INTERNATIONAL MONETARY FUND

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SIERRA LEONE

July 2019

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURNACES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

In the context of the First Review Under the Extended Credit Facility Arrangement, Request for Waiver for Nonobservance of Performance Criterion, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 28, 2019, following discussions that ended on May 8, 2019, with the officials of Sierra Leone on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed June 14, 2019.
- A **Statement by the Executive Director** for Sierra Leone.

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

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

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 28, 2019

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IMF Executive Board Completes First Review Under the Extended Credit Facility and Approves US$21.62 Million Disbursement for Sierra Leone

- Completion of the first review enables the IMF to disburse US$21.62 million to Sierra Leone.
- The government's reform agenda will secure fiscal sustainability, create space for priority spending, and lay the foundation for inclusive growth and poverty reduction.
- Implementation of the program, supported by the IMF, has been satisfactory in the face of a challenging economic environment.

On June 28, 2019, the Executive Board of the International Monetary Fund (IMF) completed the first review of Sierra Leone's performance under the program supported by an Extended Credit Facility (ECF).

Completion of this review enables the immediate disbursement of SDR 15.555 million (about US$21.62 million), bringing total disbursements under the arrangement to SDR 31.11 million (about US$43.25 million). In completing the review, the Executive Board approved the authorities' request for a waiver of non-observance of a performance criterion.

Sierra Leone's 43-month ECF arrangement for SDR124.44 million (about US$172.1 million or 60 percent of the country's quota at the time of approval of the arrangement) was approved on November 30, 2018 (see Press Release No. 18/446). The government's reform agenda, supported by the ECF, aims to create fiscal space for priority spending by strengthening revenue mobilization, containing current spending and improving the efficiency of public investment.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"Performance under the ECF-supported program has been satisfactory in the face of a challenging economic environment. Although progress on structural measures has been slower than anticipated, the government remains firmly committed to their reform agenda.

"Securing fiscal sustainability and creating space for priority spending will be crucial for tackling Sierra Leone's development needs. The authorities have made commendable progress since the start of the program, both in mobilizing revenue and taking a cautious approach to expenditure. Going forward, durably higher revenue will be essential to boosting social spending and investing in infrastructure—key goals of the government's new National Development Plan.

"The authorities' more cautious medium-term fiscal approach is appropriate given fiscal risks. Managing fiscal risks expeditiously will provide more certainty about the space available for priority spending. In this regard, quick actions to complete the arrears stocktaking and the diagnostic of state-owned banks will be particularly important.

"Structural reforms are a central component of the authorities' fiscal strategy. Achieving the program's revenue mobilization goals will entail continued tax policy and administration reforms. Improving public financial management will help control expenditure and avoid the emergence of new arrears, while reorienting spending to priorities with clear economic or social returns. Efforts to develop a Medium-Term Debt Management Strategy will help to better manage fiscal risks.

"Monetary policy remains appropriately focused on reducing inflation to single digits over the medium-term. Progress toward developing indirect instruments will, over time, improve policy effectiveness. Enhancing exchange rate flexibility and reserve buffers will be vital to boost the economy's resilience to external shocks.

"Continued reforms to strengthen the Bank of Sierra Leone's governance will be critical for the institution's accountability and operational effectiveness. In this spirit, finalizing the new central bank law and the recently completed forensic audit were important milestones. Quickly acting on both will help advance the BSL's reform efforts."

INTERNATIONAL MONETARY FUND

SIERRA LEONE

June 14, 2019

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Actions by the new government since taking office in April 2018 helped to stabilize macroeconomic conditions, but the situation remains challenging. Overall growth remained subdued. While elevated, inflation is tracking down. Program performance is broadly on track, though progress on structural measures has been slower than anticipated. Healthy revenues and significant underspending resulted in a lower-than-programed fiscal deficit. All quantitative targets were met, except the end-December performance criterion on net domestic assets (NDA) of the central bank and the end-March indicative target on poverty-related spending.

Policy discussions focused on (i) managing fiscal risks expeditiously to provide more certainty about debt sustainability and the space for priority spending; and (ii) the appropriate phasing and support to keep structural reforms on track. More specifically:

- **Secure fiscal sustainability and create space for priority spending** by strengthening revenue mobilization and adopting a cautious approach to expenditure.
- **Control macro-fiscal risks** by moving quickly to finalize the strategy to clear arrears (complemented by a more strategic approach to debt management), and taking steps toward putting state-owned banks on firm commercial footing.
- **Safeguard the integrity and accountability of financial system** by enhancing the BSL's governance framework.
- **Anchor monetary policy in bringing inflation down** to single digits and building adequate foreign exchange reserve buffers over the program period.

Staff view. Staff supports the authorities' requests for completing the first review of the ECF-supported program and a waiver for the nonobservance of the performance criterion on NDA as corrective actions have been taken. Staff also supports the new QPCs for 2019 and five structural benchmarks for the second review.

Approved By
Dominique Desruelle and Kevin Fletcher

Discussions took place in Freetown (April 24-May 8). The staff team comprised Karen Ongley (head), Natalia Aivazova, Yibin Mu and Jiaxiong Yao (all AFR), Yiqun Wu (SPR), Eui Chang (FAD), and Iyabo Masha (Resident Representative). Kingsley Obiora and Willie Nakunyada (both OED) participated in the discussion. Staff met with Vice President Mohamed Jalloh, Minister of Finance Jacob J. Saffa, Governor of Bank of Sierra Leone Kelfala Kallon, Finance Secretary Sahr Jusu, Deputy Governor of the Bank of Sierra Leone Ibrahim Stevens, other senior officials; and development partners. Ornella Kaze and Edwin Lester Magno provided excellent research and administrative support in preparing the documents.

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CONTEXT

1. Sierra Leone's government demonstrated its reform credentials in the year since taking office. Quick implementation of outstanding revenue, expenditure, and debt management reforms from the previous Fund-supported program helped to shore up public finances and stabilize the economy. The authorities capitalized on this progress, securing the new ECF-supported program and engaging other development partners to support wide-ranging economic and social reforms.

2. While the authorities remain enthusiastic about, and committed to, their reform agenda, underlying fragilities and capacity constraints may slow progress. The ECF-supported program is broadly on track. The program goals are aligned with the authorities' recently-launched National Development Plan (NDP) for 2019–23, which focuses on strengthening governance and accountability to reduce vulnerabilities to corruption, building resilience, and investing in people and infrastructure (Box 1). However, with activities on multiple fronts, capacity constraints will be a watch point. How best to support the authorities to sustain reforms will be a priority for Fund engagement, including by continuing to provide well-focused and timely capacity development (Annex 1).

RECENT ECONOMIC DEVELOPMENTS

3. Subdued overall growth reflected constraints in both the mining and non-mining sectors. Preliminary estimates indicate that real GDP growth slowed[1] to 3.5 percent in 2018 from 3.8 percent in 2017, reflecting less-than-full implementation of the budget and the continued shutdown of iron-ore mines. Rutile production was less-than-expected mainly because of strikes. Agricultural output fell short of expectations partly due to disruptions to collecting, and subsequently redistributing, seeds for farmers following the election.

4. While elevated, inflation is tracking down. After peaking at 19.3 percent in September 2018, consumer prices moderated to 17.5 percent in March 2019, as the impact of fuel price liberalization waned, tighter monetary policy began to kick in, and food inflation decelerated.

5. Healthy revenues and significant underspending resulted in a lower-than-programmed fiscal deficit. Strong commitment and revenue-mobilizing reforms, including implementing the treasury single account (TSA), saw domestic revenue slightly exceed the 2018 nominal target. At 13.7 percent of GDP, this outturn represents a robust improvement over 2017. Expenditure was more than 2 percent less than programmed. In addition to some post-election administrative delays, the authorities made a conscious effort to restrain spending in the face of procedural delays in disbursing budget support. While this affected most current expenditures, the authorities also paused implementation of most domestically-financed capital projects in 2018H2,

[1]Despite somewhat slower in real GDP growth, nominal GDP is slightly higher from 2018 onwards due to a higher GDP deflator.

only allowing several flagship projects to resume operation late in the year. The domestic primary deficit narrowed sharply to 0.5 percent of GDP. This pattern continued in 2019Q1, particularly with below-budget domestic capital spending and revenue exceeding the quarterly target, owing partially to one-offs (such as telecom and other license fees).

Box 1. Medium-Term National Development Plan—Education for All

Sierra Leone's new National Development Plan (NDP), *Education for Development*, lays out the authorities' strategy for accelerating growth and reducing poverty. It covers the first five years (2019-23) of a 20-year long-term national vision of achieving middle-income status by 2039. The overriding aspiration is to build a competitive, diversified, and resilient economy, with well-developed infrastructure and well-educated citizens. The plan reflects extensive public consultation, where an estimated two million people contributed to the priority setting and validation processes

The NDP's key socio-economic goals are supported by comprehensive programs supporting human capital development, infrastructure and competitiveness, governance and accountability, and economic diversification and resilience. The human capital development centers on the Government's flagship program—the Free Quality School Education Program.

The economic policy agenda is well aligned with the ECF-supported program. It focuses on addressing the prevailing challenges, including high poverty rates, rapidly growing population, lack of diversification, vulnerability to external shocks, reliance on agriculture and mining, and high public debt. The NDP sets out an ambitious macro-fiscal framework that is broadly in line with the ECF (Table). The main difference is the NDP's more ambitious revenue mobilization target, while the ECF takes a more cautious approach.

Macro Framework in NDP and ECF
(Percent of non-iron ore GDP, unless otherwise indicated)

	NDP	ECF
	2023	2022
Inflation (annual percent change)	<10	<10
Budget deficit (including grants)	<3	3.2
Revenue	>20	16.4
Expenditure	<24	21.6
Wage bill	<6	6.0
Total public debt (in present value terms)	55	56.6

The World Bank's assessment emphasizes that the NDP is a comprehensive development plan that is candid about the challenges facing Sierra Leone. It provides an operational framework, with a strong focus on implementation and clear links with the *Sustainable Development Goals*. The Bank's assessment cautions that the financing of the agenda and implementation capacity are the key risks. Staff agrees with the Bank's assessment and the importance of financing the NDP on a sustainable basis.

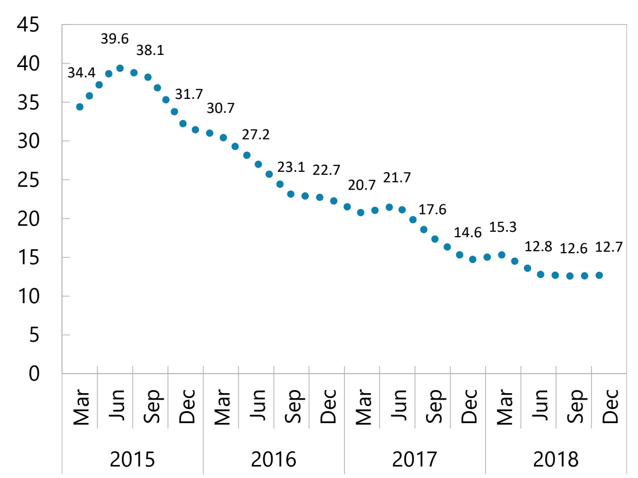
6. **Broad money growth was below program despite the Bank of Sierra Leone (BSL) accommodating the Government's end-year financing needs**. In line with inflation developments, broad money growth was 2.2 percentage points less-than-programmed over 2018 driven largely by substantially lower overall credit to the government. However, the government borrowed a larger amount from the BSL to bridge for delayed World Bank budget support, resulting in a higher-than-programed increase in the BSL's net domestic assets (NDA) and reserve money (Box 2). Banks' declining appetite for T-bills saw a corresponding pick-up in credit to the

private sector as several flagship infrastructure projects resumed and liquidity pressures eased toward the end of 2018. The tight monetary stance in 2019Q1 reflected repayment of the bridge loan and limited borrowing by the government. Another BSL bridge loan in late April was repaid in May, following the delayed disbursement of African Development Bank budget support.

7. Preliminary data suggest the current account deficit narrowed to 13¾ percent of GDP in 2018 from 14½ percent of GDP in 2017. Weaker-than-projected imports, on the back of tighter-than-programmed fiscal policy, and higher private current transfers in 2018 largely compensated for the decline in exports from the shutdown of iron ore mines. Lower-than-expected export receipts and delayed donor inflows led to substantial foreign exchange (FX) market pressures. The Leone depreciated by about 12 percent against the U.S. dollar during 2018, despite intervention by the BSL. This saw gross international reserves (excluding swaps) decline to US$483 million at end-2018 (about 3.6 months of imports) from US$501 million at end-2017.

8. Generally sound financial sector indicators mask wide variation among banks. On average, the banking sector is well capitalized, liquid, and profitable. While average non-performing loans (NPLs) continued a downward trend, there are wide differences in recorded NPLs, ranging from 0 to 30 percent. Thanks to enhanced BSL supervision, the two state-owned banks are recovering. Both have capital adequacy ratios above 30 percent and their NPLs are declining. The BSL's recent supervisory efforts helped to stabilize FiBank, after a period of instability in early 2019 when the BSL intervened in FiBank's ownership dispute.

Sierra Leone: Non-performing Loans to Gross Loans, 2015–18
(Percent)



Box 2. Dynamics Between Fiscal Financing Needs and Available Financing Over 2018H2

Higher-than-programed NDA reflected competing pressures in the banking system, despite the lower fiscal financing need. Significant under-spending reduced the budgetary financing need, despite a new accumulation of arrears and lower-than-programmed grants. The banking system as a whole was, therefore, able to meet this financing need, reflecting lower-than-programed broad money.

The BSL's bridge loan contributed to higher-than-programed NDA. This limited the BSL's ability to provide additional liquidity to commercial banks when the banks already had a limited appetite to rollover T-bills (at the shorter end). The redemption of T-bills allowed the banks to extend higher-than-programed credit to the private sector.

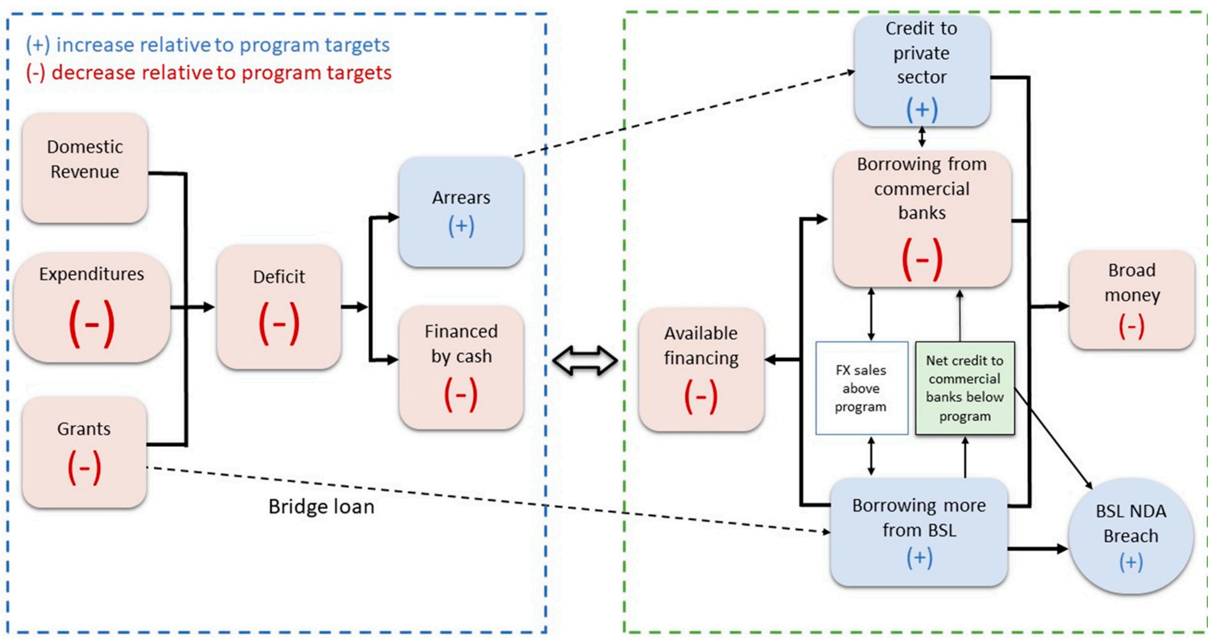
Monetary Developments, 2018 H2
(Billions of Leone)

	Program	Actual
M3 (end-2018 stock)	7611	7465
Credit to private sector	130	286
Net credit to the government	823	527
Commercial banks	345	-104
BSL	478	632
NDA of BSL	404	674
Adj. NDA of BSL	617	…

Note. All numbers are flows between end-June 2018 and end-2018 unless specified.

More timely remedial actions could have avoided the NDA breach. The BSL's FX sales reduced reserve money but had no impact on NDA. However, partial repayment of the bridge loan would have allowed the BSL to observe the NDA target, while only necessitating that the government borrow a relatively small amount from banks at the market rate.

Dynamics Between Fiscal Financing Needs and Available Financing Over 2018H2



OUTLOOK AND RISKS

9. While the economic outlook is cautiously promising, it remains prone to entrenched fragilities and risks.

- Real GDP growth is projected to rebound to 5.1 percent in 2019 and then gravitate toward 4¾ percent over the medium term, driven by increased agriculture and services, electricity supply, and construction, as well as a modest resumption of higher-grade iron-ore mining. Ongoing policy reforms will also be conducive to stabilizing macroeconomic conditions and improving the business environment. Plans to reprioritize spending should boost productivity without adding fiscal burden.

- Lack of economic and policy buffers leave Sierra Leone vulnerable to changes in external conditions. Mining production and exports are susceptible to weaknesses in global prices, with negative consequences for growth, revenues, and FX earnings, particularly while mining is skewed toward lower grade iron ore. Less-than-expected donor financing may complicate fiscal management and limit the ability to reorient spending toward social priorities and infrastructure.

- Difficulty in maintaining domestic reform momentum—due to technical or absorptive capacity constraints, or political resistance—could jeopardize economic performance and program goals if revenue mobilization and expenditure prioritization prove more challenging. Inability to clear and prevent new arrears poses a sizeable risk to securing debt sustainability. If reform momentum or enhanced BSL supervision falters, the reoccurrence of loss-making lending practices in the two state-owned banks poses another fiscal risk.

Sierra Leone: Medium-term Macroeconomic Framework, 2017-23

	2017	2018		2019	2020	2021	2022	2023
		CR No. 18/371	Pre./Est.					
(In percent of non-iron ore GDP unless otherwise indicated)								
GDP at constant prices (percent change)	3.8	3.7	3.5	5.1	4.7	4.8	4.7	4.7
Excluding iron ore	3.6	5.7	5.4	4.5	4.4	4.6	4.5	4.5
Consumer prices (end-of-period)	15.3	18.0	17.5	14.0	12.0	10.2	9.0	8.5
Gross international reserves in months of imports	3.7	3.3	3.6	3.4	3.5	3.5	3.5	3.4
Current account balance (incl. grants)	-14.5	-14.0	-13.8	-11.7	-10.2	-9.3	-8.9	-8.3
Excl. grants	-21.5	-17.6	-20.1	-15.2	-12.9	-11.7	-11.5	-10.6
External public debt	40.8	43.0	38.6	39.3	39.6	39.9	39.2	37.9
Revenue	12.3	13.8	13.7	14.1	14.8	15.6	16.4	16.7
Domestic primary balance	-4.5	-2.4	-0.5	-0.7	-0.3	0.3	0.9	1.3
Overall Balance	-8.8	-6.8	-5.8	-3.6	-4.2	-3.9	-3.2	-2.8

Sierra Leone: Risk Assessment Matrix[1]

	Sources of Risk	Relative Likelihood	Transmission channels	Potential impact	Policies to Mitigate Risks
Global	Sharp tightening of global financial conditions causes higher debt service. The tightening could be a result of market expectation of tighter U.S. monetary policy or a sustained rise in risk premium.	***Low/ Medium***	• U.S. monetary tightening would add to pressures on the Leone exchange rate and inflation. Higher interest rates would exacerbate fiscal costs and worsen debt dynamics. Lower external financing would erode reserve buffers.	***High***	• Sustain credible reforms to improve the business environment and bolster investor confidence. • Allow exchange rate flexibility to absorb external shocks and build adequate FX reserve coverage.
	Large swings in energy prices. Risks to prices are broadly balanced, with offsetting—but large and uncertain—supply and demand shocks.	***Medium***	• Higher-than-expected oil prices would increase the import bill. It would also put pressures on inflation, exchange rate, and FX reserves	***Medium***	• Allow exchange rate flexibility to absorb external shocks and build adequate FX reserve coverage. • Continue allowing the automatic pricing mechanism to work.
Country-specific	Difficulty in maintaining reform momentum due to political resistance or greater than expected absorptive or other capacity constraints.	***Medium/ High***	• Inability to push through reforms would slow efforts to mobilize revenue or effectively prioritize spending, undermining efforts to restore sustainability and reduce inflation, and preserve financial stability. • Loss of policy credibility would impede efforts to improve the business climate.	***High***	• Strengthen communication and consultation to promote broad buy-in for reforms. • Strengthen revenue mobilization and budget execution; seek supporting TA. • Limit discretionary expenditures. • Proportionally reduce expenditure if revenue underperforms.
	Less than expected donor financing.	***Medium***	• Lower donor financing may constrain government spending, compromising the ability to reorient toward priority infrastructure and social spending. • It could also put pressure on exchange rate.	***Medium/ High***	• Continue to implement revenue mobilizing reforms. • Limit discretionary expenditures while protecting priority spending. Consider contingency plans. • Allow exchange rate flexibility.
	Reoccurrence of politically-related, loss-making lending practices in the two state-owned banks (SOBs).	***Medium***	• Slow progress in resolving the issues of the SOBs could lead to fiscal contingent liabilities materializing, worsening the risk of debt distress. It could also spill over to other financial institutions.	***Medium***	• Develop and implement a strategy to put SOBs on a commercial footing and minimize undue influence by the government in bank operations. • Maintain enhanced bank supervision, via regular on-site inspections and stress testing.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

POLICY DISCUSSIONS

Investing in Sierra Leone's future, while securing sustainability is critical. Yet, this will not be easy. The authorities face longstanding fragilities and competing policy pressures. This leaves a narrow range in which to effectively operate policies and balance short- and long-term goals. In this context, discussions focused on: (i) creating fiscal space for priority spending while ensuring sufficient flexibility to respond to fiscal risks; (ii) ongoing efforts to enhance governance and accountability; and (iii) the appropriate phasing and support needed to keep structural reforms on track.

A. Managing Fiscal Risks

10. The authorities remain strongly committed to achieving fiscal and debt sustainability. The adjustment path remains anchored in gradually reducing domestic bank borrowing to around 2 percent of GDP over the program period to help alleviate pressure on both inflation and the interest bill. The authorities are cognizant of other vulnerabilities, including rising foreign-currency debt service towards the end of the program (and associated exchange rate risk) and the potential impact of arrears clearance on debt sustainability. These principles guide a steady and significant deficit reduction over the program (MEFP ¶15), achieving a domestic primary surplus by 2021.

11. The 2019 budget remains consistent with the program, despite structural factors increasing spending. The authorities have continued to expand the TSA in 2019, including five additional Ministries, Departments and Agencies (MDAs) (of which only 2 are revenue-generating) (MEFP ¶23). While this improves the coverage of the budgetary process, it also raises recorded expenditure. This, together with higher-than-anticipated interest spending, will likely raise nominal expenditures in 2019. However, the outlook for domestic revenue remains as programmed. The overall deficit for 2019 at 3.6 percent of GDP should nevertheless be less than at the time of the program request (4.3 percent of GDP), thanks to higher budget support.

12. Over the medium term, revenue mobilization remains crucial to sustainably boosting social and infrastructure spending. The Government has set out an ambitious target of raising domestic revenue to 20 percent of GDP by 2023 (MEFP ¶17). Yet, they also agreed that, given the still substantial fiscal risks and to avoid committing to an overly-ambitious spending envelope, a more measured revenue assumption remains appropriate for the program. Given the on-target performance thus far and envisioned structural reforms, the domestic revenue path nearing 16½ percent of GDP by the end of the program remains broadly unchanged.

13. In this context, the authorities felt it necessary to adopt a more conservative medium-term expenditure path (more than 1 percentage point below the program by 2022). They recommitted to their goal of reducing the wage bill to 6 percent of GDP by the end of the program (MEFP ¶19)[2] and will continue to exercise restraint on goods and services expenditure (MEFP ¶21). The authorities now envisage a more gradual increase in domestic capital spending compared to the approved program. Foreign-financed capital expenditure will be key to maintaining the overall capital expenditure envelope. Any windfall from revenue mobilization efforts or seeking additional grants could support higher spending on development priorities.

B. Reforms to Promote More Effective Fiscal Policy

14. The authorities are advancing a range of fiscal structural reforms.

- *A range of tax policy and administration reforms underpin the program's ambitious revenue mobilization goals* (MEFP ¶17). The authorities will continue implementing the liberalized fuel price mechanism (continuous structural benchmark) and are reviewing the policy on tax exemptions and waivers. The National Revenue Authority's (NRA) ongoing data matching exercise with other government agencies could yield near-term benefits. Two reforms planned for the second half of 2019 will form the backbone of longer-term efforts to enhance administration. First, a new NRA law will enhance the agency's governance and accountability, and strengthen enforcement of revenue laws. The authorities are preparing an amended NRA Act, which they plan to share with the Fund for review by end-September 2019 (structural benchmark). Second, automating tax processes through implementing the Integrated Tax Administration System (ITAS), supported by the World Bank, will enhance compliance. In the interim, the NRA will continue to roll-out the banking module to banks. Securing the longer-term GST benefits from the planned upgrade to Electronic Cash Registers will depend on integrating the information in ITAS.

- *Ongoing public financial management (PFM) reforms will help support good governance, improve expenditure control, reorient spending toward NDP priorities, and avoid the emergence of new arrears* (MEFP ¶¶18–21, ¶¶23–24). To support the goal of containing the wage bill, the authorities are conducting a public sector payroll verification exercise. More broadly, they are improving IT systems to facilitate strict adherence to the PFM law. They recently expanded coverage of the Integrated Financial Management System (IFMIS) to the remaining 30 MDAs, bringing the total coverage to 56. The additional MDAs incorporated into TSA this year followed the inclusion of six agencies last year. To better control risks from quasi-government agencies, the authorities are undertaking a reconciliation of inter-agency arrears and aim to foster transparency by publishing a quarterly report on arrears at MDAs and state-owned enterprises (SOEs).

15. Stronger public investment management would help the authorities implement more effectively their ambitious infrastructure plans. The government has requested a Public

[2]From 2019, tertiary education wages will be reclassified and correctly recorded in the wage bill rather than under subsidies and transfers, representing a structural break in the wage bill series but not an increase in overall spending.

Investment Management Assessment (PIMA) by the IMF to identify strengths and weaknesses in their public investment framework. Drawing on the PIMA findings, they plan to adopt a National Public Investment Policy to better align investments with the NDP and ensure that scarce public resources are spent well (MEFP ¶22). With pressure to address the large infrastructure deficit, it will be important to contain contingent fiscal risks. Furthermore, ensuring a coordinated process across the Ministry of Planning and Economic Development (public investment unit), the Vice President's Office (Public-Private Partnership (PPP) unit) and the Presidential infrastructure initiative will be crucial for the government's ability to effectively review, select and prioritize projects.

C. Improving Debt Management

16. Steps toward more effective debt management practices will complement efforts to secure debt sustainability. Domestic debt has almost doubled in recent years, with increasing cost and a term profile susceptible to rollover risks. The potential high level of implicit domestic debt (arrears to suppliers) poses a further challenge in reducing the "high" risk of debt distress (per the 2018 DSA). In this context, the US$100 million ceiling on new concessional public external debt for 2019, along with the zero limit for non-concessional public external debt, remain appropriate. The authorities are firmly committed to reducing and better managing debt, and are preparing a Medium-Term Debt Management Strategy that draws on recent IMF TA (MEFP ¶25) that focuses on reducing roll-over risk and borrowing costs.

17. In this context, the authorities favor a cautious approach to foreign borrowing. Their budget financing strategy prioritizes highly concessional loans and more reliance on grants, where possible based on consultations with donors. The authorities are exploring the scope for non-debt creating financing (such as PPPs) for potential large infrastructure projects. Given the need to avoid contingent fiscal risks that can be associated with PPPs, staff welcomes the authorities' commitment to consult staff before deciding on any large infrastructure financing package (MEFP ¶22).

18. The authorities are redoubling their efforts to clear domestic payment arrears (MEFP ¶¶26–29). They are mindful that persistent arrears undermine public sector credibility and service delivery, put pressure on the banking system, and create uncertainties about delivering on the NDP's policy goals. Following an initial arrears verification exercise, the total stock of arrears is expected to exceed the 4 percent of GDP estimated in the program request. However, further work is needed to complete the arrears stocktaking and obtain a final arrears figure (Box 3). The authorities intend to do this by end-August (structural benchmark) to provide a sound basis on which to finalize their arrears clearance strategy. The authorities are seeking additional resources from the World Bank and others to support this objective and have received IMF TA related to the scope for securitization. This would provide the basis for prioritizing arrears, and specifying mechanisms for repaying and/or rescheduling those arrears ahead of finalizing the 2020 budget.

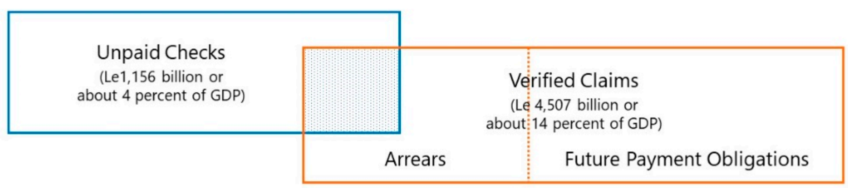
Box 3. Progress Towards Domestic Arrears Clearance

The authorities' efforts to clarify the magnitude of domestic payment arrears reveal a more complex situation that will take time to resolve. At the time the program was approved, the stock of arrears was estimated at about 4 percent of GDP, reflecting the stock of unpaid checks. However, the government published several audits in early 2019, including an arrears audit by Audit Service Sierra Leone (ASSL), to identify and manage fiscal risks inherited from the previous government.[1] The ASSL audit suggests that the stock of arrears could be significantly larger than estimated in the program request.

Further work is needed to determine a final arrears figure. ASSL examined claims totaling Le 11.6 trillion covering 2010–18, of which the audit verified Le 4.5 trillion (or nearly 14 percent of GDP). However, this figure is likely an overstatement, pending the following adjustments:

- First, the claims verified in ASSL's report include future payment obligations, which should not be included as arrears.
- Second, the portion of ASSL's verified claims determined to be arrears should be combined with unpaid checks recorded by MoF (Le 1,156 billion as of December 2018), and any double counting eliminated.

Relationship Between Unpaid Checks and Verified Claims



NB: The distribution between arrears and future payment obligations, or the extent of overlap between unpaid checks and verified claims, are not yet known.

- Third, any payments made to contractors during (or after) the verification exercise should be excluded from the arrears figure.

The authorities intend to move quickly to formulate an action plan for arrears clearance plan given the potential magnitude of the fiscal burden and associated risks. Critical steps include:

- Form a working group that includes staff from MoF, ASSL, and relevant MDAs to transparently review individual claims (initiated) and determine a comprehensive arrears figure, drawing on IMF TA recommendations (end-August).
- Outline details of the medium-term framework with a clear resource envelope, and specify the prioritization of, and mechanisms for repaying or rescheduling, those arrears (end-September).
  - Discuss available funding with development partners.[2]
  - Identify other financing options, drawing on IMF TA and considering the steps needed to address non-marketable securities on the BSL's balance sheet.
  - Assess the impact on debt sustainability.
- Finalize the arrears clearance strategy, with a medium-term resource allocation plan (end-October).
- Submit the 2020 budget to Parliament, consistent with the strategy (end-November).
- Put in place a real-time monitoring system to keep the database up-to-date and continue to strengthen PFM controls to prevent reemergence of arrears (MEFP ¶¶18–23).

[1]ASSL's arrears audit is distinct from the Auditor-General's *Technical Audit*, which is a 'value for money' exercise in the social security, telecommunications, civil works, and energy sectors. It identified broad PFM weaknesses resulting in government funds that were either spent unnecessarily or not collected.

[2]The Government is discussing with the World Bank the possibility of scaling up budget support for FY19/20 to USD 100 million, of which they intend to use around USD 60 million for clearing arrears.

D. Achieving Monetary and Price Stability

20. The BSL aims to bring inflation down to 14 percent by end-2019 (MEFP ¶32). The conduct of monetary policy will be challenging given the still large budgetary financing needs and the need to build international reserve buffers. Should inflationary pressures be more persistent than expected, staff would support the BSL adopting a tighter monetary stance in the interests of reducing inflation for the benefit of all Sierra Leoneans. Money aggregates should continue to act as the operating target, as the authorities' efforts to strengthen the role of indirect instruments (supported by IMF TA) will take time. In this context, it would be helpful for the BSL to shift from providing liquidity support to banks on an ad hoc basis to a transparent, forward-looking approach. Deepening the market with domestic debt instruments of different maturities will help establish a yield curve, develop the monetary transmission mechanism and, with time, improve the traction of the BSL's policy rate.

21. External vulnerabilities underscore the importance of building adequate reserve buffers and allowing exchange rate flexibility. The BSL faces challenges in managing competing external pressures. They acknowledge that a key program objective is to build and maintain an adequate reserve coverage (around 3½ months of imports). Achieving this goal will be particularly important to avoid a decline in reserve coverage with the projected increase in external debt service over the medium term. This requires the BSL to proactively accumulate reserve buffers, and staff encouraged the authorities to start FX purchase auctions as soon as possible. However, concerns about the pace of depreciation and potential inflation pass-through have seen the authorities draw on the BSL's limited reserves to stem depreciation pressures. Resisting exchange rate flexibility will delay economic adjustment and reform, harming the economy's competitiveness and prospects for diversification. A clearer policy stance to allow flexibility, limiting FX sales to smoothing excessive volatility, alongside reforms to deepen the FX market will improve the BSL's ability to meet its reserve targets. The BSL is developing new FX guidelines for exporters and non-governmental organizations. While this could help deepen the market, it will be important to avoid measures that give rise to restrictions on current international transactions or multiple currency practices.

E. Safeguarding Financial System Soundness

22. The authorities are moving on several fronts to strengthen BSL and broader banking sector governance. In addition to reflecting their broader focus on governance and accountability, these actions will bolster efforts to enhance the regulatory and supervisory framework (particularly as banks increasingly shift away from T-bills toward private sector lending).

- The new BSL and Banking Bills were passed by Parliament in late May (MEFP ¶38) and should soon receive Presidential assent. The new BSL law will bolster the institution's independence and accountability, and its ability to deliver on its core mandates of monetary and financial stability. After its initial submission to Parliament last year, the new BSL law was amended to also give the BSL oversight of Islamic banking activities.

- The forensic audit will also be instrumental in strengthening BSL governance and thus help to reduce vulnerability to corruption, safeguard the use of Fund resources, and improve the BSL's FX procedures. The audit firm presented the final forensic audit report to the authorities in mid-June, somewhat later than anticipated. The authorities intend to publish the report by late July, after tabling it in Parliament. They intend to develop a comprehensive remedial action plan by end-August 2019 to address the forensic audit findings (structural benchmark) (MEFP ¶34). Moreover, the authorities have already identified some areas where action could begin immediately to strengthen the BSL's internal controls and ensure MDAs deposit FX into the BSL rather than commercial banks.

- Progress in implementing safeguards recommendations has been slow. Key outstanding recommendations include engaging a consultant to review accounting controls, an external quality assessment of the internal audit function, and addressing control deficiencies at the BSL. However, there has been progress in two important areas. An international audit firm was appointed to audit the FY2017 financial statements, in conjunction with a local audit firm, and the authorities have committed to maintain this arrangement for the 2018 audit in order to strengthen the external audit mechanism (MEFP ¶11).

23. Developing a strategic plan for the two state-owned banks has proved more complex than expected. Although the immediate fiscal risks have eased, putting the two banks on a firmer commercial footing remains a priority. This would help minimize the risk of undue influence by the government and prevent a reoccurrence of politically-motivated, loss-making lending practices. However, the situation warrants expert advice to assess progress since the 2016 E&Y diagnostic study and the authorities have engaged the World Bank to conduct a targeted diagnostic of the banks by end-September 2019 (structural benchmark) (MEFP ¶41). The results will provide a better basis for strategic decisions on the intended function, business model, and governance framework of the two banks. While the authorities hope to complete this step by March/April 2020, this will require securing additional technical support. In the interim, staff supports the BSL's intention to maintain enhanced supervision of the two banks.

PROGRAM MODALITIES AND FINANCING ASSURANCES

24. Program performance is broadly on track, though structural progress has been slower than anticipated. All quantitative targets were met, except the end-December performance criterion on NDA of the BSL and the end-March indicative target on poverty-related spending. The latter reflected the late 2018 surge in some flagship poverty-related spending and the subsequent cautious execution in 2019Q1, mindful of absorption capacity. This is likely to normalize over the remainder of 2019. Three structural benchmarks—the forensic audit of the BSL, developing a strategic plan for the two state-owned banks, and a strategy for clearing domestic arrears—were missed as they have proved to be more complex and dependent on expert advice than anticipated.

There was no new accumulation of non-concessional external public debt and no public sector arrears to sovereigns or to external private creditors.

25. Borrowing from the BSL in late 2018 to bridge for delayed donor budget support contributed to higher-than-programed end-December NDA. This loan was repaid in 2019Q1. While the BSL extended another bridge loan in late April to cover a delayed AfDB disbursement, the authorities were mindful of the potential impact on NDA and repaid this loan in late May. Given that the authorities repaid these loans and, importantly, committed to enhancing program monitoring to avoid a recurrence (MEFP ¶10), staff supports the authorities' request for a waiver on the basis of these corrective actions.

26. Five new SBs will be assessed during the next program review (Table 10). One is a carry-over of the continuous SB on the fuel price mechanism. Three correspond to those missed in this review and have been reformulated to focus on measured, incremental steps of larger reform efforts. One new SB, on the NRA Act amendment, supports the program's revenue mobilization goals. The review also sets indicative targets for March 2020.

27. Program implementation risks are significant but manageable. If capacity constrains progress on reforms, this could endanger the program's goals, particularly if revenue mobilization and tackling fiscal risks prove more challenging, or if exchange rate pressures motivate FX sales. However, the authorities remain firmly committed to advancing reforms under the program.

28. Capacity to repay the Fund remains adequate (Table 6). Sierra Leone has a good track record of meeting its external obligations, including to the Fund. Total outstanding debt to the Fund is projected to peak in 2020–21 at SDR 290.6 million (140.1 percent of quota). Debt service payments to the Fund remain manageable, despite exceeding 1 percent of GDP and 9 percent of gross reserves by the end of the program.

29. Financing assurances are adequate. The program is fully financed for the next twelve months, with good prospects to cover financing needs for the remainder of the ECF arrangement. The procedural delays to donor financing from 2018 should not have ongoing implications for the program, particularly as the program is based on a conservative timeline for future budget support. The authorities continue to make good faith efforts to reach a collaborative agreement regarding Sierra Leone's long-standing arrears to external commercial creditors.

30. Data provision is adequate for program monitoring. However, continuing to strengthen data quality would better support economic policymaking and program monitoring.

STAFF APPRAISAL

31. While the program is broadly on track, 2019 will be a key test to consolidate reforms and entrench hard-won macroeconomic gains. Since coming to office last April, the Government embarked on a wide-ranging reform agenda to strengthen governance and provide a stronger foundation for macroeconomic and social development. Continued reform, and mitigating risks to these efforts will require strong policy leadership and stamina, along with capacity building and financial support from development partners.

32. Staff welcomes the authorities' commitment to securing fiscal sustainability. The goal of reducing domestic bank borrowing to around 2 percent of GDP remains appropriate, including to complement efforts to reduce inflation. Moreover, the cautious approach to foreign borrowing, at this juncture, strikes a reasonable balance between creating the space to manage lingering fiscal risks and preserving the ability to invest in priority areas.

33. In this regard, revenue mobilization remains a critical pillar of the program. While staff supports the authorities' ambitious goal for raising domestic revenue, the more cautious revenue path in the program provides a prudent anchor for medium-term fiscal planning. Successfully meeting the program's revenue targets through 2019Q1 demonstrates the government's strong commitment. Continued success in the coming years depends on sustained reforms, including upgrading to the new tax system (ITAS) and enhancing the NRA's governance and operations.

34. Staff agrees that, for now, a conservative approach to expenditure is appropriate. Given macro-fiscal risks and rising debt service pressures over the medium term, the authorities propose a flatter medium-term expenditure path, underpinned by restraint on current expenditures and a more gradual acceleration in domestic capital expenditure. However, stronger-than-expected revenue performance or grants could be used to support additional priority spending and/or reduce arrears. In this regard, staff strongly supports the government's request for an IMF-led PIMA to identify strengths and weaknesses in public investment, and promote the more effective use of scarce public resources.

35. Quick action to finalize an arrears clearance strategy and ensure the viability of the two state-owned banks will be vital to controlling macro-fiscal risks. Domestic payment arrears are the most pressing risk, which the authorities are keen to address. In this spirit, they should move quickly to finalize the stock of arrears and the associated clearance strategy, cognizant of the risks to debt sustainability. This will also provide more certainty on the scope for boosting critical social and infrastructure spending. Staff also welcome the authorities partnering with the World Bank on an updated diagnostic study of the two state-owned banks to better inform decisions on how to put the banks on a firmer commercial footing.

36. Staff welcomes the steps the authorities are taking toward more strategic debt management. The development of a new Medium-Term Debt Management Strategy, and intention to prioritize grants and highly concessional loans, will be instrumental in achieving their goal of limiting the risk of debt distress.

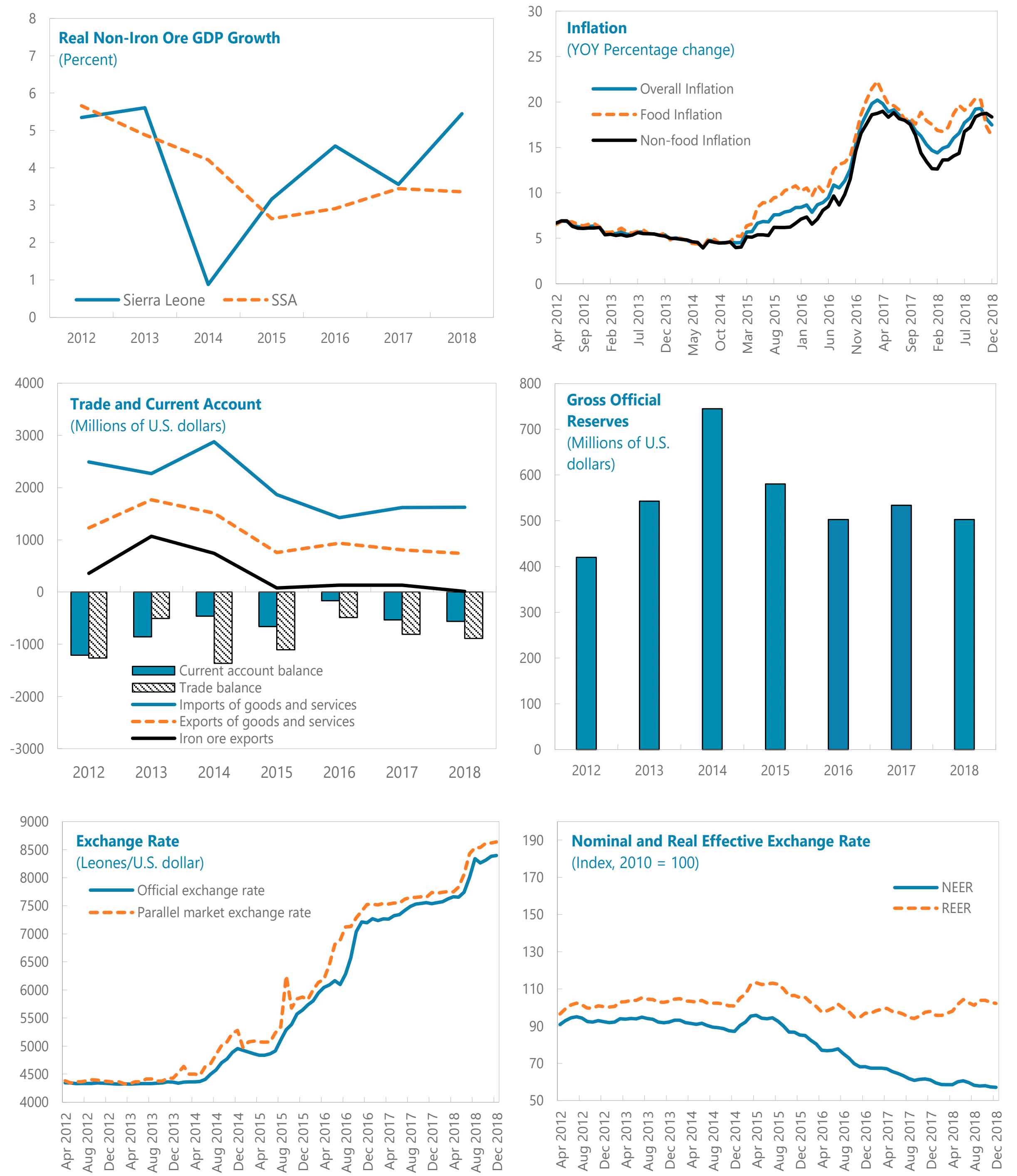
37. Staff strongly supports the goal of lowering inflation to single digits over the program period. Given current inflationary pressures, a tight monetary policy stance remains appropriate. While the BSL should continue to use monetary aggregates as the operating target, the authorities' efforts to strengthen the role of indirect instruments will, over time, promote more effective price-based monetary policy. Staff remains committed to providing technical support in this endeavor.

38. The volatile external environment underscores the importance of increasing exchange rate flexibility and maintaining reserve buffers. Steps to address policy, and also technical, impediments to a deeper FX market will better position the BSL to actively meet its reserve targets, while allowing the exchange rate to adjust as needed to maintain the economy's competitiveness.

39. Enhancing the BSL's governance framework remains paramount. The recent passage of the new BSL law is an important milestone in this regard. The authorities' plans to move quickly to develop and adopt a remedial action plan to address the findings of the forensic audit will also be critical to bolstering the BSL's integrity and public trust in the institution.

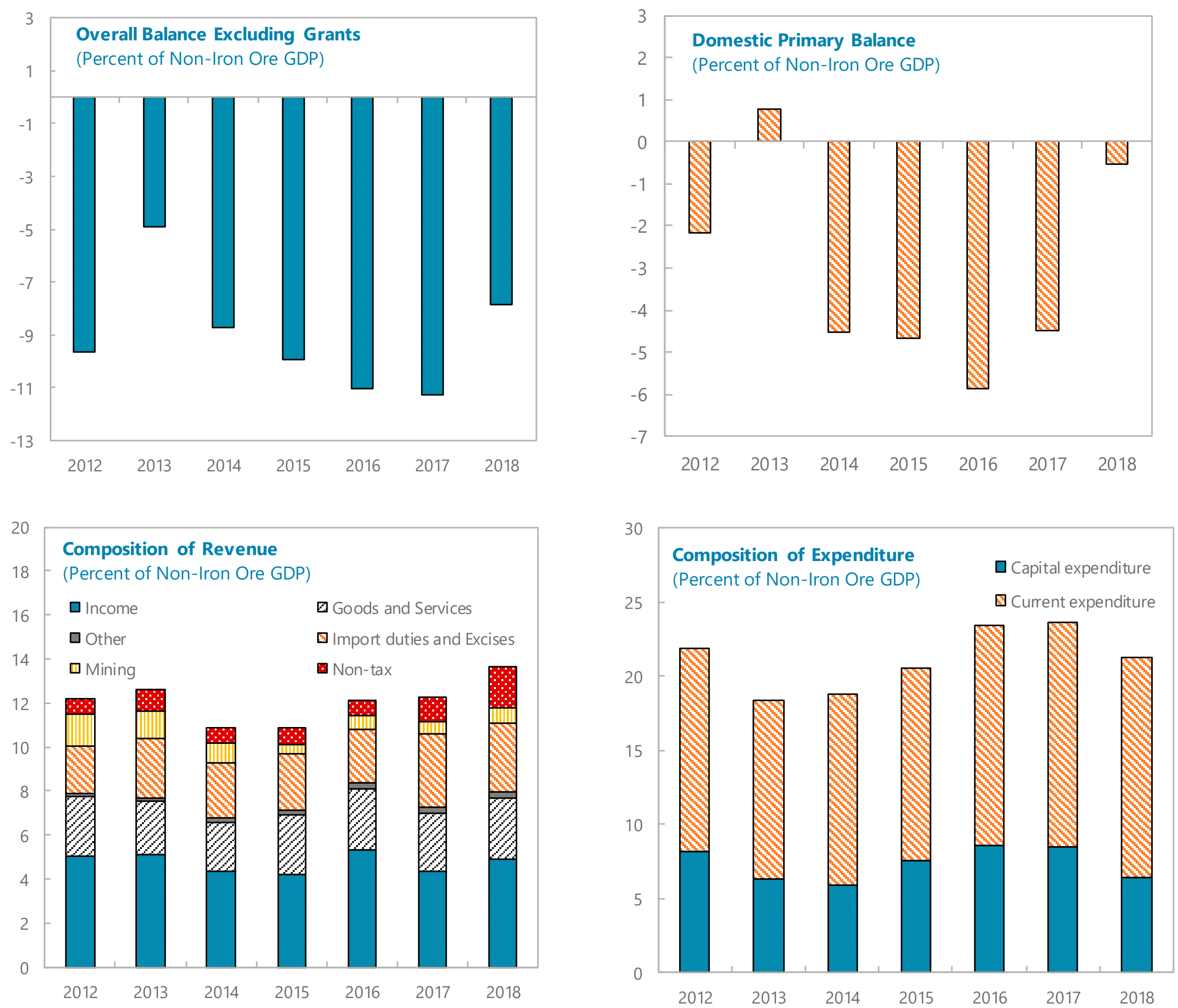
40. Staff supports the authorities' request for completing the first review under the ECF-supported arrangement. Staff also supports the new QPCs for end-December 2019; the five SBs for the second review; and the request for a waiver regarding the nonobservance of the end-December 2018 performance criterion on the BSL's NDA on the basis of corrective actions.

Figure 1. Sierra Leone: Real and External Indicators, 2012–18



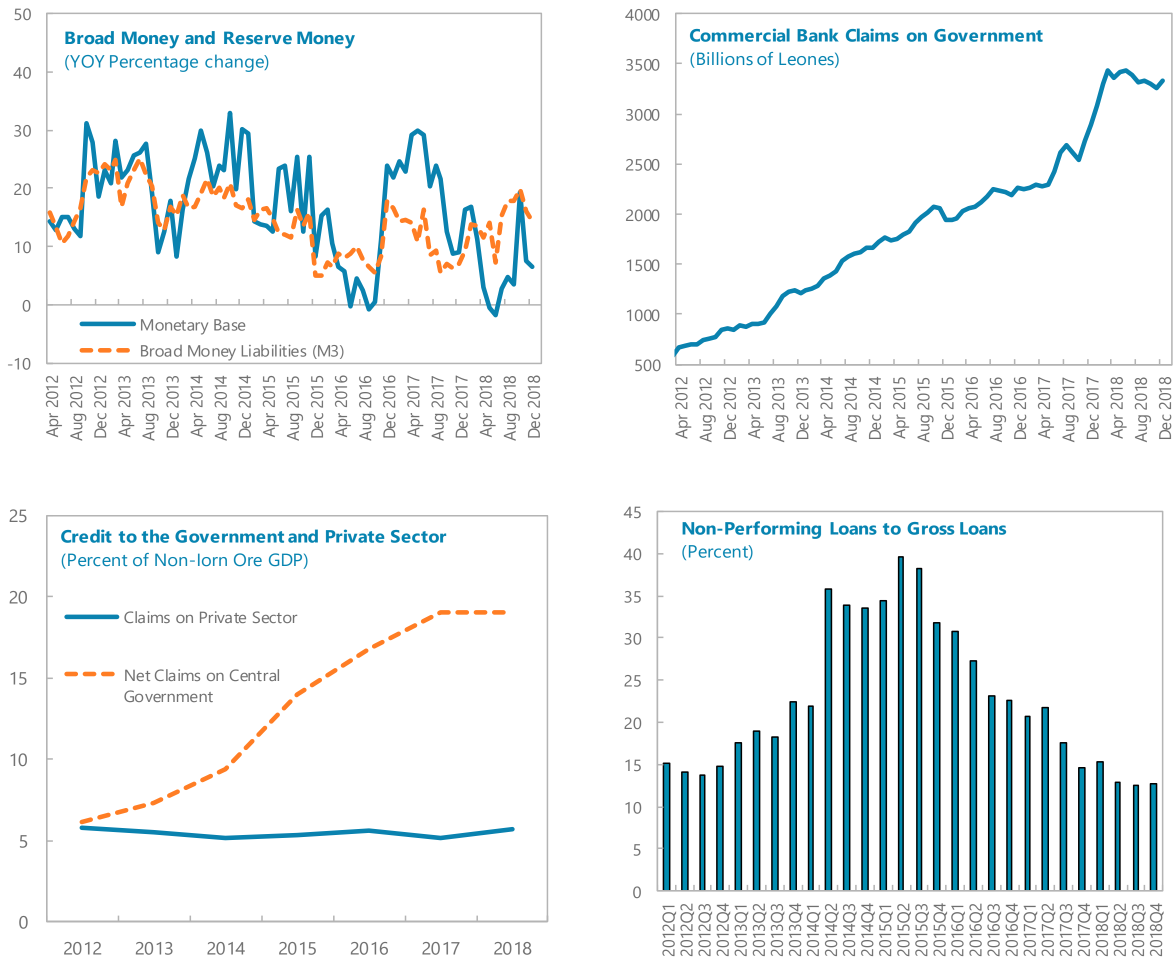
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 2. Sierra Leone: Fiscal Indicators, 2012–18



Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2012–18



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators, 2016–23

	2016	2017	2018 CR No. 18/371	2018 Prel.	2019	2020	2021	2022	2023
(Annual percent change, unless otherwise indicated)									
National account and prices									
Growth									
GDP at constant prices	6.4	3.8	3.7	3.5	5.1	4.7	4.8	4.7	4.7
GDP excluding Iron ore	4.6	3.6	5.7	5.4	4.5	4.4	4.6	4.5	4.5
Inflation									
Consumer prices (end-of-period)	17.4	15.3	18.0	17.5	14.0	12.0	10.2	9.0	8.5
Consumer prices (average)	12.9	18.2	16.6	16.4	15.7	13.0	11.1	9.6	8.8
External sector									
Terms of trade (deterioration -)	9.0	15.6	-11.4	-10.3	4.7	-0.8	-1.1	0.2	0.1
Exports of goods	12.6	-0.3	3.2	-7.7	38.7	21.6	10.2	7.8	7.5
Imports of goods	-27.8	22.3	8.6	0.6	5.4	5.9	5.8	2.3	6.8
Gross international reserves (excluding swaps), months of imports 1/	4.2	3.7	3.3	3.6	3.4	3.5	3.5	3.5	3.4
Money, credit and reserves									
Domestic credit to the private sector	16.7	4.9	19.6	30.6	24.9	7.5	13.4	9.6	5.3
Base money	23.9	9.0	2.9	6.5	25.2	16.6	14.8	13.6	13.1
M3	17.9	7.0	16.7	14.5	18.4	16.6	14.8	13.6	13.1
Gross Intl. Reserves (excluding swaps, in US$ millions)	503	501	481	483	500	551	575	593	618
Net Intl. Reserves (excluding swaps, in US$ millions)	193	128	107	85	75	113	137	192	279
(Percent of non-iron ore GDP, unless otherwise indicated)									
National accounts									
Gross capital formation	12.7	19.2	17.9	17.3	16.9	17.9	18.0	19.4	19.4
Government	8.7	8.6	7.1	6.6	6.2	6.7	7.1	7.3	7.3
Private	4.0	10.6	10.8	10.7	10.7	11.2	10.9	12.1	12.0
National savings	8.3	4.7	3.9	3.5	5.2	7.7	8.7	10.4	11.1
Financing and debt									
Public debt	52.0	57.4	68.3	60.8	62.6	63.9	65.0	64.5	64.4
Domestic	14.6	16.6	25.3	22.2	23.4	24.4	25.1	25.4	26.5
External public debt (including IMF)	37.4	40.8	43.0	38.6	39.3	39.6	39.9	39.2	37.9
External sector									
Current account balance 2/									
(including official grants)	-4.5	-14.5	-14.0	-13.8	-11.7	-10.2	-9.3	-8.9	-8.3
(excluding official grants)	-12.8	-21.5	-17.6	-20.1	-15.2	-12.9	-11.7	-11.5	-10.6
Central government budget									
Domestic primary balance 3/	-5.9	-4.5	-2.4	-0.5	-0.7	-0.3	0.3	0.9	1.3
Overall balance	-8.0	-8.8	-6.8	-5.8	-3.6	-4.2	-3.9	-3.2	-2.8
Overall balance (excluding grants)	-11.0	-11.3	-9.9	-7.9	-7.4	-6.7	-6.0	-5.3	-4.7
Revenue (excluding grants)	12.1	12.3	13.8	13.7	14.1	14.8	15.6	16.4	16.7
Grants	3.0	2.5	3.1	2.1	3.8	2.5	2.1	2.1	1.9
Total expenditure and net lending	23.2	23.5	23.6	21.5	21.5	21.5	21.6	21.6	21.5
Memorandum item:									
GDP at market prices (billions of Leone)	24,296	27,465	31,722	32,402	38,015	44,631	51,640	59,036	66,935
Excluding iron ore	23,834	27,257	31,722	32,402	37,574	43,944	50,642	57,658	65,135
Excluding iron ore in millions of US$	3,312	3,700	3,897	4,082	4,190	4,354	4,535	4,766	5,044
Per capita GDP (US$)	522	503	515	539	548	559	572	591	614
National currency per US dollar (average)	6,417	7,366	…	7,938	…	…	…	…	…
National currency per US dollar (EOP)	7,195	7,537	…	8,396	…	…	…	…	…

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

1/ Refers to reserves and imports in current year.

2/ The very unusual small 2016 current account balance is because there was unusual large negative errors and omissions (-13 percent of GDP) in 2016.

3/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2016–23

(Billions of leone)

	2016	2017	2018		2019	2020	2021	2022	2023
			CR No. 18/371	Prel.					
Total revenue and grants	**3,615**	**4,023**	**5,353**	**5,101**	**6,717**	**7,582**	**8,921**	**10,625**	**12,135**
Revenue	2,889	3,340	4,366	4,428	5,302	6,488	7,880	9,433	10,905
Tax revenue	2,716	3,034	3,780	3,809	4,512	5,578	6,844	8,224	9,556
Personal Income Tax	936	972	1,282	1,158	1,405	1,729	2,119	2,470	2,884
Corporate Income Tax	324	214	318	438	463	596	737	939	1,049
Goods and Services Tax	666	714	900	886	992	1,246	1,556	1,936	2,249
Excises	184	424	339	358	522	612	709	810	918
Import duties	382	486	603	650	750	879	1,130	1,342	1,640
Mining royalties and licenses	156	149	217	223	240	331	367	407	457
Other taxes	68	76	120	95	140	185	229	320	358
Non-tax	173	306	586	620	790	910	1,035	1,209	1,349
Grants	727	683	987	673	1,414	1,094	1,041	1,192	1,230
Budget support	193	137	586	218	758	545	484	673	715
Project grants	534	546	401	454	655	549	557	519	515
Expenditures and net lending	**5,519**	**6,412**	**7,499**	**6,974**	**8,079**	**9,435**	**10,921**	**12,463**	**13,975**
Current expenditures	3,553	4,121	5,174	4,802	5,746	6,431	7,275	8,215	9,132
Wages and salaries 1/	1,818	1,890	2,068	2,057	2,510	2,746	3,039	3,459	3,908
Goods and services	1,139	1,079	1,300	1,155	1,371	1,503	1,640	1,747	1,817
Subsidies and transfers	395	549	855	629	727	1,032	1,339	1,580	1,810
Interest	202	602	951	961	1,138	1,149	1,258	1,429	1,597
Domestic	141	535	854	866	1,027	1,050	1,143	1,309	1,471
Foreign	61	67	97	95	111	99	114	120	126
Capital Expenditure	2,039	2,308	2,210	2,083	2,293	2,914	3,556	4,158	4,743
Foreign financed	1,034	1,246	1,409	1,409	1,391	1,648	1,924	2,105	2,306
Domestic financed	1,005	1,062	801	674	901	1,267	1,632	2,054	2,437
Net lending	(151)	(23)	-	-	-	-	-	-	-
Contingent expenditure	79	6	116	89	40	90	90	90	100
Domestic primary balance 2/	(1,395)	(1,223)	(765)	(176)	(247)	(150)	141	503	832
Overall balance including grants	(1,904)	(2,389)	(2,147)	(1,873)	(1,362)	(1,853)	(2,000)	(1,838)	(1,841)
Overall balance excluding grants	(2,631)	(3,072)	(3,133)	(2,546)	(2,776)	(2,947)	(3,041)	(3,030)	(3,070)
Financing	**1,904**	**2,389**	**2,147**	**1,873**	**1,362**	**1,853**	**2,000**	**1,838**	**1,841**
External financing (net)	398	766	671	714	277	567	880	1,015	1,108
Borrowing	522	1,030	1,023	1,023	737	1,099	1,519	1,761	1,995
Projects	508	727	1,023	1,023	737	1,099	1,367	1,586	1,791
Budget	14	303	-	-	-	-	152	175	204
Amortization	(124)	(264)	(352)	(309)	(460)	(531)	(639)	(746)	(887)
Domestic financing (net)	1,506	1,623	1,475	1,159	1,085	1,285	1,120	823	733
Bank Total	988	1,193	1,139	792	958	1,400	1,339	1,205	1,181
SDR onlending (net)	284	228	131	183	127	(115)	(219)	(382)	(449)
Disbursements	284	228	131	183	127	-	-	-	-
Repayments	-	-	-	-	-	(115)	(219)	(382)	(449)
Other	233	202	205	184	-	-	-	-	-

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2016–23
(Percent of non-iron ore GDP)

	2016	2017	2018		2019	2020	2021	2022	2023
			CR No. 18/371	Prel.					
Total revenue and grants	**15.2**	**14.8**	**16.9**	**15.7**	**17.9**	**17.3**	**17.6**	**18.4**	**18.6**
Revenue	12.1	12.3	13.8	13.7	14.1	14.8	15.6	16.4	16.7
Tax revenue	11.4	11.1	11.9	11.8	12.0	12.7	13.5	14.3	14.7
Personal Income Tax	3.9	3.6	4.0	3.6	3.7	3.9	4.2	4.3	4.4
Corporate Income Tax	1.4	0.8	1.0	1.4	1.2	1.4	1.5	1.6	1.6
Goods and Services Tax	2.8	2.6	2.8	2.7	2.6	2.8	3.1	3.4	3.5
Excises	0.8	1.6	1.1	1.1	1.4	1.4	1.4	1.4	1.4
Import duties	1.6	1.8	1.9	2.0	2.0	2.0	2.2	2.3	2.5
Mining royalties and licenses	0.7	0.5	0.7	0.7	0.6	0.8	0.7	0.7	0.7
Other taxes	0.3	0.3	0.4	0.3	0.4	0.4	0.5	0.6	0.5
Non-tax	0.7	1.1	1.8	1.9	2.1	2.1	2.0	2.1	2.1
Grants	3.0	2.5	3.1	2.1	3.8	2.5	2.1	2.1	1.9
Budget support	0.8	0.5	1.8	0.7	2.0	1.2	1.0	1.2	1.1
Project grants	2.2	2.0	1.3	1.4	1.7	1.3	1.1	0.9	0.8
Expenditures and net lending	**23.2**	**23.5**	**23.6**	**21.5**	**21.5**	**21.5**	**21.6**	**21.6**	**21.5**
Current expenditures	14.9	15.1	16.3	14.8	15.3	14.6	14.4	14.2	14.0
Wages and salaries 1/	7.6	6.9	6.5	6.3	6.7	6.3	6.0	6.0	6.0
Goods and services	4.8	4.0	4.1	3.6	3.6	3.4	3.2	3.0	2.8
Subsidies and transfers	1.7	2.0	2.7	1.9	1.9	2.3	2.6	2.7	2.8
Interest	0.8	2.2	3.0	3.0	3.0	2.6	2.5	2.5	2.5
Domestic	0.6	2.0	2.7	2.7	2.7	2.4	2.3	2.3	2.3
Foreign	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Capital Expenditure	8.6	8.5	7.0	6.4	6.1	6.6	7.0	7.2	7.3
Foreign financed	4.3	4.6	4.4	4.3	3.7	3.8	3.8	3.7	3.5
Domestic financed	4.2	3.9	2.5	2.1	2.4	2.9	3.2	3.6	3.7
Net lending	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.3	0.0	0.4	0.3	0.1	0.2	0.2	0.2	0.2
Domestic primary balance 2/	-5.9	-4.5	-2.4	-0.5	-0.7	-0.3	0.3	0.9	1.3
Overall balance including grants	-8.0	-8.8	-6.8	-5.8	-3.6	-4.2	-3.9	-3.2	-2.8
Overall balance excluding grants	-11.0	-11.3	-9.9	-7.9	-7.4	-6.7	-6.0	-5.3	-4.7
Financing	**8.0**	**8.8**	**6.8**	**5.8**	**3.6**	**4.2**	**3.9**	**3.2**	**2.8**
External financing (net)	1.7	2.8	2.1	2.2	0.7	1.3	1.7	1.8	1.7
Borrowing	2.2	3.8	3.2	3.2	2.0	2.5	3.0	3.1	3.1
Project	2.1	2.7	3.2	3.2	2.0	2.5	2.7	2.7	2.8
Budget	0.1	1.1	0.0	0.0	0.0	0.0	0.3	0.3	0.3
Amortization	-0.5	-1.0	-1.1	-1.0	-1.2	-1.2	-1.3	-1.3	-1.4
Domestic financing (net)	6.3	6.0	4.7	3.6	2.9	2.9	2.2	1.4	1.1
Bank Total	4.1	4.4	3.6	2.4	2.6	3.2	2.6	2.1	1.8
SDR onlending	1.2	0.8	0.4	0.6	0.3	-0.3	-0.4	-0.7	-0.7
Disbursements	1.2	0.8	0.4	0.6	0.3	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	-0.3	-0.4	-0.7	-0.7
Other	1.0	0.7	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Non-iron ore GDP (Le billions)	23,834	27,257	31,722	32,402	37,574	43,944	50,642	57,658	65,135

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis, 2018–19
(Billions of leone)

	2018					2019				
	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
	Act.	Act.	Act.	Act.	Act.	Pre.	Proj.	Proj.	Proj.	Proj.
Revenue	**881**	**1117**	**1127**	**1303**	**4428**	**1358**	**1209**	**1230**	**1505**	**5302**
Personal Income Tax	256	345	298	258	1158	352	326	341	385	1405
Corporate Income Tax	59	77	134	169	438	92	115	120	136	463
Goods and Services Tax	195	224	236	231	886	239	218	249	286	992
Excises	58	49	96	156	358	158	121	109	133	522
Import Duties	122	189	179	159	650	172	193	171	214	750
Other	192	232	183	330	938	345	235	240	350	1170
Grants	**113**	**117**	**125**	**317**	**673**	**104**	**713**	**164**	**434**	**1414**
o/w Budget Support	0	0	0	218	218	2	543	0	215	759
Expenditure	**1873**	**1450**	**1519**	**2132**	**6974**	**1642**	**2153**	**1904**	**2381**	**8079**
Wages 1/	513	536	510	498	2057	582	652	630	646	2510
Goods and Services	250	179	239	487	1155	251	339	347	434	1371
Subsidies and Transfers	108	76	168	276	629	152	173	178	223	727
Other	20	44	9	17	89	13	8	8	11	40
Interest	240	250	215	256	961	277	287	271	303	1138
Capital Expenditure	743	365	378	597	2083	366	693	470	763	2293
Domestic primary balance 2/	**-399**	**268**	**175**	**-221**	**-176**	**254**	**-334**	**-92**	**-76**	**-247**
Balance incl. grants	-879	-217	-266	-511	-1873	-180	-231	-510	-441	-1362
Financing	**879**	**217**	**266**	**511**	**1873**	**180**	**231**	**510**	**441**	**1362**
Foreign	215	163	196	141	714	42	32	55	148	277
Disbursement (Projects)	256	256	256	256	1023	159	153	147	278	737
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0
Amortization	-41	-93	-60	-115	-309	-117	-121	-92	-130	-460
Domestic	664	54	71	370	1159	138	199	455	294	1085
o/w SDR onlending (net)	...	...	...	...	183	...	...	...	...	127

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

1/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.

2/ Revenue less expenditures and net lending adjusted for interest payments and foreign financed capital spending.

Table 3. Sierra Leone: Monetary Accounts, 2016–20[1/]

(Billions of leone; unless otherwise indicated)

	2016	2017	2018					2019				2020
							CR No.	Prel.	Proj.			Proj.
			Mar.	June	Sept.	Dec.	18/371	Mar.	Jun.	Sept.	Dec.	
I. Monetary Survey												
Net foreign assets	**3,042**	**2,956**	**3,059**	**2,822**	**2,581**	**2,707**	**3,060**	**2,544**	**2,833**	**2,896**	**2,958**	**3,292**
Net domestic assets	**3,054**	**3,566**	**3,794**	**4,013**	**4,427**	**4,757**	**4,551**	**5,016**	**5,382**	**5,629**	**5,876**	**7,006**
Net domestic credit	**5,592**	**6,690**	**7,172**	**7,247**	**7,469**	**8,016**	**8,200**	**8,486**	**8,863**	**9,221**	**9,580**	**11,019**
Claims on central government (net)	4,000	5,193	5,675	5,640	5,610	6,167	6,463	6,438	6,504	6,959	7,253	8,538
Claims on private sector	1,346	1,413	1,464	1,559	1,828	1,845	1,690	2,073	2,312	2,215	2,304	2,478
Claims on others 2/	245	84	33	48	31	3	48	(25)	48	48	23	3
Other items (net)	(2,538)	(3,124)	(3,379)	(3,234)	(3,042)	(3,259)	(3,643)	(3,470)	(3,481)	(3,592)	(3,703)	(4,013)
Money and quasi-money (M3)	**6,096**	**6,522**	**6,852**	**6,835**	**7,008**	**7,465**	**7,611**	**7,560**	**8,215**	**8,525**	**8,835**	**10,298**
II. Bank of Sierra Leone												
Net foreign assets	**1,388**	**1,217**	**1,326**	**1,246**	**818**	**901**	**1,088**	**820**	**891**	**886**	**881**	**1,326**
Net domestic assets	**707**	**1,068**	**941**	**858**	**1,202**	**1,532**	**1,262**	**1,408**	**1,873**	**2,054**	**2,166**	**2,225**
Net domestic credit	**2,509**	**3,312**	**3,257**	**3,224**	**3,348**	**4,043**	**3,833**	**4,001**	**4,573**	**4,784**	**4,927**	**4,991**
Claims on other depository corporations	0	0	1	6	52	7	6	74	415	517	550	627
Claims on central government	1,734	2,296	2,247	2,208	2,282	2,839	2,686	2,729	2,839	2,948	3,053	3,154
o/w Bridge loans	120	0	0	0	0	247	...	0	...	...	...	
Claims on other sectors	14	28	21	21	24	26	21	26	21	21	26	26
Other items (net) 3/	(1,040)	(1,256)	(1,327)	(1,376)	(1,156)	(1,340)	(1,450)	(1,421)	(1,401)	(1,432)	(1,462)	(1,582)
Reserve money	**2,096**	**2,284**	**2,267**	**2,104**	**2,020**	**2,433**	**2,350**	**2,229**	**2,764**	**2,940**	**3,046**	**3,551**
Memorandum items:												
(Annual percent change unless otherwise indicated)												
Base money	23.9	9.0	11.2	-1.9	3.5	6.5	2.9	-1.7	31.4	45.5	25.2	16.6
M3	17.9	7.0	14	7	18	14.5	16.7	10.3	20.2	21.6	18.4	16.6
Credit to the private sector (growth)	16.7	4.9	10.4	6.8	19.0	30.6	19.6	41.6	48.3	21.2	24.9	7.5
Velocity (GDP/M3)	4.2	4.3	n.a.	n.a.	n.a.	4.6	4.5	...	...	...	4.6	4.6
Money multiplier (M3/base money)	2.9	2.9	3.0	3.2	3.5	3.1	3.2	...	...	...	2.9	2.9
Credit to the private sector (in percent of non iron ore	5.6	5.2	n.a.	n.a.	n.a.	5.7	5.3	...	...	...	6.1	5.6
Gross Intl. Reserves (including swaps, in US$ millions)	503	534	546	516	492	503	498	489	532	494	517	563
Nominal exchange rate, average (Leones/US $)	6,417	7,366	n.a.	7,710	8,238	8,437	...	8,613	...	...	...	...
Nominal exchange rate, end of period (Leones/US $)	7,195	7,537	7,623	7,741	8,260	8,396	9,040	8,676	...	...	...	...

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

1/ End of period.

2/ Include other financial corporations, public enterprises and the local government.

3/ Including valuation.

Table 4. Sierra Leone: Balance of Payments, 2016–23
(Millions of U.S. dolllars; unless otherwise indicated)

	2016	2017	2018		2019	2020	2021	2022	2023
			CR No. 18/371	Prel.			Proj.		
Current account	**-165.3**	**-535.2**	**-545.1**	**-564.2**	**-489.9**	**-443.5**	**-421.2**	**-426.3**	**-417.3**
Trade balance	-318.4	-538.1	-626.5	-595.7	-427.7	-321.5	-296.1	-240.7	-248.0
Exports, f.o.b.	654.4	652.1	657.7	602.0	834.8	1,015.1	1,118.6	1,206.2	1,296.8
Of which: diamonds	163.0	118.2	202.8	157.1	218.9	171.7	171.7	177.9	184.3
iron ore	129.9	131.9	0.0	13.1	60.0	84.6	111.8	142.5	174.5
Imports, f.o.b	-972.8	-1,190.2	-1,284.2	-1,197.7	-1,262.5	-1,336.7	-1,414.7	-1,446.9	-1,544.8
Of which: oil	-140.6	-153.0	-211.3	-204.8	-170.5	-182.0	-193.2	-204.9	-217.5
Services (net)	-170.2	-272.3	-94.2	-290.1	-292.8	-354.6	-365.8	-384.3	-410.3
Income (net)	-99.0	-90.9	-70.9	-90.6	-77.2	-50.0	-36.3	-97.7	-63.3
Of which: interest on public debt	-10.1	-10.0	-10.9	-10.9	-10.6	-9.8	-10.2	-9.9	-9.7
Transfers	422.3	366.0	246.5	412.3	307.8	282.6	277.1	296.4	304.3
Official transfers	309.1	261.9	139.2	258.3	149.0	118.3	107.4	119.5	119.0
Other transfers	113.2	104.1	107.3	153.9	158.8	164.3	169.7	176.9	185.3
Capital and financial account	**294.4**	**507.4**	**505.4**	**479.0**	**476.4**	**475.8**	**433.2**	**481.5**	**504.2**
Capital account	143.4	153.0	57.4	131.6	78.0	59.4	54.9	47.9	44.8
Of which: Project support grants	29.4	30.4	47.4	48.6	73.0	54.4	49.9	42.9	39.8
Financial account	151.0	354.4	448.0	347.4	398.4	416.3	378.3	433.6	459.3
Foreign direct and portfolio investment	140.6	149.2	307.2	224.2	353.3	348.7	286.0	343.2	390.0
Other investment	10.4	205.2	140.8	123.1	45.1	67.6	92.3	90.3	69.3
of which: Public sector (net)	52.7	111.2	126.4	106.1	31.3	56.2	78.8	83.9	85.8
Disbursements	82.7	151.0	170.7	150.4	82.2	108.9	136.0	145.6	154.5
Amortization	-30.0	-39.8	-44.3	-44.3	-50.9	-52.6	-57.2	-61.7	-68.7
Errors and omissions	**-275.9**	**21.7**	**0.0**	**50.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-146.8**	**-6.1**	**-39.7**	**-34.9**	**-13.5**	**32.2**	**12.0**	**55.1**	**86.9**
Financing	**146.8**	**6.1**	**39.7**	**34.9**	**13.5**	**-32.2**	**-12.0**	**-55.1**	**-86.9**
Central bank net reserves (- increase)	144.0	6.1	39.7	34.9	13.5	-32.2	-12.0	-55.1	-86.9
of which: Use of Fund credit (net)	66.6	36.5	4.2	3.6	27.7	13.9	0.0	-37.1	-61.8
Disbursements	67.7	52.7	22.2	21.6	43.4	43.4	43.4	21.7	0.0
Repayments	-1.1	-16.2	-18.0	-18.1	-15.7	-29.6	-43.4	-58.8	-61.8
Other	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
	(Percent of non-iron ore GDP unless otherwise indicated)								
Current account	-4.5	-14.5	-14.0	-13.8	-11.7	-10.2	-9.3	-8.9	-8.3
Trade Balance	-8.6	-14.5	-16.1	-14.6	-10.2	-7.4	-6.5	-5.1	-4.9
Capital and Financial Account	7.9	13.7	13.0	11.7	11.4	10.9	9.6	10.1	10.0
Overall Balance	-4.0	-0.2	-1.0	-0.9	-0.3	0.7	0.3	1.2	1.7
Official aid (grants and loans)	6.6	6.9	3.0	5.4	2.0	1.2	1.3	1.5	1.4
Budget support in US$ (grants and loans)	244.2	253.9	132.0	219.7	84.5	54.0	57.0	70.1	71.2
Gross International Reserves (excluding swaps)									
US$ millions	503	501	481	483	500	551	575	593	618
Months of imports	4.2	3.7	3.3	3.6	3.4	3.5	3.5	3.5	3.4
National currency per US dollar (average)	6,417	7,366	…	7,938	…	…	…	…	…

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

Table 5. Sierra Leone: External Financing Requirements and Sources, 2017–21
(Millions of U.S. dolllars)

	2017	2018	2019	2020	2021
I. Total financing requirements	**-868**	**-836**	**-704**	**-661**	**-598**
Current account balance (excl. official transfers)	-797	-822	-639	-562	-529
Debt amortization	-40	-44	-51	-53	-57
Gross reserves accumulation	-31	31	-14	-46	-12
II. Available and expected financing	**793**	**763**	**660**	**617**	**554**
Project support grants and debt relief	153	132	78	59	55
Disbursements from official creditors /1	151	150	82	109	136
Budget support (grants)/2	262	258	149	118	107
Foreign direct and portfolio investment	149	224	353	349	286
Change in net foreign assets of commercial banks	52	8	13	11	13
Repayment of IMF credit and loans	-16	-18	-16	-30	-43
Other	42	9	0	0	0
IV. Errors and omissions	**22**	**50**	**0**	**0**	**0**
III. Financing gap	**53**	**22**	**43**	**43**	**43**
Exceptional financing					
ECF program	53	22	43	43	43
Memorandum items:					
Gross International Reserves (incl. swaps)	534	503	517	563	575
Months of imports	4.0	3.7	3.5	3.5	3.5

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/Project loans.
2/Includes budget and off budget grants.

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2019–33

					Projection										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	8.3	21.2	31.1	42.1	44.3	46.5	33.5	20.7	7.0	3.1	0.0	0.0	0.0	0.0	0.0
Charges and interest	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
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	8.3	21.2	31.1	42.1	44.3	48.1	41.2	34.7	27.3	24.9	20.2	14.0	7.8	1.6	0.0
Charges and interest	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
Total obligations based on existing and prospective credit															
In millions of SDRs	8.3	21.2	31.1	42.2	44.3	48.1	41.3	34.7	27.3	24.9	20.2	14.0	7.8	1.6	0.0
In millions of US$	11.5	29.5	43.3	58.6	61.6	66.8	57.4	48.3	37.9	34.6	28.1	19.5	10.8	2.2	0.0
In percent of exports of goods and services	1.1	2.4	3.2	4.1	4.0	4.0	3.2	2.6	1.9	1.6	1.2	0.8	0.4	0.1	0.0
In percent of debt service 1/	14.9	32.0	39.0	45.0	43.9	43.6	37.5	31.8	25.1	22.3	17.7	12.0	6.9	1.3	0.0
In percent of GDP	0.3	0.7	0.9	1.2	1.2	1.2	1.0	0.8	0.6	0.5	0.4	0.2	0.1	0.0	0.0
In percent of Gross International Reserves	2.2	5.2	7.5	9.9	10.0	9.9	8.1	6.6	5.0	4.3	3.3	2.2	1.2	0.2	0.0
In percent of quota	4.0	10.2	15.0	20.3	21.4	23.2	19.9	16.7	13.1	12.0	9.8	6.8	3.8	0.8	0.0
Outstanding Fund credit															
In millions of SDRs	280.6	290.6	290.6	264.0	219.7	171.7	130.4	95.7	68.4	43.6	23.3	9.3	1.6	0.0	0.0
In millions of US$	390.3	404.1	404.1	367.1	305.6	238.7	181.4	133.1	95.2	60.6	32.4	13.0	2.2	0.0	0.0
In percent of exports of goods and services	37.1	32.6	30.2	25.5	19.8	14.4	10.2	7.0	4.7	2.8	1.4	0.5	0.1	0.0	0.0
In percent of debt service	505.8	439.4	364.5	281.6	218.0	155.6	118.6	87.6	63.1	39.0	20.4	8.0	1.4	0.0	0.0
In percent of GDP	9.2	9.1	8.7	7.5	5.9	4.3	3.1	2.2	1.4	0.9	0.4	0.2	0.0	0.0	0.0
In percent of Gross International Reserves	75.5	71.8	70.3	61.9	49.4	35.4	25.7	18.3	12.4	7.5	3.8	1.5	0.2	0.0	0.0
In percent of quota	135.3	140.1	140.1	127.3	105.9	82.8	62.9	46.1	33.0	21.0	11.2	4.5	0.8	0.0	0.0
Net use of Fund credit (in millions of SDRs)	19.9	10.0	0.0	-26.6	-44.3	-48.1	-41.2	-34.7	-27.3	-24.9	-20.2	-14.0	-7.8	-1.6	-2.6
Disbursements	31.1	31.1	31.1	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	11.3	21.2	31.1	42.1	44.3	48.1	41.2	34.7	27.3	24.9	20.2	14.0	7.8	1.6	2.6
Memorandum items:															
Exports of goods and services (in millions of US$)	1,051	1241	1338	1,438	1,543	1,654	1,772	1,890	2,014	2,147	2,287	2,401	2,522	2,652	2,790
Debt service (in millions of US$)	77	92	111	130	140	153	153	152	151	155	159	162	158	164	174
Nominal GDP (in millions of US$)	4,239	4422	4624	4,880	5,183	5,506	5,850	6,178	6,571	7,003	7,463	7,925	8,418	8,943	9,502
Gross International Reserves (in millions of US$)	517	563	575	593	618	674	705	729	765	803	844	884	926	971	1,019
Quota (millions of SDRs)	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4	207.4

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2018–22

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota 1/	
November 30, 2018	15.555	7.50	The approval of the ECF arrangement.
June 1, 2019	15.555	7.50	Board completion of the first review based on observance of continous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continous and December 31, 2019 performance criteria
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continous and June 30, 2020 performance criteria
June 1, 2021	15.555	7.50	Board completion of the fifth review based on observance of continous and December 31, 2020 performance criteria
December 1, 2021	15.555	7.50	Board completion of the six review based on observance of continous and June 30, 2021 performance criteria
June 1, 2022	15.555	7.50	Board completion of the seventh review based on observance of continous and December 31, 2021 performance criteria
Total disbursements	124.44	**60.00**	

1/ Following the 14th quota review, Sierra Leone doubled its quota at the Fund. The current numbers reflect this increased quota.

Table 8. Sierra Leone: Financial Soundness Indicators of the Banking System, 2012–18

	2012	2013	2014	2015	2016	2017				2018			
						Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
						(Percent, end of period, unless otherwise indicated)							
Capital adequacy													
Regulatory capital ratio 1/	27.7	30.1	30.2	34.0	30.7	31.5	33.4	36.5	34.2	43.5	43.4	40.0	38.4
Regulatory tier 1 capital ratio 2/	12.5	13.6	25.9	29.0	25.9	25.9	30.5	30.2	26.5	38.3	36.0	32.0	29.6
Asset quality													
Nonperforming loans to total gross loans	14.7	22.4	33.4	31.7	22.7	20.7	21.7	17.6	14.6	15.3	12.8	12.6	12.7
Nonperforming loans (net of provisions) to regulatory capital	19.2	31.7	41.8	31.9	20.0	15.9	21.2	11.5	12.1	9.2	8.0	9.5	9.9
Earnings and profitability													
Return on assets	3.4	2.1	2.7	3.2	2.9	1.1	1.4	3.8	5.3	1.5	3.2	4.6	6.1
Return on equity	16.1	9.9	14.9	18.3	22.3	7.9	6.8	20.1	25.6	7.2	14.6	20.7	27.3
Liquidity													
Ratio of net loans to total deposits	33.9	32.4	27.8	24.4	24.4	28.2	27.5	28.5	19.2	17.8	25.6	27.7	27.2
Liquidity ratio 3/	40.7	72.5	78.9	83.3	85.5	85.7	89.8	64.8	66.9	73.0	69.5	68.3	67.9
Statutory minimum liquidity ratio 3/ 4/	54.9	29.3	29.7	30.4	30.1	30.5	30.7	32.8	33.0	32.8	32.9	32.8	33.1
Share of foreign exchange deposits in total deposits	40.8	38.5	26.5	32.0	38.9	32.0	35.0	39.9	37.1	36.0	35.2	38.3	38.3
Memorandum Item:													
Number of banks	13	13	13	13	13	14	14	14	14	14	14	14	14

Source: Bank of Sierra Leone.
1/ Capital requirement over risk-weighted assets (solvency ratio).
2/ Core capital (Tier I) over total assets.
3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.
4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.

Table 9. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2018–20

(Within-year cumulative change – starting from June for 2018, and from January for 2019 and 2020; Le billions, unless otherwise indicated)

	2018					2019									2020
	Jun.	Dec.				Mar. IT				Jun. PC	Sept.		Dec.		Mar.
	Stock	Prog.	Adj. Prog.	Prel.	Status 4/	Prog.	Adj. Prog.	Prel.	Status 4/	Prog. 5/	IT	CR No. 18/371	PC	CR No. 18/371	IT
Performance criteria															
Net domestic bank credit to the central government (ceiling) 1/	5171	823	1104	533	Met	407	352	271	Met	812	791	1155	1085	1357	175
Unadjusted target (ceiling)			823				407								
Adjustment for the shortfall (excess) in external budget support			175				45								
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments			106				-100								
Net domestic assets of the BSL (ceiling)	858	404	617	670	Not met	223	303	-124	Met	341	522	458	634	576	15
Unadjusted target (ceiling)			404				223								
Adjustment for the shortfall (excess) in external budget support			175				45								
Adjustment for exchange rate depreciation (appreciation)			38				34								
Gross international reserves of the BSL, US$ millions (floor)	474	7	-21	10	Met	-20	-21	-11	Met	-27	-6	-33	17	14	-6
Unadjusted target (floor)			7				-20								
Adjustment for the shortfall (excess) in external budget support			-40				-5								
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement			0				0								
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			13				4								
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (ceiling)	...	80		35	Met	100		42	Met	100	100	100	100	100	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
Indicative targets															
Total domestic government revenue (floor)	...	2356		2430	Met	1224		1358	Met	2549	3797	3866	5302	5350	1485
Poverty-related spending (floor) 3/	...	275		749	Met	293		196	Not met	634	1016	1027	1495	1467	403
Domestic primary balance (floor)	...	-282		-45	Met	-98		254	Met	-208	-171	-306	-247	-264	-58
Memorandum items:															
External budgetary assistance (in $ million)	...	67.0		27.5		5.0		0.0		13	61	24	85	41	30
Exchange rate (Leones/US$)															
Program	7741	8743				9040				8999	9280	9635	9539	9932	9815
Actual	7741			8396				8676							

1/ Includes IMF budget support-related SDR on-lending from the Central Bank to the Government.
2/ These apply on a continuous basis.
3/ Poverty-related spending is defined in paragraph 22 of the TMU.
4/ Preliminary status
5/ As set at the time of program approval on November 30, 2018.

Table 10. Sierra Leone: Structural Benchmarks		
STRUCTURAL BENCHMARKS	**TIMING**	**STATUS**
Benchmarks for First Review		
Complete the audit of BSL's 2017 financial statements	January 31, 2019	Met
Publish the final report of the forensic audit of foreign exchange transactions between the BSL and MDAs during July 2015–June 2018 and adopt a remedial action plan to address findings.	May 31, 2019	Not met (see new benchmarks)
Develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks.	March 31, 2019	Not met (see new benchmarks)
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous	Met
Adopt a plan for dealing with the outstanding stock of unpaid obligations to domestic suppliers containing: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL.	March 31, 2019	Not met (see new benchmarks)
Proposed Benchmarks for Second Review		
Adopt a remedial action plan to address the findings of the forensic audit report.	August 31, 2019	
Complete the stocktaking of payment arrears to domestic suppliers to determine a comprehensive arrears figure, drawing on IMF technical assistance recommendations.	August 31, 2019	
Prepare draft amendments to the NRA Act, drawing on technical assistance recommendations (from the IMF and the UK DfID), and submit to Fund staff for review (to be done prior to submitting to the Cabinet).	September 30, 2019	
Update the 2016 diagnostic study of the two state-owned banks, with support from the World Bank.	September 30, 2019	
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous	

Annex I. Sierra Leone—Capacity Development

A. CD Strategy

1. **The CD Strategy for Sierra Leone focuses on public finance management; tax policy and revenue administration; financial sector supervision; central banking operations and governance; and statistics compilation and dissemination**. These issues are at the core of planned structural reforms to complement the macroeconomic objectives of the new 2018 ECF-supported program. All in all, the reforms would assist in improving the transmission of economic policy, while mitigating the impact of key economic risks.

B. Key Overall CD Priorities

Priorities	Objectives
Public Finance Management	Ensure fiscal sustainability through: (i) operationalizing the new legal framework for PFM; (ii) improving public debt management under a new Medium Term Debt Strategy framework; (iii) improving the analysis and management of fiscal risks, including for SOEs; (iv) extending the coverage of the annual budget to general government; (v) strengthening the implementation of the Treasury Single Account (TSA); and (vi) migrating to general government finance statistics and IPSAS frameworks.
Tax Policy	Improve the effectiveness of tax policy as a tool for economic management by (i) operationalizing the framework for natural resource management; (ii) improving understanding of extractive industry fiscal modelling; and (iii) understanding transfer pricing issues especially in the extractive and communications industries.
Revenue Administration	Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance; (ii) broadening the tax base; (iii) modernizing the governance structure of NRA, including with respect to extractive industries revenue.
Bank Supervision and Regulation	Increase banking system safety and soundness through strengthening the supervisory process.
Central Banking Operations and Governance	(i) Modernize monetary policy frameworks to be more responsive to market developments so as to safeguard price and foreign exchange stability. (ii) Revise the Banking and BSL Acts to strengthen BSL's ability to management the banking system.
Statistics	Produce timely, frequent and credible indicators of economic activities in all sectors to inform policy.

C. Main Risks and Mitigation

2. **Risks to TA implementation in Sierra Leone are mainly capacity, political, and financing constraints**. Policy implementation is often constrained by the small number of capable officials, while vested interests in the political class and public sector often create stumbling blocks

either to the passage of legislation or carrying through agreed reforms. The cost of implementing TA recommendations, especially when it involves procurement of hardware or new systems, has also delayed reform implementation in the past. The authorities and the country team have a range of plans to mitigate these risks. Alternative modes of capacity building methods, such as end of TA mission workshops, are being deployed with the goal of providing hands on experience to a broader range of officials. To mitigate political risk, the Res Rep office conducts regular dialogue and outreach with Parliament and stakeholders to obtain buy-in for difficult reforms. To mitigate financing risks, the Res Rep office has served as interlocutor for financial assistance from development partners, for example on the forensic audit of the central bank.

D. Authorities' Views

3. The authorities concurred with the priorities outlined above. Given that the new political dispensation provides an opportunity to make faster progress on structural reforms, the authorities plan to work more closely with the Attorney General's Office and Parliament to ensure speedy passage of relevant legislation. They also indicated that most of the TA that included hands-on workshops has improved traction more than other modes of delivery and have therefore requested that workshops be built into TA delivery on a routine basis.

Appendix I. Letter of Intent

MINISTRY OF FINANCE **BANK OF SIERRA LEONE**

GOVERNMENT OF SIERRA LEONE

June 10, 2019

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Dear Madame Lagarde:

1. **On behalf of the Government of Sierra Leone, we hereby request the IMF Executive Board to complete the first review of the Extended Credit Facility (ECF) arrangement and to approve the disbursement of the second tranche of the loan** based on partial implementation of end-December 2018 performance criteria and progress on the implementation of structural benchmarks.

2. **As documented in the attached Memorandum of Economic and Financial Policies (MEFP), economic performance was stable but subdued in 2018**. Ongoing challenges in the mining sector, together with a slowdown in the nonmining sector due to the impact of government procurement arrears contributed. However, domestic revenue increased significantly thanks to recent reforms and slightly exceeded the program target, while donor budget support fell short of program. Given this shortfall in budget support and constraints on domestic bank financing, we held back recurrent expenditures and took a cautious approach to implementing the capital budget. As a result, we were able to achieve a lower than programmed deficit.

3. **Notwithstanding these challenges, performance is broadly in line with the ECF approved by the Executive Board in November 2018**. All quantitative targets were met, except the end-December 2018 performance criterion on Net Domestic Asset (NDA) of the BSL and the end-March 2019 indicative target on poverty-related spending. Several structural reforms—the forensic audit of the BSL, developing a strategic plan for the two state-owned banks, and a strategy for clearing domestic arrears—have proved to be more complex and dependent on expert advice than anticipated, causing us to miss three structural benchmarks. There was no new accumulation of non-concessional external public debt and no public sector arrears to sovereigns or to external private creditors. We are committed to enhancing program monitoring to prevent a re-occurrence

of missed targets, and hereby request the IMF Executive Board to approve a waiver for the non-observance of the program target on NDA of BSL. To ensure we continue to advance our structural reform agenda, we have reformulated the approach to focus on measured, incremental steps, and we have agreed three new structural benchmarks accordingly. We also agreed another structural benchmark on amending the NRA Act, which will support the program's revenue mobilization goals.

4. **The accompanying MEFP lays out specific government policies for 2019 and beyond that will strengthen program implementation, enabling us to meet program objectives by the end of the ECF program in 2022**. We remain firmly committed to implementing measures to increase domestic revenue mobilization, improve expenditure management to contain fiscal risks, and stabilize public debt, while implementing a strategy for the clearance of arrears. Further reforms of the National Revenue Authority, Public Investment Management framework, and expanded roll out of both the Treasury Single Account (TSA) and Integrated Financial Management Information System (IFMIS) would support the effectiveness of fiscal policy. The BSL also remains committed to bringing inflation down to its medium-term target by maintaining a tight monetary policy and refraining from intervening in the foreign exchange market. Our financial sector reforms would strengthen the BSL's independence and governance, improve financial stability, and deepen financial intermediation. Finally, following the release of our new medium-term *National Development Plan—Education for Development*, we have brought a sharper focus to promoting inclusive growth and expanding the social safety net, alongside the need to improve the business environment and promote economic diversification.

5. **The Government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of our program**, but we will take any further measures that may become appropriate for this purpose. Sierra Leone will consult the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. Sierra Leone will provide the Fund with any information that may be necessary for monitoring the implementation of the measures and the achievement of program objectives.

6. **The government consents to make public the content of the IMF staff report**, including this letter, the attached MEFP and TMU, and the World Bank's Assessment of our National Development Plan. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the first review under the ECF.

Very truly yours,

/s/	/s/
Jacob J. Saffa	**Kelfala M. Kallon**
Minister of Finance	Governor of Bank of Sierra Leone

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

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated November 14, 2018. It reviews economic developments and reports on performance under Sierra Leone's economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement 2018–22. It outlines key policies and reform measures for the remainder of 2019 and the medium-term. These policies aim to foster macroeconomic stability, improve competitiveness, promote sustainable broad-based inclusive economic growth and poverty reduction over the medium-term.

2. **Since the ECF was approved, the macroeconomic situation has been stable but remains challenging**. The government continues to implement bold policies to stabilize the macroeconomy, tackle structural impediments, boost economic activities, plug revenue leakages, tightening expenditure controls to minimize inefficiencies, and expand social programs. Against the background of slow economic activity in late 2018, government boosted consumers' disposable income by allowing falling global oil prices to pass through to pump prices, resulting in a 15 percent decrease in the pump price of gasoline.

3. Economic development, anti-corruption and poverty reduction are key pillars of our government's economic reform agenda. Our newly launched National Development Plan (NDP), *Education for Development* (2019–23) is a holistic economic and social agenda, focused on reducing poverty and building "a diversified, resilient and green economy". The agenda reflects our commitment to address corruption, and improve transparency and accountability in managing public resources. The strategy includes programs on governance and accountability; human capital development; empowering women, children, adolescents and persons with disabilities; economic diversification, mitigating vulnerabilities and building resilience.

RECENT ECONOMIC DEVELOPMENTS

4. Weak performance in both mining and nonmining sectors contributed to a slowdown in real GDP growth to 3.5 percent in 2018 from 3.8 percent in 2017. In the mining economy, rutile production fell short of projection due mainly to industrial actions, while the two iron ore mines remained shut throughout 2018. In the nonmining economy, the impact of government spending arrears in the first three quarters of the year, together with less than full implementation of the 2018 budget contributed to the slow down. Consumer prices remained high, reaching a peak of 19.3 percent in September 2018, before moderating to 17.5 percent in March 2019. The pressure on prices reflected a combination of factors including food price developments, the pass through of exchange rate depreciation, and the impact of the liberalizing domestic fuel prices.

5. Improved revenue performance and lower than-budgeted expenditure narrowed the overall fiscal deficit (excluding grants) to 7.9 percent of GDP in 2018 from 11.3 percent in 2017. Domestic revenues increased to Le 4.4 trillion (13.7 percent of GDP) from 12.3 percent of GDP in 2017, and exceeded the program target, mainly due to policy and administrative reforms including operationalizing Treasury Single Account, liberalizing domestic fuel prices, rationalizing duty and tax waivers, and implementing the ECOWAS Common External Tariff. Notwithstanding, budget implementation was challenging due to uneven liquidity in the banking system, which contributed to less than programmed borrowing. Given the reduction in most recurrent expenditures, together with scaling back of domestic capital spending (pending the financial and technical audits), fiscal operations resulted in a lower deficit than programmed.

6. **Broad money grew slower than programed while the BSL directly accommodated the budgetary financing needs**. Despite higher-than-programed credit to the private sector, substantially lower overall credit to the government resulted in less-than-programmed broad money growth. To support money market operations, the Bank of Sierra Leone (BSL) engaged in secondary market operations to provide liquidity to the banking system. In addition, the BSL provided bridge financing to Government in lieu of the delayed World Bank Budget Support, which contributed to higher-than-programmed net domestic assets of the BSL. The BSL had initially addressed the buildup in price pressures by gradually increasing the Monetary Policy Rate (MPR) from 15 percent in December 2017 to 16.5 percent in July 2018. However, BSL refrained from increasing the MPR in the second half of the year on the back of slowing growth momentum, rollover risk in the domestic debt market, and tight liquidity conditions in the banks.

7. **The banking system remained stable, with banks largely profitable and adequately capitalized**. The capital adequacy ratio for the industry was 38.4 percent and all banks met the minimum 15 percent as at end-December 2018, though there is a wide variation among banks. The asset base and total deposits of the banking system continue to increase, and gross loans and advances increased by 18.2 percent by end 2018, with largest proportion (more than half) going to commerce, finance and construction. However, borrowing costs remain persistently high. Aggregate non-performing loans decreased to 12.7 percent in December 2018 from 14.6 percent in December 2017 due mainly to the write-off of bad loans in the two state-owned banks under enhanced BSL supervision.

8. **The current account deficit improved to 13.8 percent of GDP in 2018 from 14.5 percent in 2017, partly on account of subdued imports**, as well as improvements in services, income and current transfers. Notwithstanding improvements in the current account, weak performance of export, delayed donor inflows and speculative behavior caused the Leone to depreciate against major international currencies. On a year-on-year basis, the Leone vis-à-vis the United States Dollar depreciated by 11.9 percent in 2018 relative to 2017. These pressures intensified in early 2019. To prevent disorderly depreciation of the Leone, the BSL stepped up its foreign exchange interventions. As a result, official foreign exchange reserves declined to US$502.80 million as at end-December 2018 from US$533.8 million at end-December 2017.

9. **The end-20018 stock of public debt is estimated at US$2.24 billion, nearing 60 percent of GDP in 2018**. Much of the 18.6 percent increase compared to 2017 reflects higher domestic debt, limiting the recourse to financing through arrears. The total stock of domestic debt increased to Le 5.66 trillion from Le 4.56 trillion at end 2017 mainly due to issuance of new securities. This, together with a slight increase in interest rates, saw domestic interest payments rise to Le 865.8 billion compared to Le 535.28 billion. External debt also increased with, new disbursements to finance infrastructure projects. External debt stood at US$1.57 billion up from

US$1.51 billion at end 2017, as multilateral debt (around three-quarters of external debt) grew from US$1.13 billion at end 2017 to US$1.2 billion and bilateral debt edged up from US$177.61 million to US$185.82 million at end 2018. However, commercial debt decreased from US$195.05 million to US$188.5 million.

PROGRAM PERFORMANCE

10. Program performance is broadly on track. All but one end-2018 quantitative performance criteria, the NDA of BSL, were met. BSL's bridge loan to the government, together with interventions in the foreign exchange market, contributed to the higher-than-programmed NDA. The bridge loan was repaid in the first quarter of 2019 and we plan to enhance our program monitoring to avoid a recurrence. All end-December 2018 and end-March 2019 indicative targets were met, except the floor on poverty-related spending in March. There was no new accumulation of non-concessional external public debt and no external payment arrears of the public sector.

11. Structural reforms are underway, but the complexity of some issues has made progress in those areas slower than programmed. The audit of the BSL's 2017 financial statements was completed in February 2019. The BSL is committed to a joint audit, between an international audit firm and a local firm, of the 2018 financial statements and plans to publish the statements upon completion of the audit. Developing a strategic plan for the two state-owned banks has proved more complex than anticipated, including the need for an updated baseline from the 2016 E&Y diagnostic study. We have made good progress toward the audit and validation of arrears supported by UK DFID and IMF technical assistance (TA), as well as a complementary arrears stocktaking by the Audit Service of Sierra Leone (ASSL). However, further work needs to be done to bring together these efforts and elaborate details and identify financing for the plan to clear these arrears. The benchmark on the forensic audit of foreign exchange transactions between the BSL and quasi-government agencies (MDAs) was missed as the scope of the audit was broader than initially expected and we now expect to receive the final audit report in late May/early June.

GOVERNMENT ECONOMIC PROGRAM FOR 2019 AND BEYOND

A. Program Objectives

12. Our policy objectives remain as enunciated at the time of ECF program request. Our goals are to preserve macroeconomic stability, accelerate the implementation of structural reforms, promote inclusive growth and poverty reduction through the implementation of our NDP. In this regard, the Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability, financial sector stability, transparency and accountability in the use of public resources, improved business environment and strengthened social protection systems.

B. Medium-Term Macroeconomic Outlook

13. The economic outlook for 2019 and the medium term is broadly balanced. The economy is projected to grow by 5.1 percent in 2019, and to average 4.8 percent during the program. The resumption of iron ore mining at the Marampa Mines (which produces higher grade iron ore), normal agricultural activity, and public construction activities, alongside improvements in the business environment (due to the intensified fight against corruption and broad ranging structural reforms) are expected to support growth prospects. Inflation is projected to fall to 14 percent by end-December 2019 and return to single digits by 2021 on the back of projected stability in the exchange rate as exports increase in the medium-term, increase in domestic food production and the proactive stance of monetary policy. The overall fiscal deficit (excluding grants) is projected to decline steadily, from 7.4 percent of GDP in 2019, to 5.3 percent in 2022, driven by expenditure reforms and stronger revenue mobilization. Stronger foreign inflows, including direct investment, from the expected expansion operations in rutile and iron ore mines would finance the still high but declining current account deficit. Rising international reserves over the program period will strengthen external stability and the country's resilience to shocks.

PROGRAM POLICIES

A. Fiscal Policy

14. The tight fiscal stance of 2018 assisted us to mitigate some near-term macro-fiscal risks. Going forward, much remains to be done including paying down arrears, and creating the fiscal space necessary to boost infrastructure and social spending to achieve our goal of inclusive growth. A tight fiscal stance remains necessary given our large public debt and recent classification as high risk of debt distress. Moreover, our reliance on foreign and domestic financing call for even more cautious assumptions about the financing of the program.

15. The fiscal path for the rest of the program entails a significant deficit reduction, sufficient to ensure the debt to GDP ratio begins to turn down by the end of the program. In this regard, the fiscal adjustment will continue to be guided by the key fiscal anchors—debt sustainability and domestic financing. We target a gradual decline in the overall deficit (excluding grants), averaging nearly ¾ of a percentage point per year over the medium term, slowing the pace of debt accumulation. This, together with efforts to seek more grants, will limit our recourse to net external debt financing of the deficit, averaging less than 1½ percent of GDP per year during the program period. Fiscal adjustment will facilitate a steady decline in domestic bank financing to 2.1 percent of GDP in 2022. However, the repayment of Fund budget support (extended during the Ebola epidemic and on-lent from the BSL), scheduled to begin 2020, will curtail the available amount of net domestic financing to 1.4 percent by the end of the program. The escalation in total debt service payments, including repayments of Fund budget support, will average 25 percent of domestic revenue during 2020–23. This will limit our ability to raise priority spending, adversely affect the implementation of our NDP and slowing our economic recovery.

Structural Reforms to Improve Fiscal Policy Transmission

16. The fiscal stance will be supported by strong implementation of ongoing structural reforms. Effective revenue generation and expenditure management processes are essential for macroeconomic stability, the strategic and efficient allocation of resources, effective delivery of vital goods and services, and strengthening of transparency and accountability. The Government has adopted a comprehensive *Public Financial Management (PFM) Strategy 2018–21* building on the previous PFM strategy, 2014–17. The new strategy aims to deepen reforms in all PFM-related areas, including strategic policy and budget planning; public investment management, Fiscal Risk and Debt management, budget execution, revenue administration, local Government finance and PFM oversight and public accountability. Implementation of the PFM strategy is ongoing and being monitored through a new governance framework that includes a PFM Steering Committee, a PFM technical Committee, and Thematic Working Groups.

Domestic Revenue Mobilization

17. Implementing the revenue enhancing measures in the previous MEFP improved tax administration and broadened the tax base, contributing to strong revenue performance in 2018. Measures include (i) liberalizing fuel pricing; (ii) streamlining the process for granting duty and tax waivers; (iii) enforcing upfront payment of fuel taxes and duties; (iv) implementing the ECOWAS Common External Tariff; (v) broadening the coverage of the Treasury Single Account (TSA); (vii) revising of fees/rates levied by Ministries, Departments and Agencies (MDAs) including fisheries licenses; (viii) data-matching and special tax audits; (ix) strict enforcement of tax legislation; and (x) migrating from ASYCUDA++ to ASYCUDA World. To sustain this improved performance and achieve the targeted revenue to GDP ratio of 20 percent by 2023, the Government will deepen the reforms in these specific areas:

Tax Policy

i. **Limit exemptions and waivers, and improve efficiency in the operation of the duty waiver regime**, by developing a policy on duty and tax waivers using the *Tax Incentive Handbook*; enacting legislation that provides comprehensive guidance on exemptions and waivers; and adopting an automated waiver system through the ASYCUDA World establishment, to fully track and monitor duty and tax waivers utilization.

ii. **Continue to implement the liberalized formula for petroleum pricing, and continue to use it to determine fuel prices (continuous structural benchmark)**. For transparency, we are considering publishing the fuel price template on a regular basis, rather than only when price changes.

iii. **Implement the new *Extractive Industry Revenue Act (2018)* (EIRA)** to all new mining and petroleum projects and mining Lease Agreements that come for renewal. We also plan to draft the EIRA Regulations to support the implementation of the Act in 2019, and the IMF is providing capacity building on fiscal modeling of the extractive sector to the Ministry of Finance, National Revenue Authority (NRA), National Minerals Agency and the Petroleum Directorate. This TA will support implementation of the EIRA including mineral revenue forecasting, evaluation of mining and petroleum projects using the EIRA fiscal regime, risk assessment and tax administration for the extractive sector.

Tax Administration

i. **Prepare a revised NRA Act that draws on TA**, with a view to modernizing the NRA's governance and organizational structure. The new law would establish clear governance and accountabilities, including responsibility within government and focusing the powers of the NRA Board on oversight. We plan to submit the draft law to the IMF for review no later than end-September (**structural benchmark**), before submitting it to Cabinet by end-October, and subsequently Parliament.

ii. **Automate tax processes and procedures** with the installation of the Integrated Tax Administration System (ITAS) and Electronic Cash Registers commencing in the second half of 2019; develop a migration plan for ITAS, including data cleansing and ascertaining ledgers; and roll out the banking module to government revenue transit banks before ITAS is delivered.

iii. **Improve revenue collection by TSA agencies**.

iv. **Carry-out the re-registration of businesses** to verify the existing tax payers and register new tax payers to expand the tax base.

v. **Intensify the ongoing data matching exercise and leverage the results** to support a risk-based approach to strengthening field audit.

vi. **Intensify monitoring and enforcement, including through stricter enforcement of tax legislation**, and reviewing and implementing a robust taxpayer education strategy to support enforcement and compliance.

vii. **Reduce leakages through enhancement of NRA integrity mechanisms** underpinned by the establishment of an internal affairs unit at the NRA.

viii. **Enhance intelligence and investigations**, including the Tax Inspectors Without Borders (TIWB) Audit supported program.

Expenditure Management

18. Implementing expenditure management reforms contributed to the lower than budgeted spending in 2018, allowing us to mitigate some of the fiscal risks. Going forward, expenditure management will focus on further improving efficiency in public expenditure management, while implementing priorities articulated in our NDP. Accordingly, human capital development including the Free Quality Education Programme, Health and Social Protection will remain our top priority. Other priorities include developing infrastructure to diversify and improve the competitiveness of the economy to promote sustainable economic growth and job creation. To create the fiscal space for implementing these priorities, the Government will embark on reforms to maintain the wage bill at sustainable levels, improve public procurement, curtail wasteful recurrent spending and extra-budgetary expenditures and improve the efficiency of domestic capital expenditures.

Wage Reforms

19. The Government remains committed to achieving a wage bill at not more than 6 percent of GDP. Substantial gains were recorded from the biometric verification exercise of the past year, and more than 10 percent of public sector workers including staff of sub-vented agencies were either not matched or not verified. We are optimistic that by the end of the ECF program, the following key reforms would ensure a transparent, accountable and manageable wage bill:

i. **Institutional regular monthly Payroll Quality Assurance** to check for discrepancies in the running of the Government payroll. This will include checks for significant changes in pay, invalid National Social Security Insurance Trust (NASSIT) numbers and invalid BBANs (Basic Bank Account Numbers).

ii. **Remove retiring employees from the payroll in a timely manner**, using a new payroll system to analyze employees' Dates of Birth embedded in their NASSIT numbers.

iii. **Strengthen the Payroll Oversight Committee** to generate comprehensive and timely payroll reports on monthly basis for effective monitoring of the Government payroll.

iv. **Establish a Wages and Compensation Commission** that is empowered by law as the sole agency to determine pay and compensation across the public service. The Commission will address the pay inequities and multiple pensions observed in the public service while initiating and pursuing reforms relating to public sector wages. In preparation for the establishment, a Consultant has been appointed, draft bill produced, and consultative workshops being held across the country with key stakeholders.

v. **Integrate the payroll of the tertiary institutions into the centralized Government payroll** beginning in 2019 to pave the way for the regular monitoring of movements in their respective payrolls. While this reclassification of spending is expected to increase somewhat the ratio of wages to GDP, we remain committed to bringing the ratio to the targeted 6 percent within the program period.

Public Procurement Reforms

20. Improved public procurement processes were instrumental to achieving lower than budgeted expenditure in 2018. Going forward, some of the measures to be implemented as part of expenditure control measures include:

i. **Publish the revised Public Procurement Regulations and update the Public Procurement Manual** in line with the Public Procurement (Amendment) Act 2016. The Regulations are awaiting Parliamentary approval, while the *Manual* will be updated in line with the new procurement regulations.

ii. **Regularly publish Price Norms**. The Government will continue the quarterly publication of Price Norms to guide procurement contracts; and ensure value for money in Government procurement activities.

iii. **Introduce an electronic public procurement system**. The Directorate of Science Technology and Innovation had developed a strategy to guide the implementation of an *e-Government Procurement (e-GP)* system. Steps are under way to select an agency to implement the electronic system.

iv. **Develop a national strategy for public procurement**. The 5-year Strategy provides a comprehensive roadmap for procurement reforms and will enable the Government of

Sierra Leone to initiate sequential and sustained measures for strengthening the procurement system. The strategy will enhance the effectiveness and coherence of reform efforts.

v. **Reconstitute the Independent Procurement Review Panel (IPRP)**. The IPRP will serve as an independent grievance redressal mechanism available to bidders who wish to challenge public procurement proceedings as a result of perceived breaches of standard procedures in compliance with the public procurement legal and regulatory instruments.

Goods and Services Expenditure Management

21. Strengthening expenditure commitment control systems in the goods and services categories is essential to reduce the accumulation of arrears. To this end, the Ministry of Finance is introducing a range of reforms to assist in realizing this objective, including:

i. **Expanding the coverage of the Integrated Financial Management System (IFMIS)** to the remaining 30 MDAs by end-May, bringing the total covered to 56. The Accountant-General's Department will continue to enforce the requirement to generate Local Purchase Orders through IFMIS for goods and services expenditure. Upgrading IFMIS to Version 7 will further help in enhancing the expenditure commitment control system through automating the processing of Public Expenditure Tracking System (PETS) forms. IFMIS will be further modified to include a functionality to accommodate multi-year contracts to facilitate the processing of payments as well to ascertain existing commitments of MDAs for the medium term at any point in time. This will provide information that will assist to reduce the accumulation of arrears.

ii. **Establishing active Budget Committees in all MDAs**. The committees will prepare budgets, projections, and analyze how best to use their quarterly budget allocations. To date there are 20 active committees, with a goal to have committees established and active in all 56 MDAs by 2021.

iii. **Strictly adhering to the provisions in the PFM Act** (2016) relating to the control of extra-budgetary expenditures.

Capital Expenditure Management

22. Improving the efficiency of managing capital expenditure is essential to mitigating fiscal risks. Key reforms of capital expenditure planned for the coming year include:

i. **Ensuring to the extent possible that domestically-funded projects are negotiated in local currency to limit the exchange rate risk**, strengthen project appraisals for new projects, review compensations for domestically funded projects and strengthen the monitoring and evaluation mechanism for all capital projects.

ii. **Undertaking a Public Investment Management Assessment (PIMA)** to identify strengths and weaknesses in public investment management across all phases of public investment: planning, allocation, and implementation. We have requested that the IMF conduct a PIMA and hope it will begin later this year.

iii. **Adopting a National Public Investment Policy** to improve the effective planning and efficient execution of investment activities and inform capital expenditure rationalization. The policy will be informed by the findings of the Fund-led PIMA. Given the importance of ensuring consistency with our debt sustainability objectives and our program commitments on external borrowing, we plan to consult the Fund on externally-funded, flagship infrastructure projects.

Treasury Single Account (TSA)

23. Implementation of the TSA was an important contributor to increase strong revenue performance in 2018. Total revenue collected by the original 6 TSA agencies amounted to just over 6 percent of total revenue in 2018, while Ministry of Finance disbursed 37 percent of the receipts to the TSA agencies to meet their operational needs. To further deepen the impact of TSA implementation on total revenue, Government will:

i. **Continue to broaden the coverage of the TSA**. In addition to the six MDAs added in 2018, another five agencies were added to the TSA operations in early 2019 following the enactment of the Finance Act of 2019.

ii. **Print and disseminate the *TSA Operations Manual***, and having agreed an MOU with the BSL, complete the automation process between the Accountant-General's Department and the BSL.

iii. **Commence implementing phase II of the TSA** to include sub-vented agencies, semi-autonomous agencies and project accounts, which will further expand the TSA's scope.

State-owned Enterprises and Fiscal Risks

24. In line with commitments made in the last MEFP, the government has implemented new policies aimed at strengthening SOE oversight the past year. The risk entailed in the operations of the SOEs needs to be managed, analyzed, and quantified so as to be able to proactively respond to potential shocks to the achievement of fiscal objectives. These include:

i. **Establishing a new *Fiscal Risk Management and Fiduciary Oversight of State-Owned Enterprises* (SOEs) Division in the Ministry of Finance**. The division is charged with monitoring the financial performance of SOEs and managing annual fiscal risks. The Division has initially focused on SOEs that have the greatest potential to cause a significant fiscal burden for the Government, such as the Electricity Distribution and Supply Authority (EDSA). EDSA is now recording substantial revenue and in February 2019, it was able to meet all its obligations, including operational expenses, without recourse to Government subsidy.

ii. **Undertaking data reconciliation of interagency arrears** amongst SOEs, with the aim of ascertaining the net arrears and developing a strategy for the clearance of these arrears.

iii. **Publishing a quarterly report on arrears stock at MDAs and SOEs**, and the annual financial statements of SOEs, beginning with EDSA, Electricity Generation and Transmission Company (EGTC) and Guma Valley Water Company (GVWC).

iv. **Developing a strategy, jointly with the National Commission for Privatization** (NCP), to transform and limit the Sierra Leone Telecommunication Company (SIERRATEL) fiscal exposure.

v. **Developing a strategy for on the governance structure and ownership of Sierra Leone Cables Limited** (SALCAB) in line with the Financial Agreement signed between the Government and the World Bank in 2010.

vi. **Going forward, other reforms to be implemented include**: eliminating the backlog of SOEs' audited financial reports; classifying SOEs according to GFSM2014; completing the cross-SOEs arrears clearance strategy; preparing internal quarterly fiscal risk reports to inform the management of the Ministry of Finance: preparing a consolidated SOE financial performance report; and developing a fiscal risk register.

Debt Management and Domestic Arrears Clearance Strategy

Debt Management

25. Achieving the fiscal adjustment path that underpins the ECF program will be essential to putting debt on a sustainable path. Sierra Leone's high level of external debt, and weak growth, exports and revenue put the attainment of the macroeconomic objectives of the program at risk. Domestic debt has almost doubled over the past 4–5 years, at much higher cost and with a term profile susceptible to rollover risks. The high stock of implicit debt, in the form of domestic arrears owed to suppliers, compounds the problem. Therefore, consistent with commitments made in the last MEFP, we have commenced implementing key reforms aimed at efficiently managing and reducing the debt stock. These include:

i. **Sustaining fiscal consolidation drive** with a view to improving the domestic primary balance over the program period and slowing the accumulation of domestic debt.

ii. **Prioritizing grants and highly concessional loans** to finance the budget and especially infrastructure projects.

iii. **Exploring non-debt creating financing models** such as Public-Private Partnerships supported by a thorough analysis of the potential fiscal risks and without recourse to government guarantees.

iv. **Preparing a Medium-Term Debt Management Strategy** to guide debt management practices. The strategy will address key issues in both domestic, external and implicit debt, as well as the interlinkages with BSL balance sheet vulnerabilities. An action plan is being developed following a recent IMF TA mission. The strategy will analyze the scope for, and relative merit of, issuing a range of maturities of government securities, with the aim of shorter-term securities (i.e., 3, 6, 12 months) mainly for cash management and short-term budget financing needs, and gradually extending maturities to longer term bonds for long-term financing needs such as infrastructure projects. In doing so, the strategy will aim to reduce both financing costs and rollover risks. The strategy will be complemented by regular Debt Sustainability Analyses prepared ahead of the annual budget cycle and intended to provide early warning signals on debt levels and the risks of debt distress that can inform debt management policy.

Clearance of Domestic Arrears

26. The Government has made good progress toward clarifying the magnitude of domestic procurement arrears. To date, the Government has undertaken two main steps:

i. **Beginning in 2018, it estimated total arrears and future payment obligations at Le 10.7 trillion**. This amount includes: (i) arrears comprising crystalized obligations (unpaid checks) of Le 1.03 trillion and unprocessed vouchers for works completed of Le 418.9 billion; and (ii) outstanding balances on contracts entered into by MDAs for goods and services and infrastructure projects exceeding Le 9 trillion.

ii. **In June 2018, Government engaged the services of the Audit Services Sierra Leone** (ASSL) to verify this stock of arrears. Claims totaling Le11.59 trillion, (including those submitted later by MDAs) were submitted to the Audit Service for verification.

27. The results of these audit warrant further work to reconcile the different arrears figures. First, we note that ASSL's report includes future payment obligations, which have not fallen into arrears. Second, the outstanding unpaid checks as of December 2018 of about Le 1,156 billion, are not included in the verified claims of ASSL due to timing difference. Third, we need to ensure that any double-counting is eliminated between the amounts verified by ASSL and the outstanding stock of unpaid checks. Finally, arrears to five contractors captured as verified claims in ASSL's report or as part of crystalized obligations have been liquidated by MoF, and should no longer be included in the stock of arrears. These issues will be addressed in months ahead.

28. Given the magnitude of fiscal burden and risks to sustainability, we plan to complete the arrears stocktaking and prepare a clearance plan in a prompt manner. The burden of arrears is a major factor affecting economic activity in the nonmining economy, and a prolonged resolution will only delay economic recovery. We recognize that, once we have a final estimate, this could result in a significant upward revision of the arrears included in our macroeconomic framework. In the absence of donor funding and/or a rescheduling plan that does not undermine debt sustainability, this could necessitate a faster fiscal adjustment path. To ensure we have a clear picture of the situation, we will complete the arrears stocktaking and obtain a comprehensive arrears figure, in line with IMF TA recommendations, by end-August (**structural benchmark**).

29. The next critical step will be to finalize details of our plans to clear this stock arrears. Building on the draft *Strategy on the Treatment of Domestic Suppliers and Contractors Arrears* prepared earlier this year, we will move to making the plan more concrete and operational. By the end of September, we will outline details of the medium-term framework with a clear resource envelope, and specify the prioritization of, and mechanisms for repaying and or rescheduling those arrears. These details will then inform the 2020 budget and the next DSA. Subject to determining the resource envelope and allocations in the medium-term budget, we are currently considering a range of options, drawing on IMF TA, with the aim of containing the costs and impact on debt sustainability. These options include:

i. **Outright cash payments for small claims in the MDAs category** at a level to be determined. These claims are many but smaller in amounts, and outright cash payments will allow suppliers, mostly SMEs to be liquid to re-finance their operations.

ii. **Apply revenue windfall or grant resources**. The Government is in discussions with the World Bank to significantly scale up its next annual budget support, and will also engage other development partners such as DfID, with a view to directing grant resources toward the clearance of these arrears.

iii. **Securitization of some claims**. As upfront cash payment is a limited option due to the likely large amount of the final arrears figure and the challenging fiscal situation, securitization may be unavoidable. Mindful of the debt sustainability implications and what debt the market can bear (in line with recent IMF TA), possible options under securitization include:

   a. **Issuing medium to long-term securities to settle arrears**. This could trigger some costs in the form of interest payments demanded by suppliers/contractors to compensate for the extended time of settling the claims.

   b. **Issuing treasury bills to raise resources and clear some of the verified arrears** to allow suppliers and contractors settle obligations with the banking systems.

30. Several measures contained in the Government's PFM Strategy will assist to avoid the buildup of new arrears. These include the Issuance of Quarterly allocations on the basis of trends in revenue performance, improving fiduciary management in MDAs through the deployment of Budget Officers and Internal Audit Staff; improved cash management, strengthening commitment controls through the IFMIS, improved debt management operations; and enhanced oversight of the state-owned enterprises and local councils to minimize the incidence of contingent liabilities.

B. Monetary, Exchange Rate and Financial Sector Policies

Monetary and Exchange Rate Policies

31. Monetary policy will continue to focus on bringing inflation down to single digits over the course of the program (in line with the medium-term macroeconomic outlook set out in paragraph 13). Given current inflationary pressures, the BSL will continue to implement a tight monetary policy stance to bring inflation down to 14 percent by end 2019. Pending the development of effective price-based monetary policy, the BSL will continue to use monetary aggregates as the operating target and, over time, will work to strengthen the role of indirect instruments, supported by IMF TA.

32. BSL will continue to improve its monetary policy operations to facilitate transition to a forward-looking framework. The BSL's capacity for more rigorous analysis including developing high frequency data, liquidity forecasting, and medium-term forecasting has benefited from IMF TA. The BSL will therefore continue to review its existing liquidity operations framework so as to improve the monetary transmission mechanism. While progress will take time, the BSL will also aim to enhance its liquidity management via the development of the repo market. Finally, the BSL is also working on producing a monetary policy report to enhance the transparency of monetary policy conduct.

33. The objective of building external reserves during the program remains paramount. A key objective of the ECF is to build and maintain a reserve coverage ratio of around 3½ months of imports during the program period. In this regard, we aim to stop routine foreign exchange market sales, which contributed to a lower pace of reserve accumulation in the past year. Rather, BSL will participate in the foreign exchange market only for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate. In addition, we will commence foreign exchange purchase auctions as soon as possible to be able to meet the reserve target for the review period. Purchase operations will be appropriately timed to factor in exchange market developments. We are also developing new foreign exchange guidelines for exporters and non-governmental organizations, and will consult the IMF before finalizing them.

34. We will continue to strengthen the BSL's governance and operational practices by addressing shortcomings in internal controls and maintaining adequate oversight. An international audit firm was contracted to conduct an audit of the foreign exchange transactions between the BSL and quasi government agencies (MDAs) during July 2015—June 2018, in line with IMF safeguards assessment's recommendations. The firm issued an interim report after completing a first phase of the exercise, indicating significant lapses in internal controls and processes, and we expect to receive the final forensic audit report in early June. With that in mind, we plan the following steps moving forward:

i. **Publish the final audit report** within two months of receiving it and after tabling it in Parliament as constitutionally required;

ii. **Identify potential quick wins to be implemented immediately** such as: (i) strengthening the BSL's internal controls to limit access to cash and vault areas, and ensure adherence to policies and procedures; and (ii) the Ministry of Finance issuing a circular to stop MDAs from depositing foreign exchange into commercial banks instead of the BSL; and

iii. **Building on these initial efforts, develop and adopt a remedial action plan** to address the findings of the forensic audit within two months of receiving the final audit report (**structural benchmark for end-August 2019**).

Financial Sector Policies

35. Our objective to deepen financial intermediation to *foster higher, broader-based, and more inclusive growth* remains as stated at the approval of the current ECF program. The BSL is committed to safeguarding financial stability by strengthening the supervisory framework and managing risks within the banking system. We are also committed to strengthening the financial soundness of banks, while exerting stronger oversight over their cross-border relationships.

36. Work is progressing on various initiatives aimed at promoting financial inclusion. The planned introduction of a National Switch for Sierra Leone is progressing with World Bank assistance, and the process of contracting an operator is at an advanced stage. Once installed, the National Switch system will improve payments systems, and facilitate revenue collection (through the introduction of electronic cash registers for GST) and financial inclusion. As part of the policies to deepen financial system, the Government (in cooperation with the UN Capital Development Fund, the UNDP, and the non-profit, Kiva) is planning to introduce a new national identity system, which the BSL will use as a platform to enable the development of unique financial histories for citizens. The new Credit Reference Bureau (CRB)-Unique Identifier will upgrade the existing Credit Bureau platform and significantly reduce manual interventions in the processing of credit reports. Implementation of the project is expected to commence in 2020.

37. The BSL continues to safeguard financial stability through strengthening the regulatory and supervisory framework, and appropriately assessing risks within the banking system and other financial institutions. Over the past year, we have been transitioning to risk-based supervision (RBS) and are focusing our supervisory resources on the banking institutions that pose the greatest risk. In 2018, the BSL conducted full scope RBS examination on seven banks, as well as a targeted AML/CFT examination for two banks. The BSL has already conducted four RBS examinations in 2019. The institution also published its first Financial System Stability Report earlier this year. While the ownership dispute of FiBank in late 2018 resulted in temporary disruption in operations, the BSL's subsequent focus on enhanced supervision helped to stabilize the situation.

38. Work continues to advance on enhancing the legal framework underpinning BSL's regulatory functions.

i. **The *Bank of Sierra Leone (Amendment) Act 2019* and the *Banking Act (Amendment) 2019* were passed by Parliament in late May**. Following their earlier submission to Parliament last year, these laws were amended in particular to include a clause giving the BSL oversight of Islamic banking activities. Having now been passed by Parliament they should soon receive Presidential assent. Together, these new laws will improve the legal framework for the financial sector.

ii. **A new *Borrowers and Lenders Act* was also passed by Parliament in late May**. The law is intended to broaden the scope of the Collateral Registry to include the registration of immovable assets (one stop shop) and also enable individuals and non-incorporated entities who are not licensed and supervised by the Bank of Sierra Leone to be able to register their security interest.

iii. **A *Deposit Insurance Fund Bill* is currently being drafted with the help of the U.S. Treasury Department**. Other activities relating to the introduction of deposit insurance system include: development of a roadmap; modeling of the fund size; sensitization of banking industry and workshops with various stakeholders.

39. Efforts to enhance compliance with global Anti Money Laundering/Combating Finance of Terrorism (AML/CFT) standards will assist in resuming correspondent banking relations. The BSL completed a Technical Compliance Questionnaire supplied by GIABA, the ECOWAS region FATF-style institution. The questionnaire is part of the mutual evaluation of Sierra Leone's AML/CFT regime coming up in July. In December, BSL signed an MoU with FIU to strengthen collaboration, cooperation and information sharing. To improve the compliance of banks with global standards, the BSL rolled out the Risk-Based Approach Supervisory tool for AML/CFT compliance. It is also partnering with the Sierra Leone Association of Commercial Bank (SLACB) to facilitate the process for the formation of a forum of National Compliance Officers for Commercial Banks. Also, the AML/CFT Amendment Act was passed by Parliament in late May.

The Two State-Owned Banks

40. The immediate fiscal risks posed by the two state-owned banks have eased while under enhanced supervisory oversight by BSL. The banks reported aggregate risk weighted capital adequacy ratio of 68 percent, nonperforming loans of 44 percent and return on assets of 17 percent at end-December 2018. Nonperforming loans have eased, but at 44 percent remain higher than industry average. The Government recently replaced the oversight committee of the banks with normal Boards of Directors.

41. However, given the systemic importance of these banks, the government remains committed to putting the banks on a firmer commercial footing and minimizing the risk of undue influence. Our goal is to ensure these banks are able to deliver efficient banking services that support intermediation, financial inclusion and responsible lending to the private sector, thereby contributing to overall financial sector development. While we had hoped to have in place a strategic plan for these banks by end-March, our initial assessment revealed a more complex situation and need for more detailed assessment of progress since the 2016 E&Y Diagnostic Study. We judged that the situation warrants external expert advice to correctly assess the situation and advance this work. At this stage, we envisage a phased approach that will:

i. **complete an updated Diagnostic Study of the two state-owned banks** (**structural benchmark for end-September**) to assess developments since the 2016 diagnostic and set out a common understanding of the situation as a baseline for next steps. We have requested World Bank support and are in the process of agreeing a terms of reference; and

ii. **based on the diagnostic study, take decisions about the intended function, business model and governance framework** by March/April 2020, including stronger internal controls, and a new business model that protects them against political influence, and durably limits the fiscal risks. It will however be important to secure technical support to effectively move this work forward; and

iii. **maintain the BSL's enhanced supervision and directives of no lending to Politically Exposed Persons**, subject to developing a timetable for transitioning back to standard supervisory oversight in line with the implementation of the new governance framework and business model.

C. Inclusive Growth and Social Protection

42. Poverty reduction and the need to provide protection for vulnerable segments of the population remain key objectives of the ECF program. After the civil war, the country made some progress on poverty reduction, but Ebola Virus Disease (EVD) epidemic of 2014–15 eroded some of the gains. Furthermore, there are emerging challenges associated with climate change, including flooding, which is severely impacting on the livelihood of the poor and vulnerable. As a result, the Government has decided to revamp its social protection agenda.

43. Inclusive growth and poverty reduction are front and center in our recently launched comprehensive reform agenda. Launched in early March, the new NDP aims to ensure a "*united, peaceful, progressive and happy nation where the people have access to jobs, food, and education and health services and there is equal justice and equal opportunity for all*". Reforms focus on addressing corruption and investing in human capital. Human capital development has been identified as the main pathway to sustainably transforming our economy and lifting more people out of extreme poverty leading to inclusive growth. The human development interventions identified in the NDP are the main channels through which we expect to deliver inclusive growth and social protection.

44. In the meantime, we will continue to provide additional support to the most vulnerable segments of our population, and make progressive efforts to augment funding of social protection activities. In 2019, Le 13.5 billion was allocated from the recurrent budget to the social protection sector for implementing pro-poor programs, including cash transfers, and Le 33.2 billion from the domestic capital budget was allocated to meet counterpart contributions for various social protection programs funded by development partners. Going forward, the Government is committed to:

i. **Expanding the coverage of ongoing cash transfer programs** being implemented by NaCSA;

ii. **Creating targeted employment schemes** (e.g., cash-for-work and food-for-work programmes) for youth, women, and others, especially the most vulnerable of these groups, through public–private partnerships and development partners.

iii. **Ensuring the successful implementation of activities** funded by the Post Ebola Recovery Social Investment Fund in the Ministry of Social Welfare, Gender and Children's Affairs;

iv. **Supporting informal savings schemes** and other community savings and insurance schemes with welfare provision;

v. **Implementing policy and legislative reforms** to address inequality, such as laws pertaining to wages and social security benefits; and

vi. **Developing a National Health Policy**, with a view to establishing a National Health Insurance Scheme.

We will continue to work with the World Bank and other partners to identify additional policies that could be implemented to build on the social protection measures in the current program.

D. Business Environment and Economic Diversification

45. Sierra Leone currently ranks 163 out of 190 in the 2019 World Bank *Ease of Doing Business* Ranking, a decline relative to 148th in 2018. Significant improvements were made however in several areas, including the Ease of Starting Business, for which Sierra Leone ranked 55 out of 190, above some middle-income countries in the region. The recent migration to the ASYCUDA World system for the speedy clearance of goods at the Queen Elizabeth II Quay and new legal and regulatory reforms, relating to protecting investors against expropriation and the free transfer of funds, are expected to further ease the business environment.

46. Diversification of the economy is one of the key goals of our NDP. The Government's commitments to new investments in agriculture, fisheries, tourism, manufacturing and the services sectors was articulated in the economic diversification cluster of the NDP. To turn this commitment into reality, the Government supported by the World Bank is in the process of initiating an Economic Diversification Study. In addition, the World Bank has also committed US$30 million to a project that will focus on the pathways for diversifying the country's economy by facilitating investments in the tourism sector; promoting continued business environment reforms; and supporting the growth of SMEs and entrepreneurship, including direct and indirect support to companies and investments.

E. Strengthening Statistics

47. Efforts to strengthen the governance and improve effectiveness of the national statistical agency are yielding fruit. In the past year, reforms initiated by Statistics Sierra Leone's (SSL's) new leadership have been instrumental to attracting donor support from World Bank (who withdrew funding in 2017), the Bill and Melinda Gates Foundation, UNFPA, and others. With improved governance and financial management, both the coverage and quality of data have improved. The coverage of statistical information has expanded to various areas including: (i) Social Safety Nets; (ii) National Civil Registration; (iii) Rental Census to support NRA's revenue mobilization; (iv) completion of the Sierra Leone Integrated Household Survey to support poverty analysis; (v) launching the multiple indicator cluster survey report; and (vi) undertaking a Business Establishment Survey to better support economic policy decision making and help rebase GDP. Going forward, SSL will continue to:

i. **Strengthen collaboration with, and seek additional funding** from global development partners.

ii. **Successfully partner with organizations across the country** to bring better information about Sierra Leone, promoting wider coverage and dissemination of national statistics.

iii. **Elevate Sierra Leone as a leader among low-and middle-income countries** in ensuring full transparency of data and in using data to ensure achievements targeting the SDGs. This will help Sierra Leone collaborate with countries across the Global South and North, and help sustain our development path.

iv. **Strengthen capacity at SSL** and expand technical expertise to support the collection of essential routine data about Sierra Leone, including by launching new initiatives and completing others to collect better data and strengthen development across Sierra Leone.

PROGRAM MONITORING

48. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks. Quantitative targets for end-June and end-December 2019 are performance criteria. Those for end-September 2019 and end-March 2020 are indicative targets. The second review of the program will be completed on or after December 1, 2019, and the third review on or after June 1, 2020.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2018–20

(Within-year cumulative change – starting from June for 2018, and from January for 2019 and 2020; Le billions, unless otherwise indicated)

	2018					2019									2020
	Jun.	Dec.				Mar. IT				Jun. PC	Sept.		Dec.		Mar.
	Stock	Prog.	Adj. Prog.	Prel.	Status 4/	Prog.	Adj. Prog.	Prel.	Status 4/	Prog. 5/	IT	CR No. 18/371	PC	CR No. 18/371	IT
Performance criteria															
Net domestic bank credit to the central government (ceiling) 1/	5171	823	1104	533	Met	407	352	271	Met	812	791	1155	1085	1357	175
Unadjusted target (ceiling)			823				407								
Adjustment for the shortfall (excess) in external budget support			175				45								
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments			106				-100								
Net domestic assets of the BSL (ceiling)	858	404	617	670	Not met	223	303	-124	Met	341	522	458	634	576	15
Unadjusted target (ceiling)			404				223								
Adjustment for the shortfall (excess) in external budget support			175				45								
Adjustment for exchange rate depreciation (appreciation)			38				34								
Gross international reserves of the BSL, US$ millions (floor)	474	7	-21	10	Met	-20	-21	-11	Met	-27	-6	-33	17	14	-6
Unadjusted target (floor)			7				-20								
Adjustment for the shortfall (excess) in external budget support			-40				-5								
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement			0				0								
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			13				4								
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (ceiling)	...	80		35	Met	100		42	Met	100	100	100	100	100	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0	0	0	0	0	0
Indicative targets															
Total domestic government revenue (floor)	...	2356		2430	Met	1224		1358	Met	2549	3797	3866	5302	5350	1485
Poverty-related spending (floor) 3/	...	275		749	Met	293		196	Not met	634	1016	1027	1495	1467	403
Domestic primary balance (floor)	...	-282		-45	Met	-98		254	Met	-208	-171	-306	-247	-264	-58
Memorandum items:															
External budgetary assistance (in $ million)	...	67.0		27.5		5.0		0.0		13	61	24	85	41	30
Exchange rate (Leones/US$)															
Program	7741	8743				9040				8999	9280	9635	9539	9932	9815
Actual	7741			8396				8676							

1/ Includes IMF budget support-related SDR on-lending from the Central Bank to the Government.

2/ These apply on a continuous basis.

3/ Poverty-related spending is defined in paragraph 22 of the TMU.

4/ Preliminary status

5/ As set at the time of program approval on November 30, 2018.

Table 2. Sierra Leone: Structural Benchmarks		
STRUCTURAL BENCHMARKS	**TIMING**	**STATUS**
Benchmarks for First Review		
Complete the audit of BSL's 2017 financial statements	January 31, 2019	Met
Publish the final report of the forensic audit of foreign exchange transactions between the BSL and MDAs during July 2015–June 2018 and adopt a remedial action plan to address findings.	May 31, 2019	Not met (see new benchmarks)
Develop a strategic plan for the two state-owned banks including a timetable for putting in place an independent governance framework for the banks that protects them against political influence, and thereby durably limits their fiscal contingency risks.	March 31, 2019	Not met (see new benchmarks)
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous	Met
Adopt a plan for dealing with the outstanding stock of unpaid obligations to domestic suppliers containing: (1) a comprehensive stock-taking, transparent verification, and prioritization of arrears; (2) measures to prevent new arrears; (3) making allocations for clearance of arrears in the medium-term budget framework; and (4) plans to rationalize the balance sheet of the BSL.	March 31, 2019	Not met (see new benchmarks)
Proposed Benchmarks for Second Review		
Adopt a remedial action plan to address the findings of the forensic audit report.	August 31, 2019	
Complete the stocktaking of payment arrears to domestic suppliers to determine a comprehensive arrears figure, drawing on IMF technical assistance recommendations.	August 31, 2019	
Prepare draft amendments to the NRA Act, drawing on technical assistance recommendations (from the IMF and the UK DfID), and submit to Fund staff for review (to be done prior to submitting to the Cabinet).	September 30, 2019	
Update the 2016 diagnostic study of the two state-owned banks, with support from the World Bank.	September 30, 2019	
Continue to use the automatic fuel price indexation mechanism to set fuel price determination	Continuous	

Attachment II. Technical Memorandum of Understanding

INTRODUCTION

1. **This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund** (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2019 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 8396.05/US$ and cross rates as of December 2018.[2]

Sierra Leone Program Exchange Rate for ECF Arrangement Cross Rates as of end-December 2018			
Currency	**Currency Units per SDR**	**Leones Per currency unit**	**US dollars Per currency unit**
US dollars	1.39	8,396.05	1.00
British Pound Sterling	1.10	10,659.19	1.27
Japanese Yen	154.14	75.76	0.01
Euro	1.21	9,616.83	1.15
SDR	1.00	11,677.14	1.39

QUANTITATIVE PERFORMANCE CRITERIA

3. **Quantitative performance criteria are proposed for June 30, 2019, and December 31, 2019 with respect to**:

- net domestic bank credit to the central government (NCG) (**ceiling**);
- net domestic assets (NDA) of the Bank of Sierra Leone (BSL) (**ceiling**);
- gross international reserves (GIR) of the BSL (**floor**);
- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US$ millions (**ceiling**);

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

[2]For calculating program targets for 2019, all end-December 2018 stock variables will be based on the program exchange rate of Le 8396.05/US$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

- New non-concessional external debt contracted or guaranteed by the public sector, US$ million (**continuous ceiling**);

- Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (**continuous ceiling**); and

- External payment arrears of the public sector (**continuous ceiling**).

4. The program sets indicative targets for September 30, 2019, and March 31, 2020 with respect to:

- Total domestic government revenue (**floor**)

- Domestic primary balance (**floor**)

- Poverty related expenditure (**floor**)

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

5. Definition. NCG refers to the net banking system's claims on the central government as calculated by the BSL. It is defined as follows:

a. the net position of the government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;

b. the net position of the government with the BSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover BSL losses and to increase its capital; (b) ways and means; (c) any bonds issued in the conversion of ways and means into debt; and (d) any other type of direct credit from the BSL to the government, including the special on-lending arrangements relating to budget support as approved under the 2018–22 ECF arrangement; less (a) central government deposits; and (b) any debt relief received, notably HIPC, MDRI and relief deposits, as well as debt relief under the CCR Trust.

6. Adjustment clauses. The ceiling on changes in NCG will be adjusted (a) upward by the leone value of the shortfall in external budgetary assistance[3]—the upward adjustment will be capped at the equivalent of US$20 million; (b) a downward (upward) adjustment by the increase (decline) in the value of the cumulative net flow of unpaid checks and other outstanding payments (or known as 'crystalized obligations') (relative to the end-December 2018 stock of Le 1,156 billion);

[3]External budgetary assistance is defined as budget grants and loans, excluding HIPC assistance. The amounts are specified in Section D.

(c) a downward (upward) adjustment by the excess (shortfall) in leone value of net issues of government securities to non-bank private sector.[4]

7. Data source. The data source for the above will be the series "Claims on Government (net)", submitted to the IMF staff and reconciled with the monthly monetary survey prepared by the BSL.

a. **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 state-owned enterprises are excluded from this definition of central government.

B. Net Domestic Assets of the BSL

8. Definition. Net domestic assets (NDA) of the BSL are defined as the end-period stock of reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and the BSL liabilities to other private sector entities. Net foreign assets of the BSL are defined as gross foreign exchange reserves minus gross foreign liabilities (defined below):

a. **BSL's Gross foreign exchange reserves** are defined as the sum of:

- the BSL's holdings of monetary gold (excluding amounts pledged as collateral);
- holdings of Special Drawing Rights (SDRs), including the August 28, 2009 General allocation and the September 9, 2009 Special allocation;
- BSL's holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

b. **BSL's gross foreign exchange reserves** exclude:

- pledged, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
- deposits with Crown Agents and other correspondent banks rated below BBB; and
- precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.

[4]Taken together, clauses (b) and (c) would imply that a reduction in the stock of unpaid checks from cash budget resources would increase the NCG ceiling by the same amount, but that a reduction through securitization would not.

c. **BSL's gross foreign exchange liabilities** are defined as:

- the total outstanding liabilities of the BSL to the IMF excluding those arising from the August 28, 2009 SDR general allocation and the September 9, 2009 SDR special allocation; and debt relief from the Catastrophe Containment and Relief (CCR) Trust granted in 2015;

- convertible currency liabilities of the BSL to nonresidents with an original maturity of up to and including one year; excluding foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous Bilateral Trade Agreement;[5]

- commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), including 2017–18 foreign exchange swap arrangements with commercial banks;

- balance on zero coupon bonds issued by BSL to Securiport LLC on behalf of the government.

9. Adjustment clauses. The ceiling on changes in NDA of the BSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million, and by exchange rate depreciation (appreciation).

C. Gross International Reserves of the BSL

10. Definition. Unless otherwise noted, gross international reserves (GIR) of the BSL will be calculated as reserve assets of the BSL. Reserve assets are defined in IMF's Balance of Payments Manual (5th ed.) and elaborated in the reserve template of the Fund's International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template. Specifically, GIR-BSL excludes 2017–18 foreign exchange swap arrangements with commercial banks.

11. Adjustment clauses. The floor on the change in gross international foreign exchange reserves will be adjusted (a) downward (upward) by U.S. dollars equivalent cumulative shortfall (excess) in programmed external budgetary assistance; (b) downward (upward) for any cumulative shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

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[5]The authorities have confirmed that this BTA is no longer operational.

D. Assumptions on External Budgetary Assistance

12. The programed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, on a cumulative basis, from January 1, 2019 to:

End-March 2019	USD 0 million
End-June 2019	USD 13 million
End-September 2019	USD 61 million
End-December 2019	USD 85 million

The programed external budgetary assistance will amount, on a cumulative basis, from January 1, 2020 to end-March 2020 to USD 30 million.

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

13. New external debt is defined as all forms of new external debt with original maturity of one year or more contracted or guaranteed by the public sector based on the residency of the creditor. The external debt definition applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107), December 5, 2014, Point 8 but also to commitments contracted or guaranteed for which value has not been received. For the purposes of this PC, external debt is defined on the basis of the residency of the creditor. The "public sector" is defined in paragraph 19.

14. For program purposes, the debt is deemed to have been contracted when it is signed by the government of Sierra Leone and ratified by Parliament. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government. The ceiling on new external debt will be applied on a continuous basis from September 1, 2018.

15. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

F. New Non-Concessional External Debt Contracted or Guaranteed by the Public Sector

16. Nonconcessional external debt is defined as external debt (defined in paragraph 13) on terms that do not meet the definition in paragraph 15. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and will be measured in U.S. dollars at current exchange rates.

17. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. This PC will apply on a continuous basis.

G. Outstanding Stock of Short-term External Debt with Maturities of Less Than One Year Contracted or Guaranteed by the Public Sector

18. 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 in paragraph 19. This PC will apply on a continuous basis.

H. External Payment Arrears of the Public Sector

19. Definition. External payment arrears of the public sector are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, state-owned enterprises, as listed in Annex 7 of the 2019 budget documents, and the BSL. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring or are under litigation. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGET

A. Domestic Revenue of Central Government

20. 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.

B. Domestic Primary Balance

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

C. Poverty Related Expenditure

22. Definition. For program monitoring purposes, poverty-related expenditures are defined as the total current expenditures of the following ministries and institutions: Higher and Secondary Education, Health and Sanitation, the Health Service Commission, Social Welfare, Youth, Agriculture, Fisheries, Transport and Communications, Energy, Sierra Leone Electricity and Water Regulatory Commission, Water, Correctional Service, National Fire Authority, Local Councils, the National HIV and AIDS Commission, Anti-Corruption Commission, Statistics Sierra Leone, and the National Commission for Social Action; and capital expenditure for the Ministry of Works, Energy, Sierra Leone Electricity and Water Regulatory Commission, Water, Health and Sanitation, the Health Service Commission, Agriculture, Fisheries, Local Councils, and the National Commission for Social Action.

D. Program Monitoring

23. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoFED, the BSL, and other relevant agencies. The committee shall be responsible for monitoring performance under the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of PCs and benchmarks. The committee will provide monthly reports to the IMF on progress in implementing the program’s quantitative targets and structural benchmarks.

Annex I. Implementation of the Public Debt Limits in Fund-Supported Programs with Respect to External Debt

The term "debt" has the meaning set forth in point No. 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements adopted on June 30, 2015, which reads as follows:
"(a) For the purpose of these guidelines, 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 the 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 these guidelines, 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 this paragraph, 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."

Attachment A. Summary of Data Reporting to IMF Staff

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of national accounts	Variable	End of revision + 2 months
	Disaggregated consumer price index	Monthly	End of month + 2 weeks
Public finance	Net government position and details of nonbank financing, including the stock of the float, treasury bills, and bonds, as well as privatization receipts	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table) with supporting documentation (final) and presented on commitment and cash bases	Monthly	End of month + 6 weeks
	Petroleum product prices and tax receipts by categories of petroleum products	Monthly	End of month + 6 weeks
	Stock of outstanding payment commitments with a breakdown between current and capital expenditures	Monthly	End of month + 6 weeks
	Import duty exemptions by end-users and tariff regimes and estimates of corresponding revenue losses	Quarterly	End of quarter + 6 weeks
Monetary and financial data	Monetary survey	Monthly	End of month + 6 weeks
	Balance sheet of the BSL	Monthly	End of month + 6 weeks
	Consolidated balance sheets of commercial banks	Monthly	End of month + 6 weeks
	BSL monitoring sheet of net financing of the financial sector to the government	Daily	COB + 2 days
	BSL monitoring sheet of treasury bills and bonds holdings	Weekly	COB + 1 day
	Borrowing and lending interest rates	Monthly	End of month + 6 weeks
	Results of foreign exchange and Treasury Bills auctions	Weekly	End of week + 1 days
	Stocks of government securities	Monthly	End of month
	Banking supervision ratios	Quarterly	End of quarter + 4 weeks

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

Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Sierra Leone and Mr. Willie Nakunyada, Advisor to the Executive Director
June 28, 2019

Introduction

1. Our authorities appreciate the constructive dialogue with staff during the recent Extended Credit Facility (ECF) program review mission. They broadly share staff's assessment and agree with key policy recommendations.

2. Sierra Leone has made steady progress in stabilizing macroeconomic conditions since the end of the Ebola crisis in 2016. Renewed reform efforts supported by the decisive implementation of longstanding reform measures by the new administration, which assumed power in April 2018, have laid a strong foundation for accelerated economic recovery. The reform agenda is guided by the new Medium-Term National Development Plan (NDP 2019–2023), whose objectives include improving livelihoods through education; promoting diversification, boosting resilient and inclusive growth; addressing governance challenges; and strengthening public financial management. To anchor reform efforts, the authorities concluded a new ECF arrangement with the IMF in November 2018. This arrangement, which has been under implementation for the last six months, seeks to entrench macroeconomic stability, ensure fiscal and debt sustainability, support structural reforms, and build buffers.

3. To help achieve the reform objectives, our authorities look forward to Executive Directors' support for the completion of this first review under the ECF arrangement. They further request a waiver for the non-observance of a performance criterion.

Program Performance

4. Performance under the ECF arrangement remains broadly satisfactory, and the program remains on track. All end-December 2018 quantitative performance criteria (QPCs) were met, except the net domestic assets (NDA) of the Bank of Sierra Leone (BSL) and the indicative target on poverty-related spending. The QPC on NDA was missed due to a bridge loan extended by the BSL to government in anticipation of timely disbursements under donor budget support. The effect of the delay in budget support on the end-December NDA targets was, however, corrected in the first quarter of 2019. Going forward, the authorities will be vigilant in ensuring stronger program performance through regular monitoring and prompt implementation of corrective actions.

5. Implementation of structural reforms has progressed well, although three out of five structural benchmarks (SBs) were delayed owing to unforeseen technical complexities. The development of a strategic plan for the two state-owned banks (SOBs) proved more complex as it required an update of the baseline diagnostic assessment prepared in 2016. A new diagnostic

study will now be prepared with support from the World Bank, for completion by end September 2019. Work on the audit and validation of arrears was completed and the authorities are now integrating related work streams to ascertain the headline arrears amount. This work is now expected to be completed by end-August 2019. Regarding the delayed SB on the forensic audit of the BSL, the scope of the audit turned out to be broader than expected. Nevertheless, the audit report has been finalized and the authorities are now focusing on publishing the report and developing an action plan by end-August 2019.

Recent Economic Developments and Outlook

6. Economic growth slowed from 3.8 percent in 2017 to 3.5 percent in 2018 against the background of a contraction in non-mining activity and the continued closure of major iron ore mining operations, owing to low export prices. The slowdown in public investment projects, which dampened construction activity, also constrained growth. Real GDP growth is, however, expected to rebound to 5.1 percent in 2019 and average 4.8 percent in the medium-term, largely benefitting from the resumption of iron ore production at the Marampa Mines, the commencement of several construction projects, and increased investments in agriculture.

7. Inflation, which peaked at 19.3 percent in September 2018, declined to 17.5 percent in March 2019. Going forward, inflation is expected to decline owing to improved food supplies, and tight monetary conditions. At the same time, external reserves declined from 3.7 months of imports in 2017 to 3.6 months of imports in 2018, reflecting delayed disbursement of donor budget support. In the medium term, gross reserves are expected to average 3.5 months of imports.

Fiscal Policy and Debt Management

8. The authorities remain committed to sustain fiscal consolidation efforts to place public debt firmly on a downward path. Towards this end, they are aggressively implementing several tax administration measures including: eliminating fuel subsidies; maintaining automatic fuel price adjustments; automating tax processes to enhance monitoring;[1] conducting specialized tax audits, enforcing tax compliance; streamlining duty waivers and exemptions; and expansion of the Treasury Single Account (TSA) to cover additional Ministries, Departments and Agencies' (MDAs). The on-going data matching exercise between the National Revenue Authority (NRA) and various government agencies, and the adoption of the Extractive Industry Revenue Bill in 2018, which seeks to improve the fiscal regime for mining companies, could yield additional benefits.

9. The authorities have implemented several expenditure control measures related to public sector vehicle procurement, fuel allocation, and travel expenses, as well as the

[1]Automation efforts include the Integrated Tax Administration System (ITAS) for domestic taxes, the web-based ASYCUDA World for Customs and Electronic Cash Registers for goods and services tax (GST).

development of a vehicle fleet policy with the assistance of the World Bank. In addition, the introduction of biometric verification of civil servants, has reduced leakages. The authorities will continue to protect poverty-reducing spending and other priority expenditures outlined in the NDP. Additional efforts include the ongoing strengthening of public investment management and re-negotiation of the terms for several infrastructure projects to ensure fair pricing and value for money. In parallel, public procurement processes have been improved and plans to introduce an e-Government Procurement (e-GP) System to improve the quality of public procurement, have advanced. Going forward, the authorities will continue to pursue a conservative medium-term expenditure path, supported by the on-going automation of government payment systems.

10. To mitigate the elevated debt vulnerabilities, the authorities continue to prioritize concessional loans to finance infrastructure projects with potential to spur high growth. Accordingly, priority will be accorded to non-debt creating financing, including public-private partnership (PPP) and Build Operate and Transfer (BOT) arrangements. Relatedly, the authorities are looking forward to the IMF-led PIMA to help identify strengths and weaknesses in public investment. Furthermore, the Medium-Term Debt Management Strategy developed in collaboration with the World Bank is expected to guide debt management practices going forward. Moreover, the authorities are planning to conduct regular self-assessments of debt sustainability to provide important early warning signals.

Monetary and Financial Sector Policies

11. The authorities remain committed to maintaining a tight monetary policy stance through reserve money targeting to reduce inflation to single digit levels in line with the BSL objective. Going forward, the authorities will continue to improve monetary policy operations to facilitate transition to a price-based monetary policy framework. They also continue to attach importance to improving the transmission mechanism and transparency in the conduct of monetary policy while strengthening forward-looking liquidity management through the development of the repo market. Fund technical support will help in strengthening the role of indirect monetary policy instruments and deepening domestic capital markets. To preserve reserve buffers and allow greater exchange rate flexibility, the BSL commits to confine foreign exchange interventions to the smoothening of disorderly market conditions.

12. The banking sector remains broadly stable, liquid, and profitable, with ample capital buffers, an expanding deposit base, and improved asset quality. Importantly, the withdrawal of correspondent banking relationships (CBRs) has slowed following measures adopted to strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. The BSL is also stepping up efforts to further strengthen the regulatory framework to mitigate fintech and cyber-risks. Further, the authorities are aggressively promoting financial inclusion. In addition, amendments to the BSL Act, recently passed by Parliament, are expected to help strengthen central bank governance and operational autonomy.

Structural Benchmarks

13. The clearance of domestic arrears to reduce macro-fiscal risks ranks high on the authorities' agenda. In this regard, ongoing public financial management (PFM) reforms to support good governance and strict adherence to commitment controls through the Integrated Financial Management Information System (IFMIS), are expected to help prevent the future build-up of arrears. At the same time, the authorities are currently engaging the World Bank to seek additional support to clear some of the arrears. Meanwhile, the government has already developed a draft strategy to pay down arrears including through: outright cash payments; issuance of longer dated government securities; utilization of grant resources and budgetary allocations. IMF assistance is expected to help ascertain the scope for securitization.

14. The authorities appreciate the need to mitigate fiscal risks emanating from the two State-Owned Banks. To this end, the government appointed new Boards of Directors while the BSL adopted an enhanced supervision approach and put in place stringent rules to prevent lending to politically-exposed persons (PEPs). Credit risk management and underwriting practices have also been enhanced. Consequently, performance of the SOBs has improved, with better credit quality and profitability. Furthermore, internal controls and identified governance deficiencies have been addressed.

Conclusion

15. Our authorities reiterate their firm commitment to implement reforms geared to raise growth prospects, improve living standards, increase private sector investment, and achieve Sustainable Development Goals (SDGs). To this end, they are determined to successfully implement reform measures under the Extended Credit Facility arrangement to entrench macroeconomic stability and unlock the country's growth potential. They remain optimistic that continued Fund policy engagement and technical support will help in the realization of the country's overall development objectives.