions, and will normally be called to the table to present their views on areas of the reform program where their institution is in the lead. Bank and Fund staffs collaborate as needed on a variety of topics in ways that are consistent with their areas of emphasis. These include but are not limited to the following: debt sustainability assessments; level and composition of public expenditures; public financial management; anti-corruption efforts; and HIPC resource use.

Sierra Leone: Statistical Issues

1. Data provided to the Fund are affected by serious shortcomings that significantly hamper surveillance. The prolonged civil war resulted in serious deficiencies in the macroeconomic database, particularly in the areas of the balance of payments, national accounts, and social indicators. From the May 1997 coup to March 1998, statistical compilation virtually collapsed. Since April 1998, however, the authorities have endeavored to rehabilitate the data collection and compilation systems. The authorities are cooperating fully in providing data to the Fund and disseminating economic and financial data to the public on a regular basis.

2. A major and sustained improvement in the coverage and timeliness of economic data will require restructuring the institutional framework following the recommendations of the March 2004 IMF/World Bank mission. Budgetary resources remain scarce for the main statistical unit, Statistics Sierra Leone (SSL); which adversely affects the compilation of national accounts and price statistics. Cooperation and coordination between the main statistical agencies should also be improved. The country participates in the GDDS and its metadata, including detailed plans for improvement over the short and medium term, were posted on the Fund's DSBB on May 29, 2003, and subsequently updated in August 2006. Fund technical assistance (TA) in priority areas under the regional GDDS project for Anglophone African countries, has been provided with funding from the U.K. Department for International Development (DfID).

National accounts

3. The national accounts are prepared by the SSL using data received from government ministries and agencies, public enterprises, and through small annual sample surveys of economic activity, although based on outdated lists and with extremely low response rates. As a result, private sector activities have not been adequately represented in the national accounts, especially small businesses, which represent a very high proportion of business activity. The consumer price index (CPI) is used extensively to derive estimates of GDP at constant prices.

4. Efforts to reconstruct the national accounts estimates commenced during 2003/04, with the main effort focusing on preparing new estimates for the period starting in 2001. Resource constraints significantly delayed production of final estimates and only preliminary data for 2001–04 were made available.

5. Since March 2004, and with support from the GDDS Anglophone Africa Project, six national accounts TA missions visited Freetown, the most recent in January 2008. These missions reviewed source data, methodologies, compilation, and dissemination issues and assisted with data development and improvements in methodology. The mission prepared and coordinated with the authorities a short-term action plan to incorporate longer-term improvements in the strategic plan. Efforts are underway to prepare revised national accounts

based on a 2005 benchmark and using 2005 prices to compile constant price estimates. However, shortages of resources and staff continue to pose major constraints to statistical development undertaken by SSL.

6. AFR missions continue to make their own estimates and projections of key national accounts aggregates, as well as adjustments to historical data using available information.

Prices

7. The CPI is compiled on a monthly basis by the SSL and published with a lag of about three weeks. It covers the capital city and three towns with a base period of 1992. Efforts are underway to re-base the CPI to 2004 using the 2003 Sierra Leone integrated household survey and to extend the geographic coverage of the CPI so that a national CPI can be compiled. Field work was conducted in June 2006. The production of producer price indices remains a medium-term goal.

Government finance statistics

8. The budget reporting system was established with assistance provided under the Fund/UNDP technical assistance project. Monthly data on central government revenue, current expenditure, and financing are provided with appropriate detail. The European Commission (EC) is providing technical assistance to the Accountant General's Office to improve the timeliness and quality of fiscal data. Data on capital expenditure are poor. Fiscal data are reported to AFR but the submission of annual data for publication in the *GFS Yearbook* has been discontinued (the most recent data refer to 2004). Fiscal data only cover the central government, excluding extrabudgetary agencies and local governments.

9. There is an urgent need for greater timeliness and accuracy of data on foreign-financed development projects. Reports on the implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis as implementation data are not available. There is also need for assuring quality control of the final data. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general- and foreign aid-financed projects. In the context of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data, and to improve the coverage and classification in these two data sets. In spite of considerable TA, there has been little improvement in fiscal statistics (see further under Monetary statistics).

Monetary statistics

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

11. A key issue remains the reconciliation of fiscal and monetary statistics. An October 2004 TA mission indicated that such reconciliation is very difficult due in part to (i) fiscal data compilation solely on a cash basis, and (ii) incomplete definition of the central government. Even though the authorities undertook an exercise in 2003 to identify government accounts in the banking system, the review of the list of government agencies revealed significant shortcomings. A July 2007 TA mission found that limited progress had been made on the fiscal reporting system for extra budgetary agencies and projects since the August 2006 mission. The coverage of reporting agencies had improved, but there were many obvious errors and omissions in the reported data and in the BSL database. This notwithstanding, there has been notable progress in transitioning the compilation of monetary statistics to the new framework based on the 2000 Monetary and Financial Statistics Manual and standardized report forms (SRFs) for reporting monetary data to the IMF. The SRF Form for reporting central bank data is now being updated regularly, and was recently submitted to STA for comments. The framework for the form corresponding to other depository corporations (ODCs) has been established and can be readily updated upon receipt of revised data from ODCs.

Balance of payments

12. The BSL is responsible for the compilation of balance of payments (BOP) statistics. The BSL obtains source data from the SSL, government ministries, the Customs and Excise Department (Customs), and the "Financial Survey of Major Limited Companies," for data on foreign direct investment. Goods estimates are based on the import and export data compiled by Customs and are adjusted for coverage, valuation, and timing to accord with BOP definitions. The BSL does not make adjustments to BOP data using supplementary information to take account of unreported data.

13. External transactions are characterized by a large volume of activity in the informal sector, principally the smuggling of diamonds. A considerable portion of imports is financed by these unrecorded exports. As a result, official BOP statistics tend to substantially understate transactions. The staff has been addressing this problem through the use of third-country (principally EU member) import data. STA has been providing technical assistance on BOP issues under the GDDS project to help the authorities with the implementation of the *Balance of Payments Manual, Fifth Edition (BPM5)*—the most recent technical assistance mission took place in September/October 2004.

14. Outstanding data problems also exist for trade in services, income statistics, current transfers, and in the capital and financial accounts. Regarding the latter, there are substantial difficulties in tracking financial transactions of the public and private sectors that are routed through commercial banks. While the authorities are producing data on international investment position, improvements are required in coverage and in valuation adjustments. These difficulties are manifested in reconciling flow data in the BOP and stocks in the

international investment position. Estimates of smuggled imports and exports, in particular diamonds, are also not available.

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

16. Data on the gross and net official reserves positions of the BSL are provided monthly to the Fund with a short lag. Since 2004, balance of payments and international investment position statistics are reported regularly to STA, and there is an effort to reconcile flow with stock data in the international investment position.

Sierra Leone: Table of Common Indicators Required for Surveillance
May 5, 2008

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	04/08	04/08	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/08	04/08	M[7]	M	M
Reserve/Base Money	02/08	04/08	M[8]	M	M
Broad Money	02/08	04/08	M[7]	M	M
Central Bank Balance Sheet	02/08	04/08	M[8]	M	M
Consolidated Balance Sheet of the Banking System	02/08	04/08	M[8]	M	M
Interest Rates[2]	02/08	04/08	W	M	W
Consumer Price Index	03/08	04/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	03/08	05/08	M	Q	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	03/08	05/08	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/07	03/08	M	Q	N/A
External Current Account Balance	12/07	03/08	A	A	A
Exports and Imports of Goods and Services	12/07	03/08	A	A	A
GDP/GNP	2007	02/08	A	I	A
Gross External Debt	12/07	02/08	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)
[7] Weekly estimates provided in Bank of Sierra Leone's "Daily Indicators"
[8] Daily estimates provided in Bank of Sierra Leone's "Daily Indicators"

APPENDIX III. SIERRA LEONE: JOINT IMF/WORLD BANK DEBT SUSTAINABILITY ANALYSIS 2008

The Debt Sustainability Analysis (DSA) finds that Sierra Leone's risk of debt distress is moderate. Furthermore, the fiscal DSA confirms that public sector debt dynamics remain on a stable path under the baseline scenario. However, the analysis also highlights the continued need for prudent macroeconomic policies as stress tests suggest that potential threats to sustainability remain.

I. BACKGROUND

1. **This debt sustainability analysis (DSA) updates the DSA presented in December 2006 (IMF Country Report No. 07/23, Appendix I and No. 37997-SL, Appendix 1)**. 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 end-2005, (ii) actual debt and macroeconomic data of 2006 and 2007; and (iii) a revised and updated macroeconomic framework for 2008–28.[24]

2. **Sierra Leone reached the completion point under the enhanced HIPC Initiative and qualified for debt relief under the MDRI on December 15, 2006**. In January 2007, Paris Club creditors agreed to cancel outstanding claims (US$240 million in end-2000 NPV terms) on Sierra Leone.[25] Debt relief from the international community helped decrease Sierra Leone's public sector nominal external debt from 145.9 percent of GDP at end-2005 to 32.1 percent of GDP at end-2007.

3. **At end-2007, Sierra Leone's nominal public external debt was US$523.8 million (32.1 percent of GDP)**. Around 49 percent of this debt was due to multilaterals, 45 percent to commercial creditors, and 6 percent to official bilaterals. The largest multilateral creditors were the World Bank Group (US$84.8 million), the IsDB (US$35.6 million) and the IMF (US$36.3 million) followed by the AfDB and IFAD (both US$23.9 million). A debt-buy-back operation is under negotiation to cancel all eligible commercial debt and is expected to reduce the stock of commercial debt by 81.4 percent—equivalent to the HIPC common reduction factor.

[24] Actual debt service obligations for 2006 and 2007 and projected obligations for 2008–10 were provided by the authorities. Debt service projections for 2011 onwards were revised by the staffs. The revised numbers, actual and projected, are higher than those projected in the previous DSA.

[25] Sierra Leone has received completion point assistance from the IMF, IDA, AfDB, EIB, and IFAD. Bilateral agreements have been signed with all Paris Club creditors. Agreements on the delivery of the HIPC relief are still pending with China, Kuwait, Saudi Arabia, IsDB, OPEC Fund, and BADEA.

4. **Domestic debt amounted to 25 percent of GDP at end-2007.** Around 51 percent of this debt was with the central bank of Sierra Leone, including a large stock of noninterest-bearing securities. Commercial banks and other financial institutions accounted for another 39 percent. Arrears to the nonfinancial private sector constituted the remaining 10 percent of debt.

II. Underlying DSA Assumptions

5. **The baseline scenario assumes an initially difficult external environment, which will normalize in the medium run**. Most importantly, the rapid increase in global oil and food prices will increase the import bill substantially in the short run.[26] Terms of trade projections are consistent with the WEO up to 2013 and are assumed to improve modestly thereafter, in line with the WEO projected trend. The baseline macroeconomic assumptions for the period 2008–10 are consistent with those underlying the PRGF-supported program for that period (see Box 1 for details).

6. **The macroeconomic scenario presented in this DSA is similar to the previous DSA, except for the larger short-run external deficit and slightly higher new borrowing**. The current DSA forecasts a larger current account deficit in 2008–11 due to sharply higher oil and food prices. This is a result of deteriorating terms of trade as the prices of exported commodities are expected to increase more slowly than imported oil and food prices. The short-term terms of trade deterioration will affect neither long-term terms of trade nor long-term growth projections. Economic growth has been averaging around 7 percent between 2005 and 2007, and is expected to slow down to an average of 4.3 percent after 2010. Based on the government's policy to gradually increase externally financed capital spending, the present scenario assumes slightly higher new debt intake. The lower levels of projected exports and domestic revenues relative to the 2006 DSA contribute to the upward tilt in the debt service ratios, particularly the debt service-to-revenue ratio.

[26] Oil represents around 40 percent of total imports while food represents 14 percent of the total.

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Real GDP growth averaged 7.5 percent over the last five years and is projected to remain in the range of 5-6 percent over 2008–14 with an average of 4.3 percent over 2015–28. The slowdown in growth reflects the convergence towards a long-run steady-state growth rate after the reconstruction that followed the civil war. Medium-term growth is predicated on government's planned policies to consolidate macroeconomic stabilization, expand public infrastructure, and improve the business environment for private sector development. Also the mining sector is expected to gradually increase its production capacity.

Average annual inflation, as measured by the CPI, is expected to decrease from its peak in 2008 of about 14 percent to slightly below 10 percent in 2010 and then gradually to 5 percent around 2015. The projection reflects the WEO assumptions on the prices of the main commodities, as well as the authorities' commitment to refrain from central bank financing (except for the drawdown of the MDRI account at the central bank) and to strengthen central bank capacity in conducting monetary policy. The GDP deflator is estimated using the projected CPI inflation and change in the terms of trade.

Exports are projected to benefit over the medium- and long-term from increasing commodity prices and expansion in mining capacity. With the restart in 2009 of the kimberlite diamond mine, which has been temporally shut down to allow excavation work, exports of goods and services are projected to increase gradually from 17 percent of GDP in 2007 to 28 percent in 2015 and 34 percent in 2028. Export of agricultural commodities (or cash crops) is expected to increase faster than mineral exports, with its share in exports reaching 8.0 percent by 2028 from 5.5 percent in 2008.

Imports of goods and services are projected to increase substantially in 2008-10 mainly under the impact of (i) the increase in world oil and food prices and (ii) the expected expansion of public investments in infrastructure. Imports of goods and services in percentage of GDP are projected to jump from 27 percent in 2007 to 33 percent of GDP in 2010 and then increase gradually to 42 percent in 2028.

The primary fiscal deficit is projected to gradually decrease from 2.4 percent of GDP in 2008 to 0.3 percent in 2028. The envisaged broadening of the tax base in 2009 is the result of the adoption of the value added tax, as well as ongoing strengthening and modernization of customs and tax administration which would help raise revenue by about 3 percentage points of GDP over 2008–15 and another 2 percentage points over the period 2016–28. At the same time, public expenditures would have to increase to address the substantial social and infrastructure needs of the country.

Donor support, including program and project assistance is expected to remain robust over the medium term, assuming that the authorities timely update and implement their poverty reduction strategy. Donor support during 2011–28 is projected to increase in line with the OECD nominal GDP. The grant element is expected to increase from 48 percent in 2008 to 56 percent in 2010 and remain at that level for the entire period, as financing is expected to shift to those donors whose grant element is higher.

No new debt relief is assumed beyond the buy-back of the external commercial debts that is expected to take place in late 2009. It is assumed that US$176.5 million in debt would be extinguished, with US$40.3 million in obligations remaining (following the HIPC common reduction factor).

Domestic debt is expected to decline gradually, as the government refrains from central bank borrowing and limits issuance of new securities. It is assumed that domestic accumulated arrears to local suppliers will be cleared over 2008–10. The remaining stock of non-interest bearing securities held by the central bank will be converted into interest bearing securities over the next ten years. A more aggressive schedule would be costly and could induce the need for more borrowing.

III. External Debt Sustainability

A. Baseline

7. **Under the baseline scenario, the NPV of the debt indicators will remain below the corresponding thresholds throughout the entire period.**[27] The NPV of debt-to-export ratio is expected to increase slowly from around 45 percent in 2008 to 75 percent by 2028. This scenario reflects the assumed continuous rehabilitation and development of the rich mineral resources that will maintain an increased share of exports as percent of GDP. The NPV of debt-to-GDP ratio would remain below the threshold (30 percent) during the entire projection period, though it is expected to grow from 9 to 29 percent of GDP. In addition, the debt service ratio would stay under 5 percent of exports under the baseline scenario, well below the 15 percent threshold. The favorable debt indicators show the beneficial impact of the HIPC–MDRI debt relief (in the favorable starting debt levels) and prudent macroeconomic policies (in the continued performance of these indicators throughout the forecasting period).

B. Alternative Scenarios and Stress Tests

8. **The alternative scenarios highlight the need for maintaining prudent external debt management and refraining from nonconcessional borrowing**. Under the alternative scenario that assumes external borrowing on less concessional terms (A2), the debt burden becomes heavier over the long-term and exceeds the indicative thresholds and continues to increase further. For example, the NPV of debt-to-exports ratio would reach 123 percent by 2028 (well exceeding the threshold of 100 percent), and the NPV of debt-to-GDP would reach 48 percent of GDP, breaching the threshold of 30 percent. Therefore, it is a crucial element of prudent debt management to rely on grants or concessional loans.

9. **The analysis also shows that external debt sustainability is very sensitive to external shocks**. Under the slower export growth shock (B2) the NPV of debt-to-exports ratio would reach 136 percent of exports while the NPV of debt-to-revenue ratio would reach 202 percent by 2028, well above the 100 percent threshold. This reflects the impact of volatile export commodity prices for diamonds, bauxite and rutile. The result suggests the need to further diversify exports and the economy. Under most external shocks the thresholds are exceeded, which underlines the vulnerability of the economy to adverse external developments. Under most of the bounds tests, the NPV of debt-to-GDP threshold is exceeded, which underlines the vulnerability of the economy to adverse external developments.

[27] 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.

10. **The historical scenario is more favorable than the baseline due to the recovery that followed the end of the conflict in 1997**. The historical scenario (A.1.) reflects catch-up growth as the economy was re-built, whereas the baseline projections reflect that growth rates of key variables converge to their long-run steady state based on institutional and other fundamental factors. Therefore, in the case of Sierra Leone, the historical scenario does not serve as an accurate "reality check" of the country's future performance, though it illustrates that debt dynamics can become more favorable.

IV. Fiscal Debt Sustainability

A. Baseline

11. **Sierra Leone's public debt burden (including domestic debt) is expected to stabilize over the projection period**. The baseline macroeconomic scenario assumes a gradual reduction in bank financing, as a result of the projected fiscal consolidation. With moderate domestic financing, the NPV of domestic debt is expected to decline from 25.3 percent of GDP in 2007 to 15.8 percent by 2015 and to 3.8 percent by 2028. This trend is offsetting the increase in external debt, so that the NPV of total public debt-to-GDP ratio would slightly increase from 31.4 percent of GDP in 2008 to 33.4 percent in 2028 (Table 3).

B. Alternative Scenarios and Stress Tests

12. **Lower GDP growth is the most unfavorable stress for public debt**. Growth-related stress tests (assuming growth at the historical average less one standard deviation in 2008–09 and permanently lower growth during 2010–28) imply a substantial worsening in the NPV of debt-to-GDP ratio. This underscores the importance of investing in public infrastructure projects with a high rate of return and accelerating structural reforms to set the stage for private-sector led growth. In addition, public debt sustainability would be supported by a reduction in domestic debt stock, an extension of the maturity of new domestic borrowing, and the development of a domestic debt market. The latter would also facilitate the conversion of non-interest bearing, non-maturing domestic debt currently in the central bank into longer-term securities.

C. Debt Distress Classification and Conclusions

13. **Sierra Leone is at moderate risk of debt distress based on external debt burden indicators**. Sierra Leone's external debt indicators have improved markedly, but due to still fragile policies and institutions and a narrow economic base the country remains at a moderate risk of debt distress under the LIC-DSA framework. Under the baseline scenario, key debt indicators are below the country-specific policy dependent thresholds after full delivery of HIPC completion point assistance, bilateral assistance beyond HIPC Initiative, and MDRI relief. However, stress tests reveal that Sierra Leone's external debt sustainability is still vulnerable to external shocks. Debt burden indicators in some stress tests rise rapidly to above the indicative thresholds especially under the lower export stress test and the less concessional borrowing scenario. This illustrates how debt sustainability critically hinges on prudent macroeconomic and external debt management policies.

14. **The fiscal DSA suggests that Sierra Leone's overall public sector debt dynamics are stable, but a gradual reduction of the domestic debt stock is vital**. 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. To preserve fiscal sustainability, the conversion of the remaining balance of securities will need to be conducted in a phased manner.

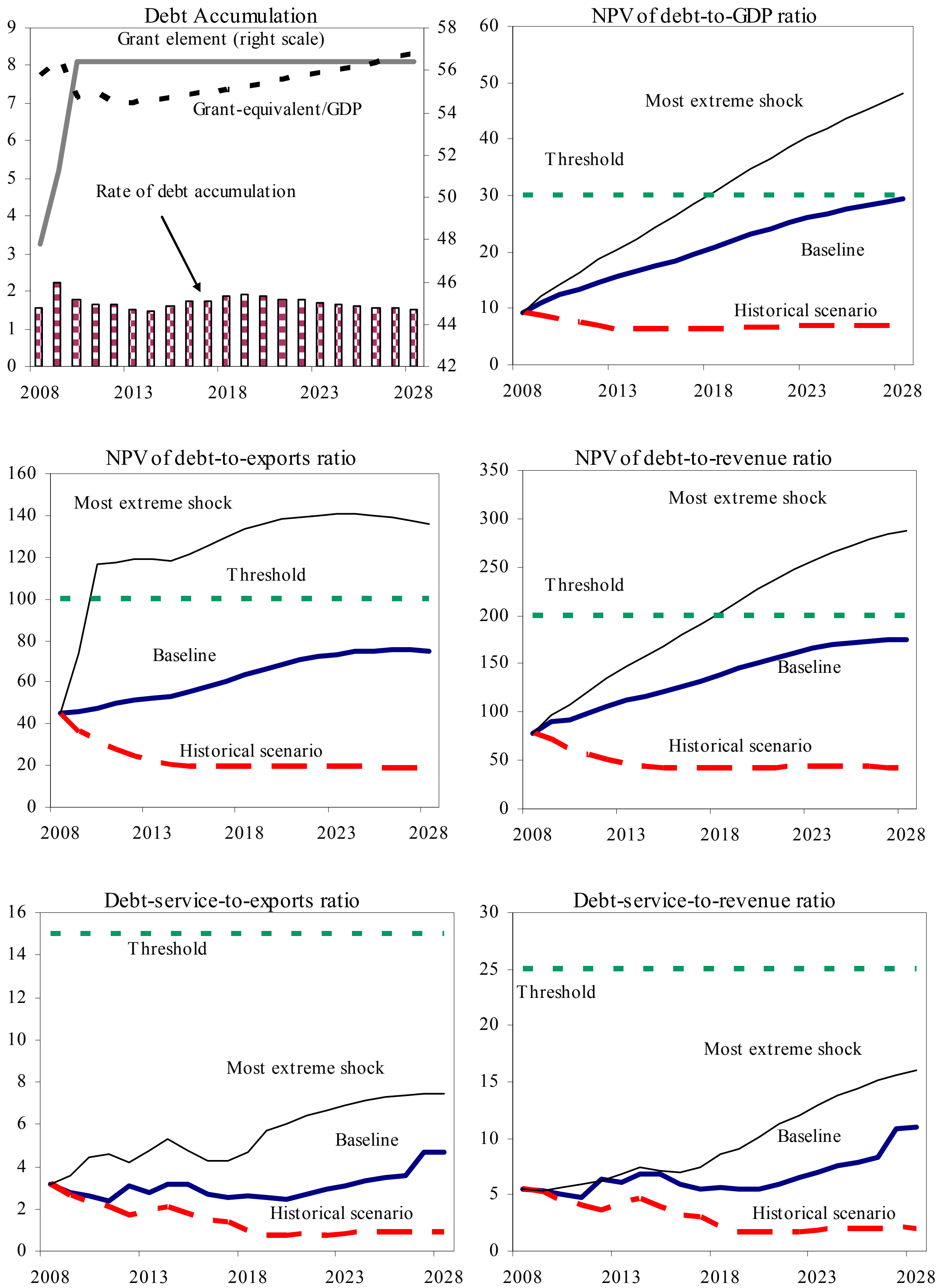
Table 1. Sierra Leone External Debt Sustainability Framework, Baseline Scenario, 2008–28 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
External debt (nominal) 1/	**145.9**	**94.5**	**32.1**			**29.7**	**20.2**	**23.0**	**25.5**	**27.9**	**30.1**		**39.9**	**53.2**	
o/w public and publicly guaranteed (PPG)	145.9	94.5	32.1			29.7	20.2	23.0	25.5	27.9	30.1		39.9	53.2	
Change in external debt	-26.6	-51.5	-62.4			-2.4	-9.4	2.7	2.5	2.4	2.1		2.0	0.9	
Identified net debt-creating flows	-17.0	-20.8	-14.0			2.0	3.1	3.2	2.9	3.0	2.3		1.3	0.2	
Non-interest current account deficit	**6.3**	**2.3**	**3.8**	**4.5**	**1.9**	**6.4**	**6.0**	**5.9**	**5.6**	**5.3**	**4.5**		**3.7**	**2.8**	3.5
Deficit in balance of goods and services	13.2	7.6	7.4			10.3	9.5	8.5	7.6	7.4	6.6		5.5	3.9	
Exports	24.1	25.0	21.0			20.6	24.2	25.9	27.1	28.4	29.8		32.9	39.2	
Imports	37.2	32.6	28.3			30.9	33.7	34.4	34.7	35.9	36.4		38.4	43.0	
Net current transfers (negative = inflow)	-11.3	-8.2	-5.7	-11.7	3.7	-6.0	-5.5	-4.7	-4.1	-4.1	-4.0		-3.7	-3.1	-3.5
o/w official	-7.1	-5.3	-3.5			-3.8	-3.2	-2.5	-2.0	-2.0	-2.1		-2.0	-1.9	
Other current account flows (negative = net inflow)	4.4	2.8	2.1			2.1	2.1	2.1	2.1	2.0	2.0		2.0	2.0	
Net FDI (negative = inflow)	**-4.0**	**-3.0**	**-4.2**	**-2.6**	**2.3**	**-2.7**	**-1.3**	**-1.6**	**-1.6**	**-1.3**	**-1.1**		**-1.2**	**-1.0**	-1.1
Endogenous debt dynamics 2/	**-19.3**	**-20.1**	**-13.7**			**-1.7**	**-1.6**	**-1.1**	**-1.1**	**-1.0**	**-1.1**		**-1.2**	**-1.7**	
Contribution from nominal interest rate	0.8	1.2	0.0			0.1	0.1	0.1	0.1	0.2	0.3		0.3	0.5	
Contribution from real GDP growth	-11.0	-9.1	-5.5			-1.8	-1.7	-1.2	-1.2	-1.2	-1.3		-1.6	-2.2	
Contribution from price and exchange rate changes	-9.1	-12.2	-8.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-9.6**	**-30.7**	**-48.4**			**-4.4**	**-12.6**	**-0.5**	**-0.3**	**-0.6**	**-0.2**		**0.7**	**0.7**	
o/w exceptional financing	-2.7	-14.7	-26.8			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	8.6			9.3	11.1	12.4	13.5	14.6	15.6		20.8	29.4	
In percent of exports	...	...	41.1			45.2	45.9	47.7	49.7	51.4	52.4		63.4	75.1	
NPV of PPG external debt	**...**	**...**	**8.6**			**9.3**	**11.1**	**12.4**	**13.5**	**14.6**	**15.6**		**20.8**	**29.4**	
In percent of exports	**...**	**...**	**41.1**			**45.2**	**45.9**	**47.7**	**49.7**	**51.4**	**52.4**		**63.4**	**75.1**	
In percent of government revenues	**...**	**...**	**79.6**			**78.6**	**89.4**	**92.4**	**99.2**	**106.4**	**112.4**		**138.7**	**175.6**	
Debt service-to-exports ratio (in percent)	**9.9**	**5.4**	**4.4**			**3.2**	**2.7**	**2.6**	**2.4**	**3.1**	**2.8**		**2.6**	**4.7**	
PPG debt service-to-exports ratio (in percent)	**9.9**	**5.4**	**4.4**			**3.2**	**2.7**	**2.6**	**2.4**	**3.1**	**2.8**		**2.6**	**4.7**	
PPG debt service-to-revenue ratio (in percent)	**20.1**	**11.4**	**8.5**			**5.5**	**5.3**	**5.1**	**4.7**	**6.4**	**6.0**		**5.7**	**10.9**	
Total gross financing need (millions of U.S. dollars)	159.4	179.7	221.2			294.8	319.9	314.1	310.9	310.2	288.9		279.8	320.4	
Non-interest current account deficit that stabilizes debt ratio	32.9	53.7	66.2			8.8	15.5	3.1	3.0	2.9	2.4		1.7	1.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.2	7.3	6.8	7.9	9.7	6.0	6.0	6.0	5.6	5.0	4.9	5.6	4.3	4.3	4.3
GDP deflator in US dollar terms (change in percent)	5.6	9.1	9.4	0.0	10.0	2.8	-2.1	-1.6	-1.4	-1.4	-1.5	-0.9	-1.0	-1.0	-1.0
Effective interest rate (percent) 5/	0.6	1.0	0.0	0.7	0.5	0.3	0.4	0.5	0.7	1.0	1.0	0.6	0.9	1.0	0.9
Growth of exports of G&S (US dollar terms, in percent)	18.3	21.5	-1.8	13.1	20.1	7.1	22.2	11.5	9.0	8.6	8.2	11.1	4.5	5.5	5.2
Growth of imports of G&S (US dollar terms, in percent)	23.4	2.5	1.7	15.7	16.6	18.8	13.3	6.5	5.1	6.9	4.8	9.2	4.3	4.7	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.8	51.3	56.4	56.4	56.4	56.4	54.1	56.4	56.4	56.4
Aid flows (in millions of US dollars) 7/	191.2	166.9	100.8			151.9	179.9	172.4	182.6	182.9	186.7		229.7	347.6	
o/w Grants	121.8	117.0	80.2			118.3	113.6	98.7	103.6	105.1	110.3		139.5	223.1	
o/w Concessional loans	36.4	16.2	20.7			33.6	66.3	73.7	79.0	77.7	76.3		90.2	124.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.8	8.2	7.1	7.2	7.0	7.0		7.4	8.3	7.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			85.2	79.9	81.4	81.1	81.5	82.2		82.9	84.4	83.4
Memorandum items:															
Nominal GDP (millions of US dollars)	1214.8	1422.6	1663.5			1813.7	1882.8	1964.0	2045.4	2117.4	2188.5		2585.6	3542.6	
(NPVt-NPVt-1)/GDPt-1 (in percent)						1.5	2.2	1.8	1.7	1.7	1.5	1.7	1.9	1.5	1.7

Source: IMF staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing. The 2009 residual includes the effect of commercial debt buy-back operations.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2008–28



Source: IMF staff projections and simulations.

Table 3.Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005–28

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections												
	2005	2006	2007	Historical Average 5/	Standard Deviation 5/	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	177.7	121.9	57.3			53.4	41.1	42.7	44.2	45.9	47.4	48.9	50.4	51.5	52.5		53.4	57.0	
o/w foreign-currency denominated	148.2	94.9	32.0			29.7	20.2	23.0	25.5	27.9	30.1	32.6	34.6	36.6	38.6		39.9	53.2	
Change in public sector debt	-40.2	-55.8	-64.6			-4.0	-12.2	1.6	1.4	1.7	1.5	1.5	1.4	1.2	1.0		0.9	-1.1	
Identified debt-creating flows	-31.9	-25.4	-15.4			-1.3	1.1	1.9	2.3	2.9	3.1	3.0	3.0	2.4	2.2		2.1	-0.4	
Primary deficit	-1.9	-1.1	-0.2	-0.1	2.0	0.4	2.0	2.7	2.8	2.7	2.5	2.2	2.0	1.8	1.6	2.2	1.4	0.8	1.4
Revenue and grants	21.9	20.0	15.6			18.4	18.5	18.4	18.7	18.7	18.9	19.3	19.6	19.9	20.2		20.4	22.9	
of which : grants	10.0	8.2	4.8			6.5	6.0	5.0	5.1	5.0	5.0	5.1	5.2	5.2	5.3		5.4	6.3	
Primary (noninterest) expenditure	20.0	18.9	15.4			18.8	20.5	21.1	21.5	21.4	21.4	21.5	21.7	21.7	21.7		21.8	23.6	
Automatic debt dynamics	-25.6	-20.8	-14.3			-1.5	-0.7	-0.6	-0.3	0.2	0.6	0.8	0.9	0.6	0.7		0.7	-1.1	
Contribution from interest rate/growth differential	-18.7	-19.4	-13.8			-3.1	-0.4	-0.5	-0.2	0.4	0.7	0.9	0.9	0.6	0.7		0.7	0.1	
of which : contribution from average real interest rate	-4.0	-7.3	-6.0			0.1	2.6	1.9	2.0	2.5	2.9	3.0	3.1	2.7	2.8		2.9	2.5	
of which : contribution from real GDP growth	-14.7	-12.2	-7.8			-3.3	-3.0	-2.3	-2.3	-2.1	-2.1	-2.1	-2.1	-2.2	-2.2		-2.1	-2.4	
Contribution from real exchange rate depreciation	-6.9	-1.4	-0.5			1.6	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-4.5	-3.5	-0.8			-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	-0.1	-0.1			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		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	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-4.5	-3.4	-0.7			-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	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	0.0	
Residual, including asset changes	-8.3	-30.4	-49.2			-2.7	-13.4	-0.3	-0.9	-1.2	-1.6	-1.5	-1.5	-1.2	-1.2		-1.2	-0.7	
NPV of public sector debt	29.5	27.0	33.9			31.4	31.1	31.3	31.3	31.8	32.3	32.8	33.2	33.4	33.5		33.6	33.4	
o/w foreign-currency denominated	0.0	0.0	8.6			9.3	11.1	12.4	13.5	14.6	15.6	16.5	17.5	18.5	19.7		20.8	29.2	
o/w external	...	...	8.6			9.3	11.1	12.4	13.5	14.6	15.6	16.5	17.5	18.5	19.7		20.8	29.2	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...		...	...	
Gross financing need 2/	15.9	5.4	-9.1			16.8	16.7	16.3	16.5	15.9	15.2	14.7	14.3	13.2	12.7		12.3	9.4	
NPV of public sector debt-to-revenue and grants ratio (in percent)	134.9	135.2	217.0			171.1	168.6	170.1	167.9	169.9	171.0	169.6	169.1	168.3	166.0		164.5	145.9	
NPV of public sector debt-to-revenue ratio (in percent)	249.1	229.6	313.7			265.2	250.4	234.0	230.5	231.3	233.2	322.9	337.8	354.0	369.9		223.5	200.8	
o/w external 3/	---	---	79.6			78.6	89.4	92.4	99.2	106.4	112.4	85.3	88.9	93.3	97.3		138.7	175.6	
Debt service-to-revenue and grants ratio (in percent) 4/	44.2	36.5	32.7			25.0	25.8	21.6	20.2	22.3	22.7	23.2	22.9	19.4	18.7		18.6	15.2	
Debt service-to-revenue ratio (in percent) 4/	81.5	62.0	47.3			38.8	38.4	29.7	27.8	30.3	30.9	31.6	31.1	26.3	25.4		25.3	20.9	
Primary deficit that stabilizes the debt-to-GDP ratio	38.3	54.7	64.3			4.4	14.2	1.1	1.4	1.0	1.0	0.7	0.6	0.7	0.6		0.4	1.8	
Key macroeconomic and fiscal assumptions																			
Real GDP growth (in percent)	7.2	7.3	6.8	10.9	8.1	6.0	6.0	6.0	5.6	5.0	4.9	4.7	4.6	4.5	4.4	5.6	4.3	4.3	4.3
Average nominal interest rate on forex debt (in percent)	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	0.0	0.0	0.0	0.0	0.0
Average real interest rate on domestic currency debt (in percent)	2.6	3.4	-0.4	4.3	6.4	-1.2	3.0	3.0	4.0	5.8	7.6	8.7	9.3	8.0	8.6	3.7	9.4	19.9	11.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.2	-1.0	-0.6	-1.4	3.2	5.4	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.9	11.8	10.3	9.3	6.8	11.0	8.0	6.6	5.7	4.9	3.9	3.2	2.9	2.9	2.9	6.7	2.9	3.3	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	11.4	1.3	-12.9	2.7	11.5	29.3	15.6	9.3	7.5	4.6	5.0	5.3	5.2	4.7	4.6	11.9	4.5	5.5	5.0

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

1/ Public sector refers to central government and nonfinancial public sector.

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 excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

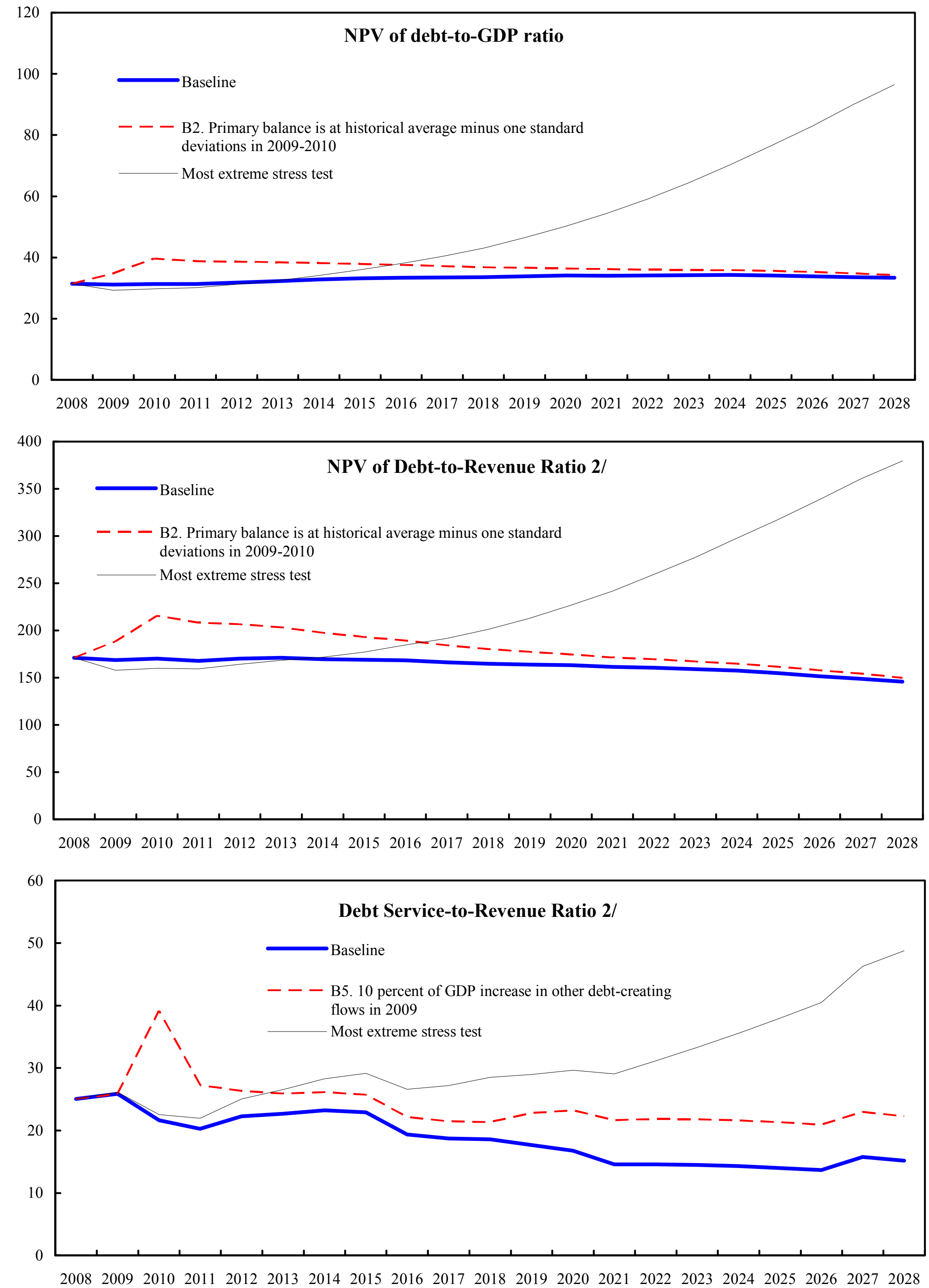
5/ Historical averages and standard deviations are generally derived over 2001-2007 due to data availability.

Table 4.Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt 2008–28

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
NPV of Debt-to-GDP Ratio								
Baseline	31	31	31	31	32	32	34	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	31	25	22	19	16	14	7	5
A2. Primary balance is unchanged from 2008	31	27	25	22	19	17	7	-5
A3. Permanently lower GDP growth 1/	31	29	30	30	31	33	43	96
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	31	29	30	30	30	30	30	33
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	31	35	40	39	39	38	37	34
B3. Combination of B1-B2 using one half standard deviation shocks	31	31	32	31	31	31	30	30
B4. One-time 30 percent real depreciation in 2009	31	38	36	34	33	31	26	21
B5. 10 percent of GDP increase in other debt-creating flows in 2009	31	38	37	36	36	36	34	31
NPV of Debt-to-Revenue Ratio 2/								
Baseline	171	169	170	168	170	171	164	146
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	171	137	122	104	91	79	41	30
A2. Primary balance is unchanged from 2008	171	147	133	116	103	90	36	-21
A3. Permanently lower GDP growth 1/	171	158	160	159	164	168	201	379
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	171	158	160	157	158	157	146	142
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	171	188	215	208	206	203	180	150
B3. Combination of B1-B2 using one half standard deviation shocks	171	167	173	168	168	166	150	133
B4. One-time 30 percent real depreciation in 2009	171	207	196	182	175	166	127	92
B5. 10 percent of GDP increase in other debt-creating flows in 2009	171	205	202	196	194	190	167	137
Debt Service-to-Revenue Ratio 2/								
Baseline	25	26	22	20	22	23	19	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	25	18	14	14	14	9	4
A2. Primary balance is unchanged from 2008	25	26	19	15	16	16	12	0
A3. Permanently lower GDP growth 1/	25	26	23	22	25	27	28	49
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	25	26	23	22	24	25	21	21
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	25	26	33	35	29	27	22	24
B3. Combination of B1-B2 using one half standard deviation shocks	25	26	26	25	25	25	20	21
B4. One-time 30 percent real depreciation in 2009	25	26	22	20	22	23	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2009	25	26	39	27	26	26	21	22

Sources: Sierra Leonean authorities; and IMF staff estimates and projections. Negative projected NPV values imply full repayment and net reserves accumulatior
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, 2008-2028 1/



Source: IMF staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Statement by the IMF Staff Representative
July 7, 2008

1. This statement reports on developments since the issuance of the staff report for the second review under the three-year arrangement under the PRGF. These developments do not alter the thrust of the staff appraisal.

2. Year-on-year headline inflation increased from 14.8 percent in March 2008 to 16.5 percent in May, following a marginal decline in April. The recent surge reflects an adjustment in domestic petroleum pump prices and continued higher import cost of food products. Underlying inflation (excluding food and energy) declined by 1.3 percentage points from its end-March level to 8.5 percent; thus the program inflation target for the year as a whole remains achievable.

3. The authorities indicate that the end-June 2008 structural performance criterion and structural benchmark have been met.

- The Monetary and Policy Committee held its first monthly meeting in June and minutes of the meeting were received by the staff within the required reporting deadline.

- The legislation for the introduction of the Goods and Services Tax has been adopted by the cabinet and submitted to parliament.

4. Other structural measures implemented by end-June include:

- Adoption by the cabinet of a decree that forbids ministries, departments, and agencies from issuing local purchase orders or committing any other spending outside the established commitment control system at the Accountant General's Department. A public notification informing vote controllers and domestic suppliers was issued to this effect.

- The National Anti-Corruption Strategy and Action Plan was approved by the cabinet and launched in early June.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/166
FOR IMMEDIATE RELEASE
July 7, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under PRGF Arrangement for Sierra Leone, Approves Extension of Arrangement and US$7.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the second review of Sierra Leone's performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The Executive Board also approved a one-year extension of the PRGF arrangement to 2010.The completion of this review allows for the disbursement of SDR 4.4 million (about US$7.2 million), which would bring total disbursements under the arrangement to SDR 13.5 million (about US$22.1 million).

The Executive Board also granted waivers for the non-observance of three quantitative performance criteria on the basis of corrective measures taken and the temporary nature of the deviations from the quantitative targets.

The PRGF arrangement for Sierra Leone was approved on May 10, 2006 in an amount equivalent to SDR 31.1 million (about US$50.9 million), to support the government's 2006–08 economic program. The extension of the program from three years to four years should provide sufficient time to achieve the program objectives (see Press Release No. 06/94).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"Economic growth in Sierra Leone remained robust in 2007 and early 2008, led by solid agriculture and mining production and buoyant activity in the construction and service sectors. Inflation, though rising, was relatively contained in the face of surging global food and energy prices. Performance under the PRGF-supported program was mixed in the second half of 2006 through much of 2007. Significant revenue shortfalls, exacerbated by delayed external budgetary assistance, had complicated budget execution. These developments contributed to a severe compression of priority spending and the accumulation of domestic arrears. The strong commitment of the authorities to address the sources of these setbacks and move forward with key structural reforms in the period ahead is welcome, and the recent improvement in program implementation is encouraging."

“The proposed fiscal stance for 2008 seeks to recapture the momentum lost in mobilizing domestic revenue, and strikes a good balance between expanding poverty-reducing and infrastructure spending and preventing the accumulation of public debt. The authorities are committed to staying the course, with wide-ranging measures to make the National Revenue Authority more efficient and broaden the tax base. Firm control over expenditure commitments by ministries, departments, and agencies will provide critical support to the objective of domestic arrears clearance while creating fiscal space to address essential social needs.”

“The Bank of Sierra Leone will focus on strengthening its management of liquidity and monitoring closely developments in the monetary aggregates, given the need to contain the second-round effects of rising import prices for food and fuel.”

“First steps have been taken to advance structural reforms, in particular in public financial management and the financial sector. The authorities will work to ensure transparency in all public procurement contracts, strengthen the Anti-Corrupion Commission, and improve the financial viability of public utilities in order to promote good governance, accountability, and sustained high growth,” Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

**Statement by Peter Gakunu, Executive Director
and Samuel Itam, Alternate Executive Director
for Sierra Leone
July 7, 2008**

INTRODUCTION

1. Broad-based economic growth averaged 7.5 percent annually during the last five years, and the medium-term prospects to maintain strong growth are good, despite the less favourable external environment. The authorities appreciate the constructive engagement and support of the Fund, the World Bank and the donor community, and thank staff for their forthright policy dialogue and advice. The support and dialogue have been indispensable to the authorities' efforts to raise and sustain growth and reduce poverty. Let me therefore state categorically that my authorities in Sierra Leone are committed to consolidate further the post conflict reconstruction, governance process and structural reforms.

2. Since the completion of the first review in December 2006, Sierra Leone has gone through a very successful, smooth and peaceful political transition that augurs well for the continuation of the consolidation of peace and democracy. However, during the transition period, delays in donor support, policy slippages and new capacity constraints slowed the pace of program implementation, including the preparation of the PRSP implementation report. Following the conclusion of the transition process, the authorities have reaffirmed their commitment to implementing the PRGF-supported economic program. To this end, most of the end-2007 performance criteria were met, but three quantitative performance criteria were not observed. In view of the strong and good economic performance and the continued commitment to reforms under the program, the authorities request Directors' support for the associated waivers and the completion of the second review under the PRGF arrangement, an extension of the PRGF arrangements for another year, and a rephasing of disbursement accordingly.

A. Economic developments and program performance

3. The recent robust economic performance has been broad-based, taking advantage of the sustained reconstruction effort. Real GDP growth is estimated at 6.8 percent in 2007, reflecting strong performance in the agriculture, mining, service and construction sectors. Prospects are for continued strong growth in 2008 as these sectors experience further expansions. Inflation, however, has edged up to the lower double digits largely because of the surge in food and fuel prices. The authorities recognize the enormous challenges especially with respect to social expenditures for poverty reduction and the implications of the protracted increases in the prices of oil and food. Nonetheless, they are of the view that the measures taken to ease food shortages, as well as sustained prudent fiscal and monetary policies, would ease inflationary pressures in the coming months. The nominal exchange rate of the leone against the US dollar has remained quite stable, with the NEER depreciating sufficiently to offset the rise in inflation, keeping the REER virtually stable. Foreign reserve accumulation has proceeded well, standing at US$ 208 million (4.5 months import cover) at end-2007.

4. Unexpected inflows with the establishment of two new foreign-owned banks and a significant rise in remittances were responsible for the overshot of the monetary targets at end-2007, with both reserve money and broad money growing faster than programmed. The Bank of Sierra Leone (BSL) has since strengthened the monetary policy framework. As a result, reserve money growth had decelerated to within the program target by March 2008. Likewise, net bank credit expansion to the government has been contained. However, credit expansion to the private sector has remained brisk, and the authorities are concerned about the rise in non-performing loans. In this regard, the recent recapitalisation of the BSL is expected to alleviate the constraints to its supervision function, particularly in enforcing the prudential norms and regulations.

5. The fiscal position improved slightly in 2007 but continued to be constrained by the shortfall in the mobilization of domestic revenue. The revenue shortfall was on account of the political uncertainty that gave rise to a “wait and see attitude” by businesses, and the erosion of corporate profits because of rising energy costs and disruptions in electricity supply. The revenue shortfall and the delays in the disbursement of external budget support led to the introduction of a cash-budget management system in mid- 2007 so as to preserve macroeconomic stability. Apart from domestic revenue and poverty related expenditure, the cash budget management system helped the authorities to meet all quantitative performance criteria (PCs) and indicative targets for June, September and December 2007. However, it reduced government expenditure, including in key areas for the poverty reduction strategy (PRS), even though actual spending for HIPC priorities relative to total expenditure rose appreciably. Consequently, the overall budget deficit and domestic borrowing were within the program targets.

6. Capacity constraints also caused delays in the implementation of several elements of the structural reform agenda in 2007. The adoption by the BSL of a comprehensive strategy for the financial sector reform, the reconciliation of the fiscal data with the monetary data for end-December 2007, and the modernization plan for the National Revenue Authority (NRA) were delayed but subsequently fully implemented as prior actions for the consideration of this review. Recapitalization of the BSL, establishing statistics units in key MDAs, strengthening of the Accountants General’s Office, and implementing the Anti-Corruption Strategy were also completed in the first quarter of 2008.

7. Despite capacity constraints, the authorities have made significant progress in implementing structural reforms in key areas. On the revenue front, the Cabinet approved a three year modernization plan for the NRA to improve field audits, enforce tax payment, collect tax arrears, and step up anti-smuggling activities. The immediate impact is that the revenue target for the first quarter of 2008 was exceeded by a significant margin. In addition, despite some last minute bargaining with Parliament, the 2008 Finance Bill has been enacted and the associated statutory instrument is to be approved by Parliament on a lapse-of-time basis on July 23, 2008. Regulations aimed at strengthening the fiduciary standards were adopted by Parliament in June 2007 and the Ministry of Finance has reviewed and approved the procurement plans with the view of further strengthening public financial management and accountability. In preparation for public service reform, the authorities have strengthened the Establishment Secretary’s Office (ESO) with additional senior staff and intend to convert

it into a Human Resources Management Office. On financial sector reforms, Cabinet has approved the Companies Act, the Securities Bill, the Collective Investment Scheme (CIS), and the Bankruptcy Bill. Cognizant of the need to improve the country's investment, two key legislations were adopted by Parliament in 2007: the General Law on Business Start-ups, and the Registration of Business Act. The authorities have also expanded the cadastral system for the administration of mineral licensing with the support of the World Bank.

B. Policies for 2008 and the medium term

8. The authorities remain committed to maintaining a stable macroeconomic environment, creating conditions for sustained broad-based economic growth, and advancing the structural reform agenda. Efforts to create employment opportunities through reforms to the business environment and significant public investment in infrastructure remain a priority. In this regard, the new three-year PRSP under preparation aims at consolidating the program policies and gains, enhancing the sectoral focus on infrastructure (roads and energy) and agriculture, and strengthening the environment for private sector development. Notwithstanding such strong performance, the authorities concur with staff assessment that the country faces a number of challenges going forward and the structural reform effort must be intensified.

Fiscal policy

9. The authorities are committed to pursuing a prudent fiscal policy in the medium term, aimed at limiting debt-creating domestic financing while providing fiscal space for increased investments in infrastructure. The main elements of the authorities' fiscal program include renewed efforts to enhance revenue collection, increase public investment in infrastructure, and continuing to reduce domestic arrears.

10. The authorities are confident that domestic revenue effort would improve, rising to 11.9 percent of GDP in 2008 and 13.4 percent of GDP in 2010. This is largely on account of broadening the tax base, improving tax and customs administration, strengthening fiscal controls, reducing discretionary tax and customs exemptions, and enforcing the tax code and the code of conduct for NRA staff. The authorities intend to stabilize current expenditure at about 15 percent of GDP, while increasing the poverty related expenditure from the 3 percent of GDP in 2007 to 6 percent by 2010. Expenditure would aim at improving access to basic social services, particularly in education and health, and public facilities like water, electricity and access roads in the rural areas.

11. The authorities have also made an unequivocal commitment to protect the budget from contingent liability that could arise from the power supply contract signed with an independent power producer (IPP), Income Electric Company Ltd. The High Powered Committee under the chairmanship of the Secretary to the President, including the governor of BSL and the Attorney-General, has successfully renegotiated the IPP contract. The new IPP contract shields the 2008 budget from the potential liabilities of the contract with the Income Electricity Company Ltd. Also, the renegotiated contract reduces the company's supply of electricity through the national grid from 25 to 10 megawatts, with the rest of the 15 megawatts to be supplied outside the grid by and at the sole responsibility of the Income

Electricity Company. In parallel, the authorities have submitted the Income Electricity Company Ltd. contract to the Anti-Corruption Commission to investigate possible breaches of the procurement rules. The authorities are also strengthening the capacity of the National Power Authority (NPA) to enable it to set tariffs in line with costs of power generation.

Monetary and exchange rate policies

12. The authorities consider the intermediate objective of targeting base money growth to contain inflation as an appropriate policy framework. The BSL will be strengthening its market-based instruments, including open market operations using treasury bills and bearer bonds and weekly foreign exchange auctions. In this regard, BSL will be recapitalized and provided with additional interest bearing securities. The authorities remain committed to a flexible exchange rate regime, with the official rate determined via weekly auctions to meet the reserve targets of the program.

Structural reform agenda

13. As indicated earlier, the authorities have made the structural reform agenda a key policy priority. It includes reforming the financial sector, further strengthening of the NRA, establishing financial viability of the power and water utilities, privatizing state owned enterprises, and promoting good governance. The authorities are particularly committed to deepen the medium-term expenditure framework process to ensure that budget activities are better aligned to the PRSP objectives. They also intend to accelerate and widen the use of the integrated financial management systems (IFMS) to strengthen expenditure commitments and controls. Reforming the public procurement systems will continue through strengthening the operational capacity of the National Public Procurement Agency (NPPA) and enhancing procurement transparency with quarterly procurement bulletins. In this regard, the authorities appreciate the support from the development partners and would like to stress that this support remains critical for the successful implementation of the reform agenda.

14. With the adoption of the comprehensive Financial Sector Strategy on June 2, 2008, the BSL intend to finalize an implementation plan with Fund–Bank support for the broader development of the financial sector by end-2008. The implementation plan will include the establishment of a Financial Intelligence Unit and community banks to broaden access to financial services in the rural areas.

15. Structural reforms in the power utility will entail ensuring financial viability through the strengthening of management, and a comprehensive electricity tariff policy that covers the generation, distribution and maintenance costs. The authorities envisage that such a policy, which would be formulated through close examination of the tariff and quarterly reports, will be adopted by end-December 2008. With respect to the water utility, the authorities are also committed to undertake a tariff review, improve billing and collection, as well as promulgate legislation that prevents unauthorized connections.

16. The National Commission on Privatization, with the support of UK-DfID, has made considerable progress in outlining a plan to divest state ownership in several state owned enterprises (SOEs). Among the first institutions earmarked for privatization are two state owned commercial banks, Rokel and Sierra Leone Commercial Bank.

17. As part of their commitment to promote good governance, the authorities have significantly strengthened the Anti-Corruption Commission by appointing a new Commissioner and amending the act to bring it in line with the UN and African Union conventions. The revised Act is currently awaiting Parliament's consideration. A new anti-corruption strategy and an action plan have been prepared and agreed on by Government, the Commission and civil society.

18. The government is currently reviewing the existing mining contracts and intends to revise the legal framework regulating the mining sector so as to increase transparency and accountability, as well as to make the sector internationally competitive. The government intends to establish a secretariat charged with the responsibility of implementing the Extractive Industries Transparency Initiative (EITI) in Sierra Leone.

CONCLUSION

19. Under challenging circumstances the authorities have shown their commitment to implement the policies under the program. They have implemented diligently the cash budget management system so as to maintain macroeconomic stability and contain inflation. Their commitment to the PRGF-supported program remained unwavering and all quantitative PC for end-June and end-December 2007 were met, except those related to domestic revenue and concomitantly their poverty related expenditure. The structural PCs and benchmarks missed for 2007 have now been successfully completed as prior actions to this review. Most importantly, the authorities have also met their 2008 first quarter target for domestic revenue.

20. In the near-term, the authorities are determined to ensure that the program focuses on sustaining macroeconomic stability, increasing domestic resource mobilization, promoting pro-poor growth, and increasing investment in infrastructure and key social services. To this end, they request the associated waivers and the completion of the second review under the PRGF arrangement, and the disbursement of the third instalment. In addition, the authorities request an extension of the PRGF arrangement for another year, with concomitant rephasing of disbursements, to give them sufficient time to complete the fifth and sixth reviews.

21. The authorities are confident that going forward, continued engagement with the Fund and the support of the development partners, both financial and policy advice, will enable them achieve their development goals and provide a sound basis for realizing the MDGs.