INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/116

SIERRA LEONE

April 2020

2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

In the context of the 2019 - Article IV and Second Review Under the Extended Credit Facility, the following documents have been released and are included in this package:

- **Press Releases** including a statement by the Chair of the Executive Board on the IMF arrangement, and a summary of the views of the Executive Board as expressed during its April 3, 2020 consideration of the staff report on issues related to the Article IV Consultation with Sierra Leone.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 3, 2020, following discussions that ended on November 13, 2019, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 24, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes Second Review of Sierra Leone's Extended Credit Facility

FOR IMMEDIATE RELEASE

- IMF approves disbursement of US $21.13 million (SDR 15.555 million) to Sierra Leone.
- This disbursement underscores the Fund's ongoing commitment to help the country tackle any potential economic fallout from the COVID-19 pandemic.
- The Government's continued reform efforts will help build the foundation necessary to support future development and tackle the exceptionally difficult external environment.

Washington, DC – April 03, 2020. The Executive Board of the International Monetary Fund (IMF) completed the second review of Sierra Leone's performance under the program supported by an Extended Credit Facility (ECF).

Completion of this review enables the IMF to immediately disburse SDR15.555 million (about US$21.13 million), bringing total disbursements under the arrangement to SDR46.665 million (about US$63.39 million). The Executive Board approved the authorities' request for a waiver of non-observance of a performance criterion.

The Board had approved Sierra Leone's 43-month ECF arrangement for SDR124.44 million (about US$172.1 million) 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 development needs by strengthening revenue mobilization, containing current spending and improving the efficiency of public investment. In the critical and uncertain period ahead, the Fund is committed to working closely with the Government to help address the priority health and economic needs to combat the fallout of the COVID-19 pandemic.

The Executive Board today also concluded the 2020 Article IV Consultation with Sierra Leone. A separate press release will be issued shortly.

Following the Executive Board discussion, Mr. Geoffrey Okamoto, Acting Chair and First Deputy Managing Director, made the following statement:

"Sierra Leone continued to make good progress under the Fund-supported program. The authorities have demonstrated firm commitment to their reform agenda.

"While the program's medium-term goals remain appropriate to enable future growth and development, the dramatic onset of the global COVID-19 pandemic poses significant near-term risks. Combating the economic fallout of the crisis and protecting the health of Sierra Leoneans should be the immediate priority.

"The authorities' cautious fiscal policy has been important. They have made commendable progress in mobilizing domestic revenue and prudent execution of budgeted expenditures. This has stabilized domestic borrowing needs and allowed inflation pressures to ease.

"The 2020 budget appropriately balances the tight fiscal position and meeting development needs. In line with the Government National Development Plan, the budget prioritizes investing in education and provisions for repaying legacy arrears as part of a broader arrears clearance strategy. The authorities will need to prioritize additional spending to help cushion the impact of COVID-19.

“Managing fiscal risks and securing debt sustainability remain the medium-term priority. Continued revenue mobilization will require both tax administration and policy reforms. Deeper public financial management reforms will further improve budget planning and execution, including preventing new arrears. A strategic plan for the two state-owned banks will be instrumental in addressing underlying fiscal risks.

“Monetary policy remains appropriately focused on reducing inflation to single digits over the medium term. Redoubling efforts to implement the new central bank law and the forensic audit action plan will be critical to strengthening operational effectiveness. Continued actions to reduce strains on the foreign exchange market and preserve exchange rate flexibility are also critical to boost resilience.

“The inadvertent omission of securities issued to the nonbank sector gave rise to a breach of the performance criterion on net credit to the government. The authorities took the necessary corrective actions and measures to avoid re-occurrence of misreporting.’’

IMF Executive Board Concludes 2019 Article IV Consultation with Sierra Leone

FOR IMMEDIATE RELEASE

Washington, DC – April 6, 2020. The Executive Board of the International Monetary Fund (IMF) completed the 2019 Article IV consultation[1] with Sierra Leone on April 3, 2020. At the same time, the Board also completed the second review of Sierra Leone's performance under their program supported by the IMF's Extended Credit Facility (ECF) arrangement. A press release on the ECF review was issued separately.

In recent years, macroeconomic conditions stabilized, and the economy had begun to cement its recovery. Since coming to office in early 2018, the Government implemented key reforms and launched a new National Development Plan with a strong emphasis on investing in education, infrastructure and improving governance. Growth stabilized at 3.5 percent in 2018 before picking up to an estimated 5.1 percent in 2019, on the back of a broad-based recovery of economic activity. At the same time, inflation moderated to under 14 percent by end-2019.

A focus on fiscal sustainability and prudent budget execution saw the overall budget deficit decline from 11.3 percent of non-iron ore GDP in 2017 to 7.7 percent in 2018 and an estimated 6.3 percent in 2019. This helped to stabilize domestic borrowing needs. The current account deficit also narrowed substantially, although pressure on the exchange rate persists.

While the Sierra Leonean economy has great potential, the immediate outlook is overshadowed by the rapidly unfolding global COVID-19 pandemic. Based on programmed policies, growth was projected to average around 4½ percent over the medium term. However, prospects for the remainder of 2020 are subject to considerable uncertainty. The magnitude of the impact will depend heavily on the extent of vital prevention and containment measures—nationally, regionally and globally—and the associated economic spillovers.

With the fragile Sierra Leonean economy still recovering from the Ebola health crisis and past lax macroeconomic policies, the COVID-19 shock will add to the country's vast development challenges. Avoiding long-lasting scarring and continuing the economy's promising development trajectory will require significant support from development partners.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the progress in stabilizing the economy, underpinned by the authorities' reform program. Noting the serious risk posed by the global COVID-19 pandemic, Directors welcomed the decisive actions taken

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairperson of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

to protect the health of the population and to minimize potential economic spillovers. They acknowledged that the discussion on medium-term issues had taken place prior to the outbreak of the pandemic, calling for contingency planning and continued external support given the country's high debt burden and capacity constraints.

Once the immediate priority to combat the COVID-19 crisis has passed, Directors stressed the need to continue ensuring fiscal sustainability and creating space to meet development needs over the medium term. They emphasized the importance of mobilizing domestic revenues, strengthening public and debt management, and improving the management of fiscal risks, particularly from state entities and the financing of large public investments. Directors welcomed the new Medium-Term Debt Management Strategy, and efforts to develop a transparent and sustainable plan for arrears clearance.

Directors encouraged continued efforts to bring down inflation and enhance the central bank's operational independence. They recommended in particular improving liquidity management to better align the policy rate with money market rates. Directors highlighted that deepening foreign exchange markets could help level the playing field for businesses. They welcomed efforts to strengthen financial sector stability, through improved guidelines and oversight, and to promote financial inclusion, including by leveraging the Financial Sector Stability Review.

Directors welcomed the National Development Plan, with its focus on addressing governance weaknesses and investing in the education of a young population to establish a strong foundation for sustained development and inclusive growth. They looked forward to further progress in improving the business climate, thereby facilitating private sector-led growth.

Directors took note of the authorities' corrective actions to address the misreporting incident related to the inadvertent omission of securities issued to the non-bank sector.

Sierra Leone: Selected Economic Indicators

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			CR No. 19/217	Est.	CR No. 19/217	Proj.			Proj.		
	(Annual percent change, unless otherwise indicated)										
National account and prices											
Growth											
GDP at constant prices	3.8	3.5	5.1	5.1	4.7	4.2	4.6	4.5	4.5	4.5	4.6
GDP excluding Iron ore	3.6	5.4	4.5	4.5	4.4	4.4	4.5	4.4	4.4	4.4	4.4
Inflation											
Consumer prices (end-of-period)	15.3	14.2	14.0	13.9	12.0	13.0	11.0	9.6	8.8	8.0	7.5
Consumer prices (average)	18.2	16.0	15.7	14.8	13.0	13.4	12.0	10.3	9.2	8.4	7.8
External sector											
Terms of trade (deterioration -)	15.9	-9.8	4.7	-4.2	-0.8	2.3	-1.0	-0.8	-1.0	-1.3	-1.3
Exports of goods	-0.3	-2.0	38.7	11.4	21.6	28.1	10.9	9.2	5.1	6.3	7.3
Imports of goods	23.7	0.6	5.4	4.7	5.9	4.0	4.6	4.2	3.5	3.9	3.4
Gross international reserves (excluding swaps), months of imports 1/	3.8	3.7	3.4	3.5	3.5	3.7	3.6	3.5	3.5	3.5	3.5
Money, credit and reserves											
Domestic credit to the private sector	4.9	30.6	24.9	22.9	7.5	9.3	20.2	13.0	3.6	2.5	13.9
Domestic credit to the private sector in percent of non-iron GDP	5.2	5.6	…	6.0	…	5.7	5.9	5.8	5.3	4.8	4.9
Base money	9.0	6.5	25.2	12.4	16.6	26.3	15.5	14.1	13.3	12.5	12.0
M3	7.0	14.5	18.4	14.3	16.6	17.4	15.5	14.1	13.3	12.5	12.0
Gross Intl. Reserves (excluding swaps, in US$ millions)	501	487	500	506	551	572	577	586	592	616	651
Net Intl. Reserves (excluding swaps, in US$ millions)	128	107	75	125	113	154	158	204	270	360	452
	(Percent of non-iron ore GDP, unless otherwise indicated)										
National accounts											
Gross capital formation	19.2	16.9	16.9	15.9	17.9	17.6	16.9	18.4	18.7	19.0	19.3
Government	8.6	6.4	6.2	5.4	6.7	6.6	6.2	6.4	6.7	7.0	7.3
Private	10.6	10.5	10.7	10.5	11.2	11.0	10.8	12.0	12.0	12.0	12.0
National savings	-1.9	-1.8	5.2	1.9	7.7	6.3	5.5	7.5	7.9	8.6	9.8
Financing and debt											
Public debt	69.4	68.7	62.6	67.4	63.9	66.6	65.6	63.1	60.0	56.9	53.8
Domestic	28.0	27.9	23.4	24.7	24.4	19.4	17.8	15.9	14.2	12.7	11.4
External public debt (including IMF)	41.4	40.8	39.3	42.6	39.6	47.2	47.8	47.2	45.8	44.2	42.4
External sector											
Current account balance											
(including official grants)	-21.1	-18.7	-11.7	-14.1	-10.2	-11.3	-11.4	-10.9	-10.8	-10.4	-9.5
(excluding official grants)	-22.5	-19.7	-15.2	-17.4	-12.9	-15.2	-14.2	-13.7	-13.5	-12.9	-12.0
Central government budget											
Domestic primary balance 2/	-4.5	-0.5	-0.7	-0.6	-0.3	0.3	1.0	1.5	1.4	1.5	1.4
Overall balance	-8.8	-5.6	-3.6	-2.9	-4.2	-3.3	-3.4	-2.6	-2.4	-2.3	-2.3
Overall balance (excluding grants)	-11.3	-7.7	-7.4	-6.3	-6.7	-7.4	-5.8	-4.9	-4.5	-4.2	-4.2
Revenue (excluding grants)	12.3	13.7	14.1	14.3	14.8	14.8	15.3	15.9	16.3	16.8	17.1
Grants	2.5	2.1	3.8	3.4	2.5	4.0	2.4	2.3	2.1	1.9	1.9
Total expenditure and net lending	23.5	21.4	21.5	20.6	21.5	22.2	21.2	20.8	20.8	21.1	21.3
Memorandum item:											
GDP at market prices (billions of Leone)	27,465	32,402	38,015	37,911	44,631	43,846	50,908	58,305	66,268	74,859	84,287
Excluding iron ore	27,257	32,402	37,574	37,588	43,944	43,569	50,538	57,841	65,679	74,043	83,097
Excluding iron ore in millions of US$	3,700	4,082	4,190	4,142	4,354	4,149	4,213	4,300	4,426	4,588	4,802
Per capita GDP (US$)	498	534	548	535	559	523	521	522	527	537	553
National currency per US dollar (average)	7,366	7,938	…	9,076	…	…	…	…	…	…	…
National currency per US dollar (EOP)	7,537	8,396	…	9,756	…	…	…	…	…	…	…

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

1/ Refers to reserves and imports in current year.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

INTERNATIONAL MONETARY FUND

SIERRA LEONE

March 24, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Good progress has been made in stabilizing Sierra Leone's economy. After coming to office in April 2018, the Government moved quickly to implement key reforms. After stabilizing in 2018, growth recovered in 2019. Fiscal execution in line with the budget saw domestic borrowing needs stabilize.

Program performance is broadly on track. All end-June quantitative targets were met. After breaching the continuous performance criterion on concessional borrowing in August 2019, the authorities ceased contracting any loans for the remainder of the year. Progress on structural reforms picked up since the first review, with four of five benchmarks completed (albeit one with a short delay).

The medium-term outlook is promising, albeit prone to significant risks. Growth is projected to remain around 4½ percent over the medium term, underpinned by agriculture improvements and easing inflation. Yet, the still fragile environment and capacity constraints leave the economy vulnerable to internal events (e.g., slow reform progress) or external shocks (e.g., weaker external support). Disruptions associated with the rapid global spread of Covid-19 cast a long and uncertain shadow over the outlook.

Addressing the country's vast development needs in these circumstances will be challenging, particularly as policymakers are already grappling with the legacy of past shocks and lax macroeconomic policies. Moreover, this report reflects discussions that took place prior to the onset of the Covid-19 pandemic. With escalating concerns about the likely social needs and economic disruptions, our advice will need to evolve. Policy discussions had focused on:

- *Addressing governance weaknesses and investing education* to provide a strong foundation for effective public policies and sustained, inclusive growth.

- *Maximizing the impact of scarce public resources* by securing sustained fiscal adjustment through revenue mobilization backed by robust fiscal structural reforms and strengthened public financial management to enable more attention to priority spending, including on education, health and infrastructure.
- *Enhancing monetary policy effectiveness to achieve single digit inflation* by efforts to develop financial markets and policy tools, alongside fiscal adjustment.

Staff supports completion of the second review and the request for a waiver for nonobservance of the performance criterion on concessional borrowing. Staff also supports the new quantitative performance criteria for 2020 and the four structural benchmarks for the third review. The disbursement under this second review is important as we continue our close engagement with the authorities to assess the implications of the Covid-19 pandemic, including for the program.

Approved By
Dominique Desruelle and Kevin Fletcher

Discussions took place in Freetown (October 30-November 13, 2019). The staff team comprised Karen Ongley (head), Natalia Aivazova, Yibin Mu and Jiaxiong Yao (all AFR), Yiqun Wu (SPR), Aleksandra Zdzienicka (FAD), and Monique Newiak (Resident Representative). Fazeer Sheik Rahim (FAD) and Masashi Saito (SPR) provided support from headquarters. Riaan van Greuning (FIN) and Vivian Malta (SPR) also joined for several days, respectively, to follow up on issues related to the safeguards assessment and to present analytical work on human capital development. Willie Nakunyada (OED) participated in discussions. Staff met with President Julius Maada Wonie Bio, 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. Joanna Delcambre, Ornella Kaze, Jiakun Li, and Edwin Lester Magno provided excellent research and administrative support in preparing the documents.

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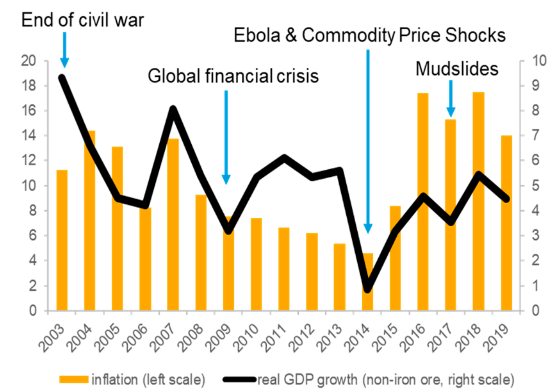
ECONOMIC AND POLITICAL CONTEXT

1. **Numerous shocks over the past decade have taken a toll Sierra Leone's development trajectory**. The country witnessed a period of strong economic and social performance as institutions recovered and policies improved following the end of the civil war (1991-2002). Then, before it was able to recover from the impact of the global financial crisis, the enormous hardship of Ebola together with the commodity price slump in 2014-15 hit the economy hard. Usual economic activities came to a halt as businesses closed, and movement of goods and people was restricted. GDP fell more than 21 percent and by end-2015 domestic revenue had dropped by nearly 2 percentage points of non-iron ore GDP. The private sector lost 50 percent of jobs.[1]

Two Decades of Economic Volatility



Sources: Sierra Leonean authorities; and IMF staff estimates.

2. **Although the economy started to rebound, lax policies during 2016-17 exacerbated macroeconomic vulnerabilities**. Fiscal mismanagement saw public debt escalate rapidly to approach 70 percent of non-iron ore GDP by end-2017. Pre-election spending overruns resulted in a large amount of arrears—those accumulated in 2016–17 account for around 90 percent of the recently verified legacy arrears stock. Over these two years, inflation spiked to double digits, the current account deficit widened from 15.1 percent of GDP to 21.1 percent, and the currency depreciated by more than 50 percent.

3. **With governance challenges and still developing institutions impeding effective policy making, human development outcomes also suffered**. The share of the population living below the national poverty line (56.7 percent) is among the highest in the world and is especially high in rural areas (73.9 percent). Progress on a range of human development indicators—schooling, life expectancy, and GNI per capita—slowed.

4. **Implementation of previous staff advice picked up since April 2018, after being patchy before.** After coming to office, the new government moved quickly to implement key reforms recommended in the 2016 Article IV consultation and where earlier lack of implementation had contributed to the previous ECF arrangement going off track. Over 2018-19, the government reformed fuel subsidies and duty waivers, and implemented outstanding revenue, expenditure and debt management reforms (Annex I)—supported by IMF capacity development (CD) (Annex II)—paving the way for the current ECF arrangement.

[1]Staff's report for the third and fourth Reviews under Sierra Leone's previous Extended Credit Facility Arrangement (IMF Country Report No. 15/323, November 2015) elaborates on the macroeconomic impact of the twin shocks.

5. The Government aims to put the country on a sustainable development path amid a tight financing situation and urgent calls for change for the common person. The Government's National Development Plan (2019–23, NDP) aspires to develop human and physical capital, while strengthening governance and accountability to build an economy that is inclusive and resilient to shocks. It does so amid a public call for attention to "bread and butter" issues that could yield fast improvements in living standards. However, the financing situation is tight. External grants and concessional financing by traditional development partners are a fraction of the support other countries received at the time they were emerging from fragility (Box 1). High public debt and the newly verified stock of legacy arrears both weigh on the budget, while the domestic financial system is approaching the limit of additional government instruments it can absorb. These constraints call for difficult choices in tackling the country's large development needs.

RECENT ECONOMIC DEVELOPMENTS

6. The economy is recovering. Overall growth in 2019 appears to have picked up to around 5.1 percent from 3.5 percent in 2018. This reflects a broad-based recovery of economic activity—agriculture, manufacturing, construction, trade and tourism, transport and communications—and moderate resumption of iron ore production, which was partially offset by tighter-than-expected government expenditure. Remote sensing data, including satellite-recorded nighttime light and nitrogen dioxide, showed a similar outcome.[2]

7. The overall fiscal deficit and domestic primary balance are broadly in line with forecasts. The overall balance excluding grants narrowed to 5½ percent of non-iron ore GDP (annualized) through 2019Q3, compared to 7.7 percent in 2018. Domestic revenue surpassed expectations, thanks largely to effective implementation of the Treasury Single Account (TSA) and one-off gains in the first quarter (telecom and other license fees). After a slow start, expenditures picked up in the third quarter, with current spending reaching an execution rate of 75 percent through September. The normalization of professors' salaries, additional transfers to the Electricity Distribution and Supply Authority (EDSA) to clean up old obligations, and one-off education expenses (buses and textbooks) put pressure on spending but were largely offset by domestic revenue overperformance. Foreign-financed projects loans and grants fell short of expectations, translating into lower capital expenditure. Early indications suggest fiscal execution continued broadly as budgeted through the rest of the year.

8. Inflation appears to have moderated, but ongoing technical corrections leave some uncertainty about recent inflation price movements. Publication of the Consumer Price Index (CPI) was delayed for several months as the authorities worked on technical corrections, in part with IMF support. Updated CPI data published in early October implies that inflation moderated more than previously reported. Instead of peaking at around 19 percent in September-October 2018, it is

[2]Satellite-recorded night lights aggregated to the country level is highly correlated with real GDP and serves as a proxy for real economic activity. Nitrogen dioxide—a gas emitted by motor vehicles, power plants, and industrial facilities—is an indicator of commercial and industrial activity associated with the combustion of fossil fuels.

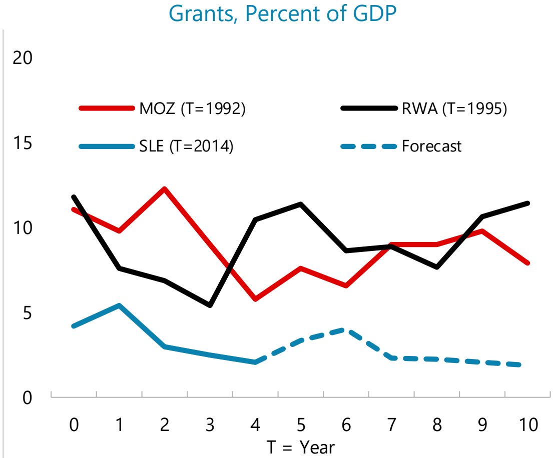
Box 1. Financing Development and Emerging from Fragility

Sierra Leone continues to face a fragile economic environment and large development needs. Yet the authorities are seeking to address those needs in an especially challenging financing situation. External budget support is less forthcoming that in the past. Growing yet still limited revenue necessitates recourse to debt financing, including domestic borrowing, that needs to be managed carefully.

Compared to other countries that successfully emerged from fragility, Sierra Leone has received less external support. Countries such as Rwanda and Mozambique received grants from development partners of around 8–9 percent of GDP in the 10 years following the end of conflict or other "turning points".[1] Amid global weaknesses in external development assistance relative to the 1990s, and after the immediate humanitarian and social needs of the Ebola crisis abated, Sierra Leone's external budget support declined steadily to currently 2-3 percent of GDP, with likely further declines in the medium-term.

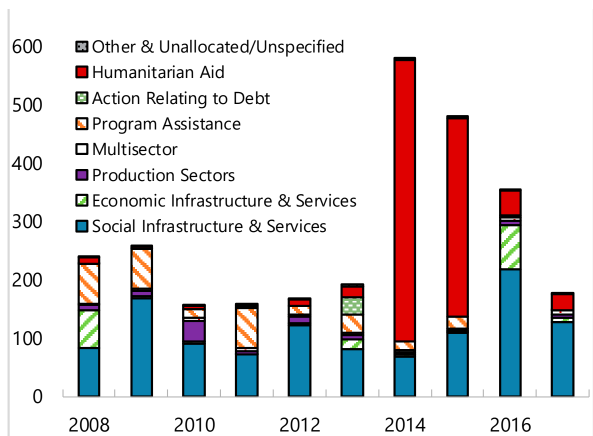
Support After "Turning a Corner"[1/]

Grants, Percent of GDP



Bilateral ODA Commitments, by Purpose

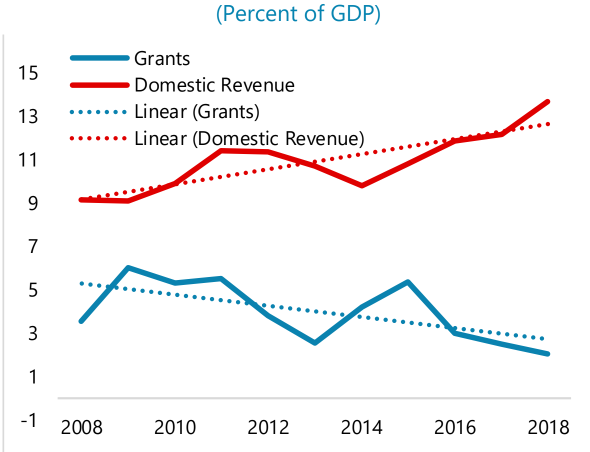
(Million USD)



This makes financing the country's large development needs particularly challenging, despite good progress on domestic revenue. Despite the 2014/15 Ebola crisis, domestic revenue has increased by about 5 percentage points of GDP since 2009, yet barely making up for the decline in grants. While increased spending during 2016-17 reflected in part lack of fiscal discipline, this episode demonstrates the challenge in scaling up investment without recourse to domestic financing.

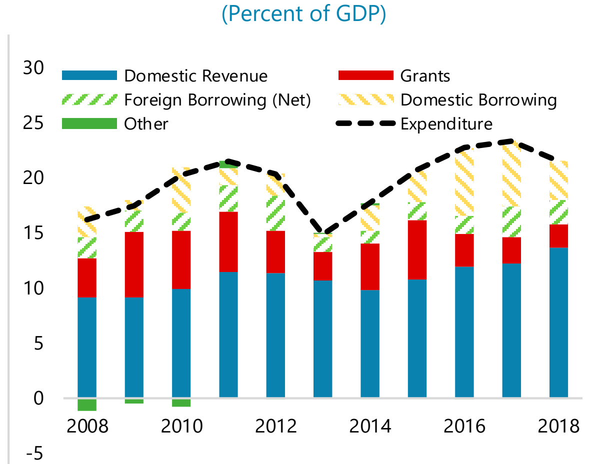
Domestic Revenue vs Grants

(Percent of GDP)



Financing Government Spending

(Percent of GDP)

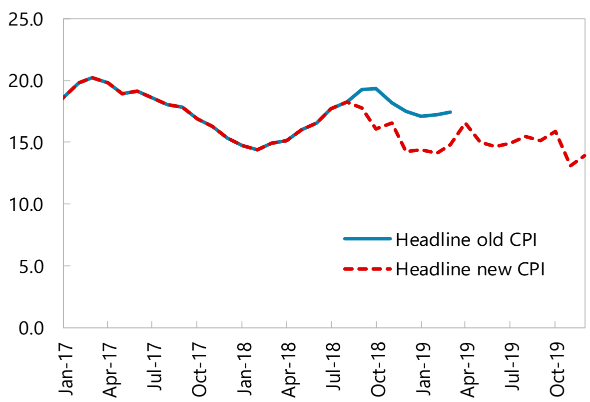


1/ SLE, T1=2014, peak of the Ebola epidemic. RWA, T1=1995, year after the Rwandan Genocide. MOZ, T1=1992 year of the Rome General Peace Accord.

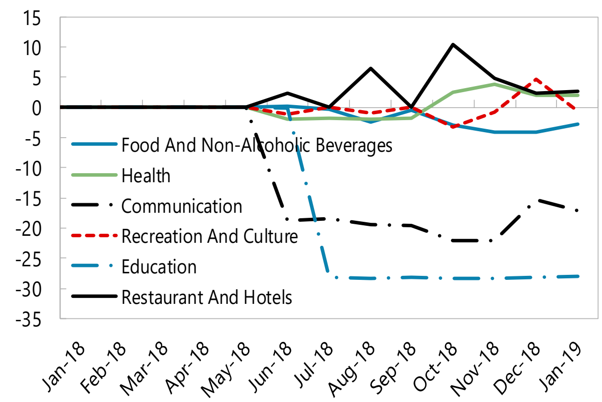
Sources: Organization for Economic Cooperation and Development *Humanitarian Assistance* Database; Sierra Leonean authorities; and IMF staff estimates.

now reported to have peaked below 18 percent in September 2018. Then, after hovering around 14-16 percent for much of 2019, inflation ended 2019 at 13.9 percent despite sustained pressure from the depreciating exchange rate. Technical work on the CPI with the IMF is ongoing.

Headline Inflation
(y-o-y, In percent; 2017-19)



Change in revised CPI components[1]
(In Percent, 2018-19)



Sources: Sierra Leonean authorities; and IMF staff estimates.
[1]Corrected CPI published in October 2019 versus March 2019

9. Lower-than-anticipated credit to the government dampened monetary growth. Total banking system credit to the government (NCG) in the first nine months of 2019 was close to Le 600 billion (against programed Le 791 billion). Base money grew modestly during the same period, resulting from the significant repayment by the government to the BSL early in the year (including the repayment, in 2019Q1, of US$40 million bridge loans carried over from 2018), offset by moderate increase of net international reserves.

10. While exports improved in the first half of 2019, the exchange rate remains under pressure. The Leone depreciated by about 13.4 percent (year-on-year) against the US dollar in 2019. Pressures intensified over the summer months, with the parallel market premium peaking at almost 10 percent in August but declining to 3 percent in early 2020. Exports recovered from the weak performance in 2018, driven by stronger mineral exports, including diamonds, rutile, and a partial resumption of iron ore mining before operations halted in September. Gross international reserves (excluding swaps) increased to US$506 million at end-December 2019 (about 3.5 months of imports) from US$487 million at end-2018.

11. While the banking system appears largely profitable and adequately capitalized, this masks variations across institutions. Capital adequacy averaged at 47.2 percent and all banks met the minimum 15 percent as of end-June 2019. Growth of credit-to-private-sector was robust at (25.5 percent y/y as of September 2019), reflecting base effects and resumption of some infrastructure projects. The nonperforming loan (NPL) ratio remained around 13 percent during 2019H1, but varied widely across different institutions (0 to 30 percent).

PROGRAM PERFORMANCE

12. Program performance is broadly on track.

- The authorities met all end-June 2019 quantitative targets, net credit to the government and net domestic assets of the BSL by large margins. However, performance was more mixed in the third quarter. The continuous performance criterion on new concessional borrowing was breached in August (US$122 million vs. US$100 million) to finance a priority communication infrastructure project. As corrective measures, the authorities refrained from further external borrowing in the remainder of 2019 and are taking steps to strengthen debt management. All but two end-September indicative targets (ITs) appear to have been met. In that regard, the domestic primary balance was missed by a small margin and an accumulation of unpaid checks in the third quarter contributed to the breach of net credit to government (NCG)—a pattern that appears to have reversed in the fourth quarter.

- The authorities completed four of the five structural benchmarks (SBs), one with a short delay, and the fifth is nearing completion (Table 10). They submitted ahead of schedule draft amendments to the National Revenue Authority Act for IMF staff review (end-September SB). The updated diagnostic study on the two state-owned banks was prepared with World Bank support (end-September SB). The Government adjusted fuel prices in response to movements beyond the ±5 percent band (continuous structural benchmark). They also finalized the stocktaking of domestic arrears in early September (end-August SB). While preparation of a remedial action plan to address the findings of the forensic audit (end-August SB) is taking longer than expected, the authorities are working closely with staff to refine and prioritize actions.

OUTLOOK AND RISKS

13. Macroeconomic conditions are stabilizing. Overall growth in 2019 is estimated to have increased to 5.1 percent from 3.5 percent in 2018. This largely reflects the resumption of iron ore production (ahead-of-schedule and mostly stockpiled) in the first half of the year, while non-iron ore growth eased to 4.5 percent. The current account deficit is expected to narrow to 14.1 percent of GDP in 2019 from 18.7 percent in 2018. The recent suspension of SL Mining's—the only iron ore producer—license will have some negative impact in the short term, particularly on exports and related FX proceeds. While non-iron ore growth is expected to hold steady at around 4½ percent, overall growth will likely moderate as iron ore production is projected to resume only in the second half of 2020. The stockpile would however allow for a quick resumption of exports.

14. The medium-term economic outlook remains hopeful. Non-iron ore real GDP growth is projected to remain around 4½ percent over the medium term, underpinned by continued improvement in agriculture. Steady fiscal adjustment and prudent monetary policy would facilitate inflation gradually declining to single digits. Over the medium term, sustained improvements in export earnings from both mining and agricultural commodities, predominantly financed by FDI-related inflows, would allow the current account deficit to narrow to below 10 percent of GDP.

Sierra Leone: Medium-term Macroeconomic Framework, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Pre./Est.							
(In percent of non-iron ore GDP unless otherwise indicated)									
GDP at constant prices (percent change)	3.8	3.5	5.1	4.2	4.6	4.5	4.5	4.5	4.6
Excluding iron ore	3.6	5.4	4.5	4.4	4.5	4.4	4.4	4.4	4.4
Consumer prices (end-of-period)	15.3	14.2	13.9	13.0	11.0	9.6	8.8	8.0	7.5
Gross international reserves in months of imports	3.8	3.7	3.5	3.7	3.6	3.5	3.5	3.5	3.5
Current account balance (incl. grants)	-21.1	-18.7	-14.1	-11.3	-11.4	-10.9	-10.8	-10.4	-9.5
Excl. grants	-22.5	-19.7	-17.4	-15.2	-14.2	-13.7	-13.5	-12.9	-12.0
External public debt	41.4	40.8	42.6	47.2	47.8	47.2	45.8	44.2	42.4
Revenue	12.3	13.7	14.3	14.8	15.3	15.9	16.3	16.8	17.1
Domestic primary balance	-4.5	-0.5	-0.6	0.3	1.0	1.5	1.4	1.5	1.4
Overall Balance	-8.8	-5.6	-2.9	-3.3	-3.4	-2.6	-2.4	-2.3	-2.3

Sources: Sierra Leonean authorities and IMF staff estimates.

15. The economy holds upside potential. Natural endowments of fertile lands and bountiful oceans provide a solid footing to expand agricultural production. This would be instrumental to reducing reliance on imported food, and alleviating pressure on exchange rate and inflation. Rich mineral resources and promising touristic destinations hold the prospect, if managed well, of further boosting the economy. The large share of young people that would benefit from the country's focus on developing human capital and leveraging innovation holds the potential for productivity growth and a more diversified economy. Faster than expected progress in mobilizing revenue, consistent with the Government's ambitious plans, and larger-than-budgeted financial support by development partners could create additional space for priority expenditures.

16. Yet, the immediate outlook is prone to significant risks, particularly with the unfolding events related to Covid-19. A still fragile environment, institutional weaknesses and capacity constraints leave the economy vulnerable to internal events and external shocks. In this context, disruptions associated with the rapid global spread of Covid-19 cast significant uncertainties over the outlook. Slower reform progress could undermine growth prospects and lack of quick wins could, in turn, undercut political support for reform. Ad hoc policies, even if well-intended, could weigh on the business environment, undermining relations with current and prospective investors, jeopardizing already scarce financial flows and long-term investment plans. Insufficient strategic planning or assessment of fiscal risks in filling the infrastructure gap could compound already elevated debt risks and dampen the prospect of private sector development. Less-than-expected financing by development partners may further constrain fiscal spending, harming efforts to rebuild productive capacity and growth potential. Clearing arrears with individual suppliers outside a well-defined strategy could further complicate negotiations, and impact fiscal sustainability.

	Sierra Leone: Risk Assessment Matrix[1]				
	Sources of Risk	**Relative Likelihood**	**Transmission channels**	**Potential impact**	**Policies to Mitigate Risks**
Global	Weaker-than-expected global growth.	***High***	• Weaker global demand could undercut the authorities' efforts to expand exports and constrain development partners' capacity to provide financing.	***High***	• Sustain credible reforms to improve the business environment and bolster private sector activity. • Allow exchange rate flexibility to absorb external shocks and build adequate FX reserve coverage.
	Large swings in energy prices.	***High***	• Risks are large and uncertain. Higher oil prices would increase the import bill, put pressures on inflation, and squeeze demand.	***Medium***	• Allow exchange rate flexibility to absorb external shocks and build adequate FX reserve coverage. • Continue with liberalized pricing mechanism.
	More severe Covid-19 pandemic	***High***	• Global spillovers could disrupt trade and lower commodity prices. Pressure on external support. Added detection/prevention costs.	***High***	• Ensure necessary spending in health system, with external support where possible. • Continue efforts to reduce economic vulnerability. • Allow exchange rate flexibility for external shocks.
Country-specific	Difficulty in maintaining reform momentum or ad hoc policies due to political resistance or greater than expected absorptive or other capacity constraints.	***Medium/ High***	• Difficulty pushing through reforms could slow efforts to mobilize revenue, prioritize spending, 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, particularly if revenue underperforms.
	Difficulty advancing arrears clearance, either through a piecemeal approach or difficulty agreeing sustainable repayment terms.	***Medium***	• Locking in unfavorable terms would jeopardize fiscal sustainability and/or the ability to maintain critical expenditures, and risk continued arrears accumulation. Too heavy reliance on tradable securities could impact financial stability.	***High***	• Refrain from piecemeal negotiations. • Finalize strategy that transparently sets out parameters for clearing arrears and signals commitment to equal treatment. • Address root cause of arrears by sustained public financial management reforms.
	Less-than-expected donor financing.	***Medium***	• Lower donor financing may constrain government spending, compromising efforts to clear arrears and maintain priority infrastructure and social spending.	***Medium/ High***	• Continue revenue mobilizing reforms. Limit discretionary expenditures while protecting priority spending. Consider contingency plans. • Allow exchange rate flexibility.
	Reoccurrence of loss-making lending practices in the two state-owned banks (SOBs).	***Medium***	• Delays in policy decisions and failure to resolve the issues of the SOBs could lead to contingent fiscal liabilities materializing, straining debt sustainability.	***Medium***	• Accelerate efforts to put SOBs on a commercial footing and limit political influence in 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.

Authorities' Views

17. **The authorities broadly concurred with the delicate balance between a promising outlook and significant near-term risks**. They noted the benefits of mining sector growth, but emphasized the importance of, and Government's commitment to, economic diversification. In that regard, redeveloping agriculture and easing dependence on imported food would not only promote economic growth and reduce unemployment, but help improve the economy's external position. The authorities noted that their NDP serves as a 'reform blueprint' for Sierra Leone's longer-term socio-economic transformation. They hope that, by guiding their engagement with development partners, private investors and the public, the NDP could help mitigate risks to sustained reform.

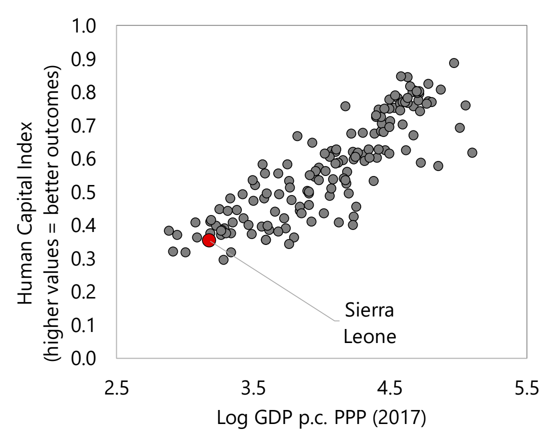
ARTICLE IV POLICY DISCUSSIONS

The Government is tackling vast development needs against a tight fiscal envelope, and a high stock of debt and legacy domestic arrears. The emphasis on addressing governance weaknesses and investing in the education of a young population can provide a stronger foundation for more effective public policies and sustained development. Yet the nature and breadth of policy challenges will take time to address, posing a challenge in maintaining support for reforms. Maximizing the impact of scarce public resources and priority spending depends on sustained fiscal adjustment, based on revenue mobilization backed by robust fiscal structural reforms and strengthened public financial management. With the onset of the Covid-19 pandemic since the policy discussions, staff advice will need to evolve with escalating concerns about social needs and economic disruptions, and closely engaging the authorities about safeguarding the wellbeing of all Sierra Leoneans. Building the effectiveness of monetary policy and deepening foreign exchange markets without distortions will help achieving single-digit inflation and level the playing field for businesses. Continued focus on market development and access to a strengthened financial sector will support inclusive growth.

A. Better Quality Governance for Better Quality Growth

18. **Fostering inclusive growth continues to be a major social and economic challenge**. The 2018 Sierra Leone Integrated Household Survey provisionally puts the overall poverty headcount at 56.7 percent, 3 percentage points higher than in 2011. Overall human development, despite improving over the past twenty years, remains consistently below peers. 11 in 100 children do not survive to their fifth birthday. Although children complete an average of 9 years of education, the quality of education is weak, with learning outcomes on par with receiving only 4½ years of

Development and Human Capital



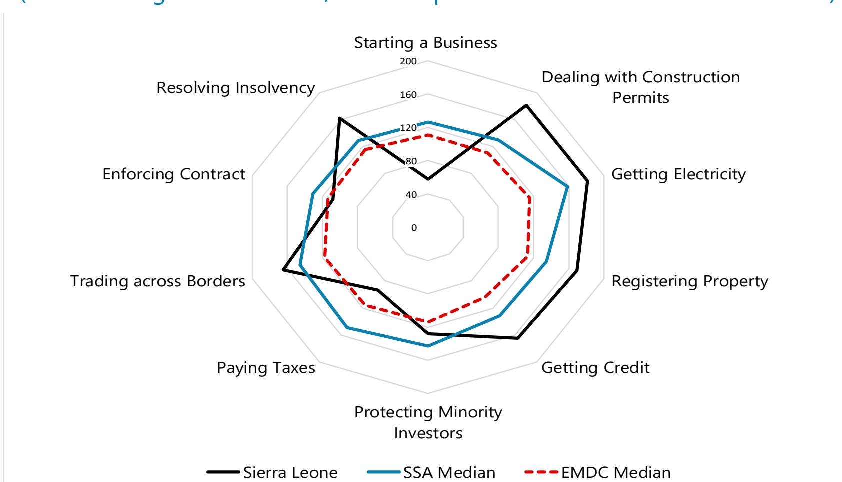
Source: World Bank Human Capital Project.

education.[3] The Ebola crisis was a significant setback, with per capita income in 2018 remaining below its pre-Ebola level. The largely undiversified economy, gaps in both infrastructure and human capital, significant gender and regional inequalities constrain the country's potential and impede progress toward the authorities' long-term goal of achieving middle-income status.

19. Responding to these challenges, the Government's NDP prioritizes human capital development. The NDP goal is to "feed the brain" through education, "feed the stomach" through developing the agricultural sector, and "feed the body" through healthcare. The Government's flagship Free Quality Education (FQE) Program aims to deliver free schooling for all children up to the secondary level. Staff analysis finds that, if continuously implemented, the FQE program could yield significant macroeconomic and distributional gains (Box 2).

20. Parallel efforts to address longstanding governance and corruption issues could also be instrumental in unleashing the country's growth potential (Annex III). Sierra Leone made limited progress in strengthening governance over the past 10-15 years. Despite improvements in political stability, perceived corruption levels continue to lag regional outcomes and a number of governance indicators have stalled (e.g., regulatory quality and rule of law) in recent years. In this context, the Government's NDP also identifies strengthening governance and accountability as a critical goal. Enhancing the effectiveness of the anti-corruption institutions, in line with the United Nations Convention Against Corruption, is fundamental to sustained economic growth. As evidence of early progress, an empowered Anti-Corruption Commission has been pursuing both high-level corruption cases and lower-level cases, such as exposing corruption in students' public exams.

Doing Business Indicators, 2020
(Rank among 190 countries, lower implies a more favorable environment)



Sources: *Word Bank Group, Doing Business 2020* and IMF Staff estimates. Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

[3]See Selected Issues Paper on *Boosting Human Capital, Accelerating Development, and Lowering Inequality in Sierra Leone* by Vivian Malta (SPR), Monique Newiak (AFR), and Mathew Sandy (Ministry of Finance).

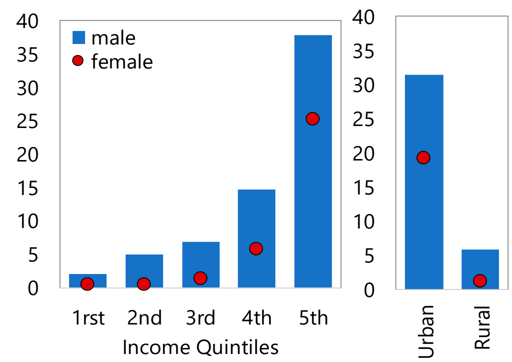
Box 2. Investing in People and Sierra Leone's Future

Sierra Leone faces substantial human capital development gaps that the Government's NDP aims to address. Boosting education levels, equalizing access to education for boys and girls, and raising the quality of education can yield substantial macroeconomic gains. Reaping those requires sustained implementation of planned reforms, building fiscal space to support priority spending and cross-sectoral collaboration.

Developing human capital through education is the leading theme of Sierra Leone's NDP. Its premise is that educated, empowered, and healthy citizens will be capable of realizing the nation's fullest potential. By providing the skills for structural transformation and competitiveness, this would support economic growth and diversification, and boost the economy's resilience to shocks. The literature highlights large economic payoffs of higher human capital and distributional benefits of more equal access to education.

Educational outcomes have improved over the past two decades, but school completion rates vary considerably by demographic characteristics. While school enrollment rates have generally increased, school completion rates vary widely across income groups and gender. A boy from the richest 20 percent of households is ten times more likely to complete secondary education or achieve higher education than a boy from the poorest 40 percent. Secondary completion rates for girls show only a large uptick for the richest income quintile. The rural-urban divide in education is also substantial.

Share of the Population with Secondary or Higher Education (Percent)

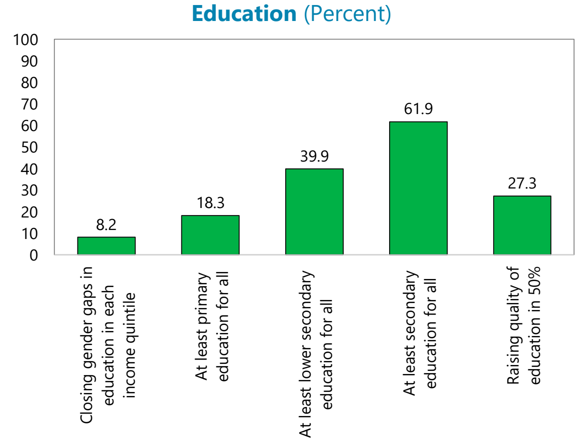


Source: IMF Staff estimates.

The Government has initiated a range of promising policies to address these challenges. The Free Quality Education (FQE) plan envisions delivering free primary and secondary education by increasing access, quality and governance in the education sector. The Government allocated 21 percent of recurrent budget to education in the first year of the FQE, and incorporated university lecturers and professors into the public payroll. The recent drive to recruit 5,000 teachers aims to improve the overall learning experience while the 30 percent increase in wages for teachers starting in April 2020 also targets increasing teacher quality.

The economic benefits of boosting completion rates for boys and girls could be massive. In the long term, lifting educational attainment to lower-secondary completion rates for *all* children could increase Sierra Leone's GDP by about 40 percent and lower income inequality by 7 points on the Gini scale. Leveling the playing field for boys and girls in education alone could boost GDP by more than 8 percent. Separately, increasing the quality of education could boost GDP by 27 percent.

Share of the Population with Secondary or Higher Education (Percent)



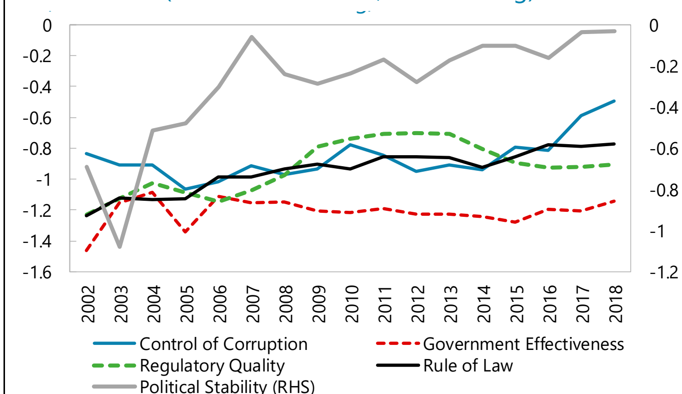
Sources: Sierra Leone, Demographic and Health Survey, 2013; and IMF Staff estimates.

Sustained implementation of planned reforms will be critical and requires building fiscal space to support priority spending and cross-ministerial collaboration. For instance, eliminating constraints that prevent girls from attending school also involves building appropriate sanitary facilities. Continued monitoring through timely data, such as through the new education data hub, will provide information vital for improved targeting and policy-making.

21. Deepening structural and governance-related reforms would improve the investment environment and boost competitiveness. Sierra Leone ranked 163 out of 190 countries in the World Bank's 2020 Doing Business report, with most stages in the life cycle of a business impacted. Six of ten indicators score below other sub-Saharan African economies—construction permits, property registration, getting electricity, getting credit, trading across borders, and resolving insolvency. Reforms that help create an enabling and predictable business environment are important for attracting investment and expanding the tax base. Improving the regulatory framework (including using electronic interfaces for tax, customs, regulatory approvals and registering property) would be a key step toward a more business-friendly environment and reducing vulnerabilities to corruption. Redeveloping the agricultural sector—a priority in the 2020 budget—to reduce its reliance on government, enhance resilience to weather shocks, and attract the fast-growing labor force is crucial for sustained growth. Strategic energy sector reforms, supported by development partners, focus on stemming technical losses, reducing operating costs, and improving reliability and access.

22. The Government's desire to strengthen governance would benefit public policy. Weak government effectiveness has been a pronounced and persistent cost of corruption. Stronger public institutions and more effective policymaking would help ensure the continued success of the Government's economic reform agenda. Well thought through and coordinated policies, focused on the medium-term, would minimize unintended spillovers, including on perceptions, that could setback efforts to improve the business environment. Strengthening fiscal transparency through strong public financial management (PFM) systems, for instance, will promote fiscal discipline and more efficient and better targeted spending of public resources. Improving central bank governance will help implementation of independent monetary policy that translates into lower inflation levels.

Sierra Leone: Worldwide Governance Indicators
(Score -2.5 = Weak, 2.5 = Strong)



Sources: *Worldwide Governance Indicators* and *World Economic Forum Executive Opinion Survey 2017.* Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

Authorities' Views

23. The authorities agreed with the assessment, emphasizing the large macroeconomic benefits of their two flagship policy goals. Pointing to their NDP's focus on human capital development, they highlighted that the nation's young and dynamic population is its most substantial asset, which must be properly developed to deliver shared economic growth and meaningful poverty reduction. The authorities welcomed staff's attention to governance and improved policymaking. They noted that corruption was one of the causes of the civil war and can be deleterious to economic and social outcomes. They emphasized that actions are being taken to address governance issues in key areas, including improving public financial management at the Ministry of Finance, strengthening the role of oversight, enhancing internal audit, and improving the operational independence of the BSL.

B. Reforms to Promote Stronger Institutions and Policies

Creating Fiscal Space for Priority Expenditures and Managing Arrears

24. The government is operating in a challenging fiscal environment—the legacy of shocks and past fiscal mismanagement. While the authorities have reigned in spending, they continue to grapple with the consequences of past profligacy. The interest bill is approaching 3 percent of GDP and the newly-verified stock of arrears (Box 3)—largely from 2016/17—stands at almost 9 percent of GDP. Further complicating the picture is a less supportive external environment, with grant inflows on a downward trajectory (notwithstanding the higher grants expected in 2020) over the past decade, largely offsetting revenue gains. These competing pressures complicate execution of crucial development spending.

25. The fiscal strategy strikes a balance between navigating these challenges and investing in economic development. The Government's National Development Plan (NDP) rightly prioritizes physical and human capital (particularly education) to rebuild the economy. To create space for these priorities the authorities have focused on revenue mobilization. Their efforts are paying dividends: domestic revenue is now estimated to have closed 2019 at 14.3 percent of non-iron ore GDP, an increase of 2 percentage points since 2017. On the expenditure side, the authorities are committed to maintaining prudent control while revenue-mobilization ramps up. This is key for ensuring debt sustainability, decreasing the interest burden, and controlling inflation. Given the small size of the banking sector, the anchor of steadily reducing bank financing of the budget to around 2 percent of GDP is consistent with putting inflation on a downward trajectory, while supporting private-sector credit growth.

26. The 2020 budget serves these goals. It implies a smaller deficit and domestic bank financing need than previously envisioned while still emphasizing development needs. In line with the NDP's education commitments, the budget prioritizes investing in teachers, by allowing for additional teacher recruitment and raising salaries, often from near-poverty-line levels, in 2020. The budget also makes provision to start repaying legacy arrears in the context of a broader arrears clearance strategy. This is possible thanks to higher-than-average budget support grants and a continued commitment to prudent expenditure. Notwithstanding these objectives, the authorities will likely need to prioritize additional spending to help contain or address the spread of Covid-19. The budget is also based on an appropriately ambitious but still realistic revenue mobilization gain of 0.5 percent of non-iron ore GDP.

27. Despite recent improvements, continued structural reforms are essential to manage fiscal risks and transform the budget over the medium term.

Box 3. Managing and Preventing Expenditure Arrears in Sierra Leone

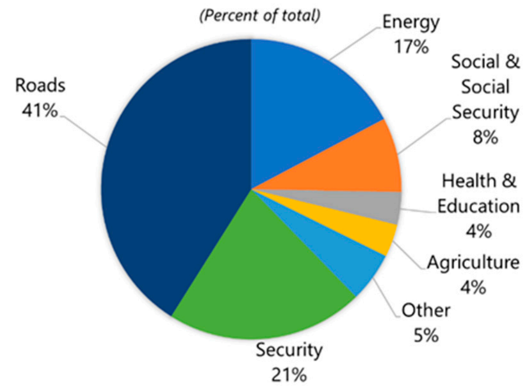
Resolving the longstanding challenge of domestic expenditure arrears is a key priority for the authorities. Their comprehensive stocktaking exercise, completed in September 2019, identified a large stock of legacy arrears—around 9 percent of GDP. The authorities have since made good progress toward developing their arrears clearance strategy. Yet, the magnitude of the arrears stock, challenges in preventing new arrears, and tight fiscal financing situation will require difficult choices to sustainably address this issue.

The authorities have made a concerted effort to understand the magnitude of domestic payment arrears. Several audits published in early 2019 aimed to identify inherited fiscal risks, including an audit by the Audit Service Sierra Leone (ASSL) to verify claims on the Government, both future obligations and arrears.[1] During June-August 2019, the Ministry of Finance worked with ASSL, and relevant Ministries, Departments and Agencies to review and reconcile individual claims to determine the portion in arrears.

Their comprehensive stocktaking, completed in September 2019, revealed a large stock of legacy arrears. The exercise confirmed pre-April 2018 domestic payment arrears of Le 3.3 trillion or around 8¾ percent of 2019 non-iron ore GDP.[2] Of these arrears 90 percent accrued in the 2 years leading up to the April 2018 election and more than three-quarters reflect unpaid bills in three sectors—roads, energy and security. Since April 2018, the Government accumulated a further ¾ percent of GDP in arrears,[3] bringing the end-2019 total stock to around 9½ percent of non-iron ore GDP.

Sectoral Composition of Pre-April 2018 Arrears

(Percent of total)



Sources: Sierra Leonean authorities; and IMF staff estimates.

Given the potentially substantial macro-fiscal implications, staff and the authorities engaged closely on key principles to underpin the clearance strategy (end-April structural benchmark).

- *Transparent and equitable*. Stepping back to design an arrears clearance strategy that is well-sequenced, transparent, and carefully prioritized is essential. It will signal fair negotiations and safeguard the Government's negotiation space. Staff noted that any credible arrears clearance strategy should ensure equitable treatment of pre- and post-April 2018 arrears.

- *Sustainable*. The limited fiscal space calls for setting a clear fiscal envelope, mobilizing additional external highly concessional resources to fill financing gaps (without harming critical expenditures), and employing haircuts and other repayment terms to substantially reduce the net present value of future payments (making evenhanded treatment paramount).

- *Prevention.* While the authorities have taken steps to strengthen their public financial management framework, further action is needed to effectively prevent new expenditure arrears. This includes more realistic budgeting, more effective expenditure controls, and robust cash and debt management. Here, the recently completed public investment management assessment be instrumental.

- *Macro-financial considerations.* Anticipating the financial sector implications will be critical. This includes being mindful of the sector's capacity to absorb additional securities or T-bills, and stress-testing banks' balance sheet against possible interest rate reductions. Preserving financial stability may warrant giving higher priority to regularizing arrears via non-tradable securities.

[1] See *Box 3 Progress Towards Domestic Payment Arrears* in IMF Country Report No. 19/217, July 2019.
[2] This figure does not include some arrears to large suppliers that were securitized in the second half of 2018.
[3] As measured by the change in unpaid checks as specified in the TMU.

28. Coupling tax administration with tax policy reforms within a comprehensive medium-term strategy is the key to maximizing revenue gains. The authorities started implementing ambitious reforms (MEFP ¶¶16-25). These include the digitalization of revenue administration, reinforcing of its monitoring, auditing, risk management functions, broadening of the tax base with the block taxpayer registration, renting a property census, streamlining of tax exemptions, and simplification of tax regimes. These measures should be reinforced through a competitive medium-term strategy, coupling policy and administration measures, legal and regulatory reforms, administrative capacities, and deeper analysis of economic and distributional impacts of reforms. An upcoming World Bank tax policy review will point to most effective measures and thus be a step to realize Sierra Leone's tax potential (Box 4).

29. Improving the functioning of the automatic fuel pricing mechanism will prevent revenue losses and allow increasing risk-sharing among market participants. Pump fuel prices continue to adjust in line with the existing fuel prices mechanism. Commitment to improving the price formula's functioning, monitoring the impact of fuel price adjustments on the most vulnerable population, and improving the communication strategy is commendable (MEFP ¶22).

30. Improving spending efficiency and preventing new arrears requires continuous public financial management (PFM) reforms. The continued trickle of arrears accumulation is a serious watchpoint Recent regulations provide the legal basis for required PFM improvements while ongoing administrative reforms will provide the necessary tools (MEFP ¶¶29-33). Budgeting for multi-year MDA commitments and improving commitment and payment controls through further deployment of the Integrated Financial Management Information System (IFMIS) can substantially reduce unintended overspending. Meanwhile, sound cash and debt management practices are key for smooth budget execution. Work is ongoing to support MDAs on budget formulation. Further operationalization and enforcement and broadening of the TSA to all sub-vented and semi-autonomous agencies will add to already successful implementation. Lastly, the recent Public Investment Management Assessment (PIMA) will help ensure that scarce investment resources are allocated efficiently, generating the largest "bang for their buck."

31. Efforts continue to improve fiscal risk management. Oversight of state-owned enterprises (SOEs) strengthened with the operationalization of the Fiscal Risk Management Division (MEFP ¶¶40-42). Developing indicator-based monitoring system and SOE performance review reports, reviewing public-private partnership proposals, and systematically analyzing investment financing options will further enhanced risk management.

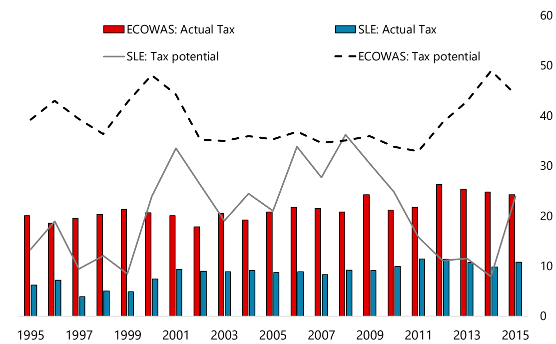
32. Reducing the risk of debt distress will require sound debt management, with careful prioritization of new loans, solely on concessional terms. Staff's debt sustainability analysis highlights that Sierra Leone's debt remains sustainable, but its external and overall risks of debt distress remain high. This calls for continued borrowing largely on concessional terms, limiting expensive domestic borrowing, and strengthening the functioning of the domestic market (consistent with IMF CD). The development of the new medium-term debt strategy and close

Box. 4. Tax Revenue Potential in Sierra Leone

Despite recent gains in domestic revenues, actual tax collection in Sierra Leone has generally lagged behind peer countries. External shocks and domestic developments have eroded the country's tax revenue potential. To reverse this trend and provide a solid foundation for sustained revenue increases, the authorities should accelerate tax policy and revenue administration measures within a comprehensive medium-term revenue strategy. Further efforts in implementing structural, legal, and instructional reforms are also critical.

Sierra Leone has the potential to increase tax revenues. The NRA estimates the total tax revenue gap—the amount of revenue collected if all taxpayers were fully compliant minus collected revenue—at above 3.5 percent of GDP.[1] The experience of other countries in the region with a similar economic structure also points to scope for additional revenues. Estimates of potential tax capacity—the tax level determined by a country's economic fundamentals computed as a sum of the overall tax effort and actual tax revenues—also indicate that Sierra Leone's tax potential is lower than peer countries (Figure 1).[2]

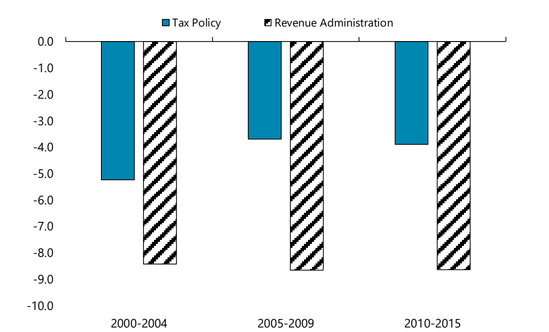
Figure 1. Sierra Leone vs. ECOWAS: Tax Collection and Potential (% of non-resources GDP)



Sources: Sierra Leonean authorities; *World Economic Outlook;* and IMF staff estimates.

Sierra Leone should therefore not only collect more actual tax revenue but also step up both tax policy and revenue administration to increase its "tax potential". Peer countries that have more successfully mobilized tax revenue (e.g., Ghana) have noted much higher tax policy and revenue administration performance (Figure 2).[3] Economic and country-specific factors, and structural transformation (e.g., a declining share of agriculture in total value-added in the context of economic diversification) and institutional and legal reforms have been critical contributors to their performance.

Figure 2. Sierra Leone vs. ECOWAS: Tax Policy and Administration Efforts
(Difference, '-' indicates lower effort)



Sources: Sierra Leonean authorities; *World Economic Outlook;* and IMF staff estimates.

Developing the potential requires accelerating structural reforms and formulating a longer-term and comprehensive view on domestic tax system. The latter will allow exploring positive synergies between tax policy, revenue administration, and the legal system. Such a longer-term view should also help to prioritize and sequence reform efforts cognizant of still limited capacity. The immediate actions should focus on reviewing the current tax system (including tax and customs expenditures), modernization of revenue administration (as with the ongoing ITAS implementation), and enforcing revenue compliance (through better monotonizing, auditing, and risk management).

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[1] National Revenue Authority, Adam Smith International (2016). *Sierra Leone Tax Gap Estimation*. July 2016.

[2] Following Fenochietto, R. and C. Pessino (2013). *Understanding Countries' Tax Efforts*. IMF Working Paper 13/244.

[3] For more details on domestic revenue mobilization performance in ECOWAS countries, see the *Regional Economic Outlook: Sub-Saharan Africa. Chapter 2*, April 2018.

collaboration with staff in developing the arrears clearance strategy (Box 3) are welcome. The latter will clarify the principles to clear the large stock of legacy arrears and emphasize PFM measures to prevent future arrears accumulation.

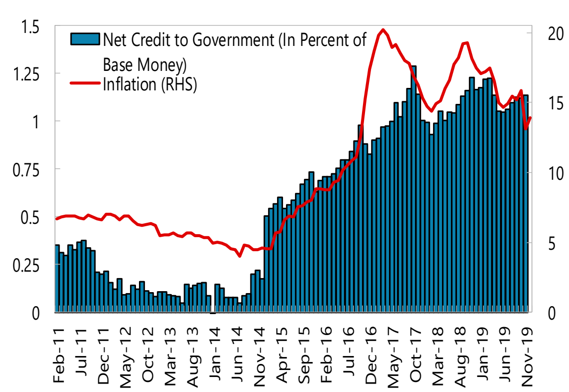
Authorities' Views

33. The authorities agreed with staff on the fiscal challenges and needed reforms. They re-emphasized their commitment to a cautious fiscal path to put the debt-to-GDP ratio on a declining trajectory, which will contain debt servicing costs. They also underlined that resisting political pre-election spending pressure will be crucial. The Government's revenue mobilization objectives remain more ambitious than staff's, with an NDP target of a domestic revenue-to-GDP ratio of 20 percent by 2023. However, the authorities concurred with staff about the merits of formulating their budget plans on a more conservative basis. They also expressed interest in a variety of tax policy measures, including growing the tax base by capturing high-value transactions in the informal economy.

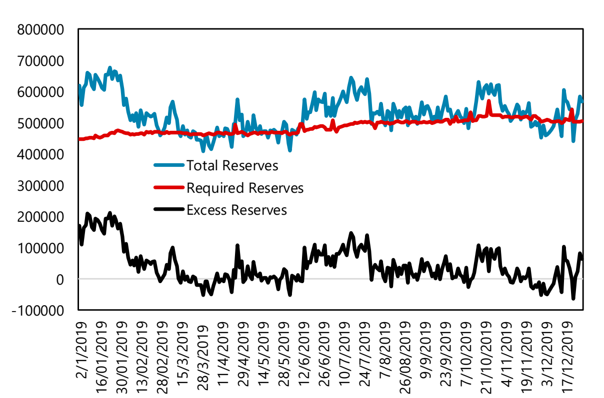
Strengthening the Effectiveness of Monetary and Exchange Rate Policies

34. The conduct of monetary policy faces significant constraints. High exchange rate depreciation passthrough on inflation, competing objectives (inflation vs. addressing budgetary needs), and still thin and non-competitive financial markets have hindered the effective conduct of monetary policy. With private sector credit hovering around 5 percent of GDP, it will take time for the private lending channel of monetary policy to work effectively. Fiscal dominance, particularly in an environment of overall tight liquidity in the banking system, impedes monetary policy in controlling inflation. Wide variations in domestic interest rates (2 percent for deposits and 23 percent for 1-year T-bills) point to possible inefficiencies.[4]

Net Credit to Government and Inflation



Commercial Bank Reserves 2019 Le millions



Sources: Sierra Leonean authorities; and IMF staff estimates.

[4]See Selected Issues Paper on "*Improving Monetary Policy Effectiveness in Sierra Leone*" by Yibin Mu and Jiaxiong Yao (both AFR).

35. Seasonal exchange rate pressures intensified in 2019. Limited sources of foreign exchange (FX) and demand for essential imports saw the Leone depreciate by 13.4 percent year-on-year against the US dollar through December. The parallel market spread temporarily approached 10 percent last August but has since declined to 3 percent. These pressures reflected a confluence of factors, including seasonal import-related FX needs toward the end of the rainy season and tourism services related to the annual Hajj, while the iron ore shutdown reduced the FX supply. In this context, the BSL issued three new guidelines on foreign exchange in August, which have created uncertainty in the broader economy (Box 5).

36. The Leone appears to be significantly overvalued. While quantifying the extent of external imbalances is particularly challenging in Sierra Leone, the EBA-Lite model-based estimate signals that the external position in 2018 was substantially weaker than implied by medium-term fundamentals and desirable policies (Annex IV). The real effective exchange rate (REER) is estimated to be overvalued by around 20–30 percent as of 2018, reflecting the considerable appreciation of the Leone to the US dollar in real terms in recent years, driven largely by high inflation outpacing nominal depreciation.

37. To strengthen monetary and exchange rate policy implementation, staff recommends:

- ***Enhancing monetary policy effectiveness*** by strengthening liquidity and inflation forecasting capacity, improving liquidity management to bring (short-term money market rates into line with the BSL's policy rate, and enhancing the communication strategy to help anchor inflation expectations. These efforts would be complemented by sustained fiscal adjustment.

- ***Carefully reconsidering FX directives***, including their impact on market distortions and uncertainty. The BSL should not enter into any preferential FX agreements to reduce the risk of distortions, market segmentation, and corruption.

- ***Proactively accumulating reserve buffers***, limiting FX intervention to smoothing excessive volatility, avoiding FX sales to resist market driven ER movements, and pressing ahead with reforms to deepen the FX market.

- ***Strengthening BSL governance***, in line with program goals (Box 6).

38. The overvalued exchange rate underscores the need for comprehensive and durable reforms. While structural challenges are likely to persist, reducing the real exchange rate overvaluation and improving the external balance over time will require a concerted policy mix and structural reforms that aim to develop new sources of exports, improve business environment, increase productivity, and boost competitiveness.

Box 5. Foreign Exchange Market Developments and Regulations

Following persistent pressures on the foreign exchange market, including in the parallel market, the BSL issued several directives on foreign currency transactions. While the directives are tight, they do not give rise to multiple currency practices or exchange restrictions. The BSL is monitoring the impact of these directives.

The Leone has faced sustained pressure. The official exchange rate depreciated by around 13.4 percent in 2019. The parallel market premium peaked at almost 10 percent in August, partly reflecting seasonal import-related FX demand pressures toward the end of the rainy season and the annual Hajj (Figure 1), a pattern evident over the past decade or so (Figure 2).

Figure 1: Sierra Leone: Nominal Exchange Rate (Leones/U.S. dollar)

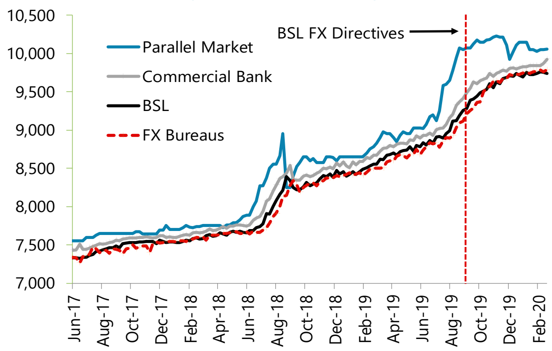
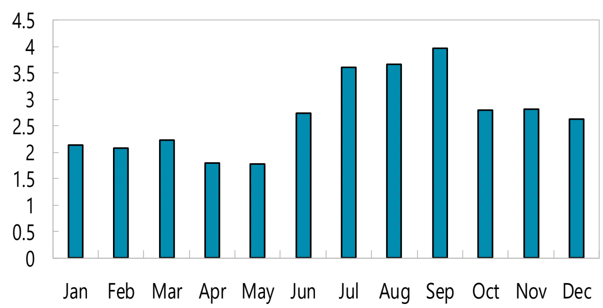


Figure 2. Sierra Leone: Parallel Market Premium, 2006-19 (In Percent)



Against this backdrop, the Bank of Sierra Leone (BSL) issued three new foreign currency (FX) directives in August 2019. The authorities emphasized that the directives are temporary in nature and they are intended to help rationalize and make more predictable FX flows to the banking system. These directives prohibit:

- non-governmental organizations (NGOs) and their donors from offshore FX trading, and instruct them to channel all remittances through their accounts in banks operating in Sierra Leone
- quoting prices, and making/receiving payments for transactions undertaken in Sierra Leone in foreign currencies; and
- the holding and/or export of FX more than a USD10,000 equivalent outside the banking system.

The directives are tight and have created uncertainty. While they do not give rise to multiple currency practices or exchange restrictions,[1] the directives have created uncertainty in the broader economy, necessitating that the BSL issue clarifying circulars in September 2019. The BSL is continuing to monitor the impact of these directives. The BSL initially faced, and resisted, pressures from market participants for preferential agreements that, if granted, would introduce economic distortions, and could potentially segment the market and result in multiple currency practices.

More recently, the BSL issued another directive in March 2020, prohibiting foreign currency transacitons by unlicenced operators (those that are not commercial banks and licensed FX bureaus).

[1]Staff will continue to monitor the directives, including assessing whether they give rise to capital flow management measures.

Box 6. Enhancing Central Bank Governance and Effectiveness

The new Bank of Sierra Leone (BSL) Act, adopted in June 2019, provides a sound legal basis to reinforce the BSL's independence and strengthened its governance. Moving swiftly to implement the new legislation is crucial to enhancing the BSL's policy effectiveness and fulfilling its mandate.

By strengthening the BSL's autonomy, the new BSL Act will improve the central bank's effectiveness. The BSL Act includes provisions protecting the personal autonomy of the Governor, Deputy Governors and Directors by: (i) establishing "double-veto" procedures for their appointment; (ii) clarifying and extending eligibility requirements; and (iii) setting clear dismissal criteria. Provisions prohibiting the BSL from seeking or taking instructions from third parties also enhance institutional autonomy, and strengthened provisions limiting credit to government will help safeguard the financial autonomy of the central bank. The new law also introduced an emergency liquidity assistance framework. However, in practice, the BSL faces competing objectives in formulating its policies, including between achieving price stability and meeting fiscal financing needs as the process of fiscal adjustment is ongoing.

Promptly implementing planned new accountability mechanisms will be an important counterbalance for increased autonomy. The introduction of a second Deputy Governor will further enhance the BSL's accountability by establishing clear reporting lines and distributing day-to-day responsibilities amongst the executive management. In addition, the BSL has created a collegial decision-making body for policy implementation and daily management—comprising of the Governor, Deputy Governors and other members as determined by the BSL Board—to provide important "checks and balances" within the executive management. The new BSL Act also enshrines the internal audit function in the central bank legislation and provides for an independent Chief Internal Auditor.

Finally, reinforcing the oversight role of the Audit and Risk Committee, as clarified under the Act, is crucial to the sound governance and autonomy of the central bank. The newly constituted Audit and Risk Committee of the BSL Board has been active in fulfilling its oversight role. The Committee has the requisite experience to provide strong oversight and could serve as an important advisor to enhance the quality of executive management decisions.

Authorities' Views

39. The authorities broadly agree with staff's analysis.

- ***On monetary policy***, they agreed that structural issues often prevent them from using effectively the many facilities and instruments that have been set up over time. While quantity targets have served monetary policy in Sierra Leone well, they emphasized the importance of sequencing reforms and addressing structural issues to create enabling environment in which the conduct of monetary policy could mature.

- ***On the exchange rate***, they emphasized the limited role of exchange rate depreciation in correcting external imbalances, noting the poor performance of traditional agricultural exports. Instead they highlighted the need to diversify exports by improving business environment and attracting FDI. The BSL clarified that the temporary FX guidelines are intended to help rationalize and make more predictable FX flows to the banking system, easing depreciation pressures and enhancing monetary policy transmission over time.

Promoting Financial Stability and Inclusion for Growth

40. Sierra Leone's financial sector remains shallow and dominated by commercial banks. Total banking assets account for less than [20] percent of GDP and banks have large exposure to the sovereign (two-thirds of their loan and investment portfolios). The large borrowing needs and high returns from the government and government-related projects disincentivize banks to serve small- and medium-business (as evidenced by the low share of private credit to GDP). Moreover, the share of adults with a bank account is among the lowest in the region.

41. Efforts to enhance financial inclusion and access, while maintaining financial stability can be vital to support development. The authorities are pursuing this through engaging in financial education, establishing a National Payment Switch, and also by leveraging technology to promote financial access. These efforts should help improve the role of financial system in both improving conduct of monetary policy and supporting economic development. In parallel, the BSL continues to focus on strengthening financial sector stability through improved guidelines and effective oversight such as publication of financial stability report and the introduction of risk-based supervision. The *Banking Act 2019* ensures that banking is conducted in line with the revised Basel Core Principles for effective banking supervision, and details a framework for bank resolution, receivership and liquidation. The Intergovernmental Action Group against Money Laundering in West Africa (GIABA) conducted an evaluation of Sierra Leone's AML/CFT regime in Fall 2019, with the plenary discussion scheduled for May 2020.

42. Going forward, these systematic efforts will be supported by IMF technical assistance. The upcoming Financial Sector Stability Review (FSSR) will develop a roadmap for financial sector reform. It will be instrumental in helping the authorities identify and sequence priority reforms, supported by a comprehensive capacity development program. Containing fiscal risks from two state-owned banks remains urgent. Staff welcomes the authorities' plan to develop a legal or regulatory framework for corporate governance of the banks, possibly in the context of a broader SOE regulatory framework, and a timeline for putting it in place.

Authorities' Views

43. The authorities broadly concurred with staff's assessment. They agreed that it is important to continue to enhance financial stability, promote financial inclusion and access to finance, and increase efficiency of the financial intermediation. They emphasized that work on digitalization of financial services, including through developing the national switch, will contribute to this goal. They intend to address the governance issue of two state banks in the context of a broader SOE regulatory framework.

PROGRAM ISSUES

A. Fiscal Policy Issues

44. The 2020 deficit and domestic bank financing are budgeted to be lower than previously forecast, reflecting a continued commitment to the program's fiscal anchors.

45. Revenue mobilization remains the backbone of the program, with an additional 0.5 percentage point of GDP envisioned in 2020. Despite lower fuel product consumption, slower mining sector recovery, and new business-friendly revenue policy measures (MEFP ¶24), 2020 revenue performance is expected to remain steady at about 14.8 percent of GDP, reflecting the continuous success of tax and customs administration measures, policies to improve the tax regime and broaden the revenue base. While the unfolding global COVID-19 pandemic could complicate revenue mobilization efforts and add to priority spending needs, the revenue path for 2020 is currently cautiously back-loaded, providing some cushion ahead of the next review.

46. Development partners are increasing their support in 2020, with higher-than-average grants expected to total at least 4 percent of non-iron ore GDP. If an additional 1.2 percent of non-iron ore GDP in budget support materializes, the authorities intend to spend it on priority expenditures (including health and education) and faster arrears clearance (MEFP ¶18). The exceptional budget support in 2020 is a deviation from a broader declining (Box 1) and the authorities continue to plan on the more prudent assumption of grants steadily declining over the medium term.

47. The budget allocates approximately USD 30 million towards arrears clearance.[5] The authorities are confident they will be able to secure repayment terms with deep NPV discounts—where necessary including haircuts in the order of 30-70 percent on face value. Consistent with the clearance strategy, the baseline assumes over 95 percent of the stock will be cleared by end-2025 (Text Table 2) (MEFP ¶¶46-49). If sufficient NPV reductions cannot be negotiated, the already-tight fiscal envelope may necessitate tackling the stock of arrears in two waves—with the second waive contingent on mobilizing additional highly-concessional resources. The accumulation of new arrears (estimated at around 0.8 percent of non-iron or GDP in 2019) remains a serious watchpoint. Preliminary indications suggest that some of this "inter year float" was paid down before the close of the fiscal year. However, it will be important to address any arrears

[5]In the context of discussions for the second review, the authorities alerted staff to new information on securities issued to the non-bank sector primarily for the purpose of clearing legacy arrears, prior to completing their arrears stocktaking. As a result, the end-December 2018 PC on NCG was missed. The authorities subsequently completed a comprehensive reconciliation exercise of bank and non-bank financing, and are strengthening their program monitoring, including requesting CD to improve the recording of arrears-related securitization. Given the nature of the non-observance and the corrective actions taken by the authorities (MEFP ¶¶12-13, ¶49), staff supports their request for a waiver. A short, stand-alone report on misreporting will be issued to the Board in parallel.

accumulated post-April 2018 and in a way consistent with the spirit of the upcoming arrears clearance strategy.

Sierra Leone: Envisaged Clearance of Legacy Pre-April 2018 Domestic Arrears[1]

	2019	2020	2021	2022	2023	2026	2029
	(in trillions of Leone)						
Estimated year-end arrears stock	3.29	1.47	1.19	0.91	0.64	0.06	0.00

Source: Sierra Leonean authorities, and Fund staff estimates and projections.
[1]Preliminarily based on the authorities' forthcoming arrears clearance strategy and subject to future negotiations with suppliers to whom the Government is in arrears.

48. The expenditure envelope strikes a balance between priority spending and financing constraints. Consistent with the government's focus on education (MEFP ¶63), the wage bill will grow to 7.3 percent of non-iron ore GDP, due largely to a 30 percent increase in teachers' salaries and the delayed processing of 2019 teacher hiring. However, looking ahead, staff and the authorities will maintain a close dialogue to ensure that critical healthcare and other needs can be met in the context of the global spread of Covid-19. The domestic capital budget will focus on the agriculture sector, particularly on procuring equipment and paving small "feeder" roads for crop transportation. Domestic capital expenditure will stay flat but foreign financing will increase the overall capital envelope to 6.6 percent of non-iron ore GDP.

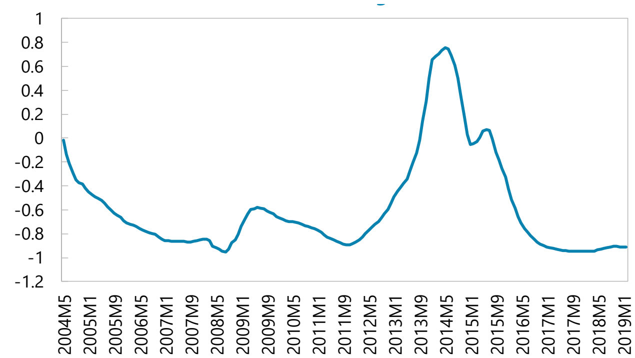
49. The authorities are cognizant that further growth in the wage bill would put undue pressure on spending and are determined to prevent this. The growth of the wage bill is a watchpoint that should be monitored closely. However, effective implementation of prudent workforce management—including continuing to eliminate ghost workers and moderate wage increases in the medium term—should allow the authorities to converge to their 6 percent of GDP target (MEFP ¶31).

B. Monetary and Exchange Rate Issues

50. Progress in lowering inflation augurs well for the authorities' commitment to single digit inflation by the end of the program (MEFP ¶50). However, uncertainties around the CPI revision and high passthrough of ER depreciation to inflation could complicate achieving this goal. Staff encouraged the BSL to monitor closely developments and stand ready to tighten the monetary stance should inflation not ease as quickly as desired.

51. Preliminary data suggest that the authorities cleared part of the new accumulated arrears over the first nine months and brought NCG back on track by end-2019. While the banking sector's net credit to the government outturn was below the end-September indicative target, NCG breached the adjusted IT by around Le 90 billion. With the fourth quarter of 2019, the authorities took and repaid a €20 million loan to bridge the expected EU budget support. Staff welcomes the authorities' commitment to limit the use of bridge loans from the BSL to unplanned emergency situations in line with the BSL Act 2019. Going forward, if recourse to a bridge loan is unavoidable, the interest rate should be market-based (MEFP ¶46).

Moving Correlation between CPI and USD/Leone Exchange Rate

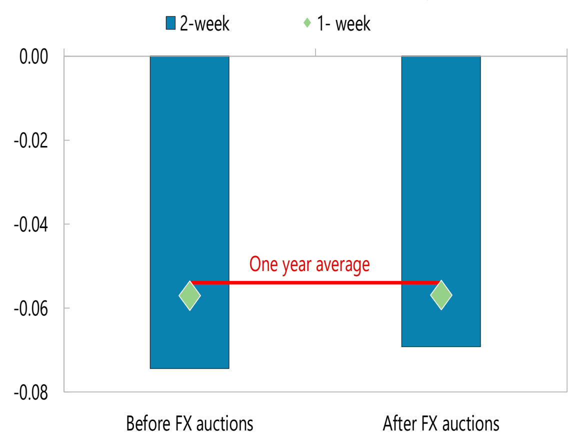


Sources: Sierra Leonean authorities; and IMF staff estimates.

52. The challenging external environment underscores the importance of allowing exchange rate flexibility and maintaining reserve buffers. The BSL responded to exchange rate pressures through the wholesale FX auction, drawing on limited FX reserves. However, staff's event study showed that auctions did not have significant effects on stemming the Leone depreciation pressures or reducing its volatility. The BSL reconfirmed its commitment to exchange rate flexibility and emphasized that the auctions were mainly to smooth out volatility and complement the supply of foreign exchange to support essential imports (including food). Staff encouraged the authorities to disclose publicly the FX intervention data, with an appropriate lag, to enhance communication on the stated policy goals. Building and maintaining an adequate reserve coverage (around 3½ months of imports) remains a priority for the program, particularly in view of the projected increase in external debt service over the medium term. BSL is committed to increasing international reserves over the program period; and is continuing to build the foundation that will operationalize two-way auctions as the FX market develops.

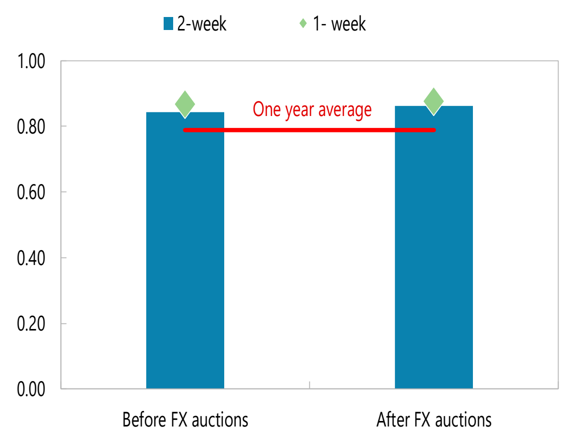
Daily Implicit Exchange Rates

(Percent change; negative = depreciation; before vs. after FX auctions)



Daily Implicit Exchange Rates: Volatility

(Standard deviation; before vs. after FX auctions)



Sources: Sierra Leonean authorities; and IMF staff estimates.

C. Financial Sector Issues

53. Building on recent efforts, the authorities are committed to further strengthen the BSL's governance and accountability (MEFP ¶¶60-62). The authorities went ahead with the audit of BSL's 2018 financial statements, by contracting an international audit firm by end-2019 to jointly conduct the audit with a local firm. Careful planning would help avoid delays in the 2019 audit and ensure the outstanding IMF safeguards assessment recommendations continue to be implemented expeditiously. It will be vital to step up efforts to finalize the remedial action plan to address the findings of the forensic audit to help further bolster the BSL's institutional strength. Similarly, accelerating actions to implement the new BSL Act 2019, including appointing a second Deputy Governor, will reinforce the commitment to governance reform demonstrated by passage of the new law. It will also better position the institution to maintain the momentum of supervisory and financial stability actions.

54. Although the immediate fiscal risks from two state-owned banks are contained, fundamental issues persist (MEFP ¶¶55-56). The two banks' returned to profitability under the BSL's enhanced supervision and through large holdings of T-bills. However, the 2019 diagnostic study found that underlying weaknesses remain regarding the banks' internal controls, governance and credit processes. The last onsite inspection in the first quarter of 2018 showed some improvement in key financial soundness indicators for one of the two banks, but lack of up-to-date data impedes the usefulness of the diagnostic report. In response, the authorities conducted onsite inspections in both banks in late 2019.

55. These findings underscore the need for a prompt decision about actions needed to ensure these systemic banks operate on a firm commercial footing. The authorities are committed to taking a final decision about the future of the state-owned banks, based on a timebound action plan (i.e., a long-term business strategy, new governance framework, stronger internal controls, and a new business model) (SB end-May 2020) (MEFP ¶57). Going forward, it will be important to engage the Fund in finalizing this strategy, including drawing on technical support where relevant and available.

D. Program Modalities, Financing Assurances and Safeguards

56. Four SBs will be assessed during the next program review (Table 10). One is a continuous SB on the fuel price mechanism. Three proposed new SBs pertain to continuing work on priority reforms: advancing the amended NRA Act, finalizing the arrears clearance strategy, and putting the two state banks on a firm commercial footing. The review also sets performance targets for June and December 2020, and indicative targets for March and September 2020.

57. Program implementation risks are significant but manageable. The authorities remain firmly committed to advancing reforms under the program. However, if capacity constrains progress on reforms, this could endanger the program's goals, particularly if it proves more challenging to mobilize revenue or tackle fiscal risks, or if exchange rate pressures motivate FX sales.

58. 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. Debt service payments to the Fund are substantial, peaking at around 1⅓ percent of GDP and 10 percent of gross reserves per year in 2022–24. However, they remain manageable under the baseline, cumulatively reaching 4 percent of GDP and 7 percent of revenue and grants over the same period[6] (helped by reliable support from development partners).

59. 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 authorities continue to make good faith efforts with external commercial creditors to reach a collaborative agreement regarding Sierra Leone's long-standing external arrears, including making annual goodwill repayments while leveraging technical and legal advice to help clear these arrears.

60. There have been delays in implementing the recommendations of the safeguards assessment. While the BSL's remedial action plan to address findings of the forensic audit report has been completed, it will be important to step up the pace of implementation. Outstanding recommendations include: (i) conducting an external quality assessment of the internal audit function; (ii) adopting a fraud prevention and whistleblower policy; and (iii) engaging a consultant to review IT accounting controls. In late 2019, the BSL appointed an international audit firm to conduct the delayed audit of the BSL's FY2018 financial statements. The audit is expected to be completed in the second quarter of 2020.

E. Data Issues

61. Data provision is broadly adequate for program monitoring and surveillance, although the quality, granularity, and timeliness of data can be improved. Collaboration with IMF technical support facilitated the resumption of the publication of the CPI. However, further progress is needed to address shortcomings in GDP deflator, CPI inflation, FDI, among others. Efforts to improve regular provision of fiscal data and government obligations data are welcome. Staff welcomes renewed efforts to improve the quality of statistics, including through improving the internal governance of Statistics SL, and strengthening their collaboration with the Ministry of Planning and Economic Development.

STAFF APPRAISAL

62. The Government's National Development Plan (2019-23, NDP) promises to put Sierra Leone on a sustainable development path but delivering quick wins is not easy. The NDP aspires to develop human and physical capital, while strengthening governance and accountability to build an economy that is inclusive and resilient. An empowered Anti-Corruption Commission has made early progress in pursuing both high-level corruption cases and lower-level governance

[6]Total outstanding debt to the Fund is at SDR 265.52 million (about 126.58 percent of quota) as of end-January 2020 and is projected to peak in 2020–21 at SDR 290.6 million (140.1 percent of quota).

irregularities, including in the education sector. The Government is pursuing these goals against a tight external financing situation, high debt levels, a banking system that is approaching the limit of government financing it can absorb, and a newly verified stock of legacy arrears. Such conditions call for difficult choices in a social environment in which the population already feels under stress. They make overcoming the legacy of economic instability and improving the wellbeing of Sierra Leoneans a challenging endeavor.

63. The 2020 budget rightly balances tight finances against ambitious priority spending and continued revenue mobilization, backed by welcome efforts to improve governance. Tax administration measures, such as operationalizing the Integrated Tax Administration System (ITAS), would help broaden the tax base. Actions to improve spending efficiency and PFM are welcome. Planning arrears clearance in a manner that is transparent, equitable, fiscally sustainable and limits the risks to financial stability is an important step. Moreover, broad efforts to advance governance reforms can reinforce efforts to strengthen economic institutions and promote policy effectiveness, including improved fiscal performance.

64. Yet, maintaining the momentum and political support will require continued revenue mobilization and efficient spending, supported by structural reforms. Continued strong revenues will require both tax administration and policy after careful consideration of most effective measures. Accelerating key PFM and expenditure reforms to ensure better budget planning and execution, including by using the recommendations of the PIMA, will be critical. Publishing the outcome of fuel price setting decision, regardless of whether fuel prices are changed, will increase transparency and public buy-in. Using any windfall revenue towards arrears to mitigate future repayment pressures, and on priority spending, focusing on poverty-reducing spending and social protection, will increase stability and inclusion.

65. Managing public debt sustainability and fiscal risks remains a priority. Staff welcomes the development of a new Medium-Term Debt Management Strategy and the strategy to deal with domestic arrears that will help guide effective public debt management. Continuing to advance assessment and management of fiscal risks, particularly from state entities and financing large public investments, would complement PFM improvements.

66. In that context, intensified efforts to contain risk from the two state-owned banks will help reduce fiscal and financial sector vulnerabilities. Staff welcomes the authorities' plan to develop a legal or regulatory framework for corporate governance of the banks, possibly in the context of a broader SOE regulatory framework, and a timeline for putting it in place. A long-term business strategy for both state-owned banks, including a time-bound action plan to implement a new business model, will be essential to make them commercially viable and for their financial intermediation.

67. Strengthening monetary policy implementation will help achieve price stability. Continuing to consult with the IMF will ensure that recent CPI updates are technically sound. Strengthening liquidity management to better align the policy rate with money market rates will improve monetary policy effectiveness. Enhancing the communication strategy will help anchor inflation expectations. Limiting the use of bridge loans from the BSL to unplanned emergency situations in line with the BSL Act 2019 will help reduce fiscal dominance and enhance monetary policy transmission.

68. Continued actions to reduce strains on the FX market are also critical. This includes accumulating reserve buffers, limiting FX intervention to smoothing excessive volatility, avoiding FX sales to resist market driven exchange rate movements, and pressing ahead with reforms to deepen the FX market. It also requires carefully reconsidering FX directives, including to their impact on market distortions and uncertainty. The external position in 2018 was substantially weaker than that implied by medium-term fundamentals and desirable policies.

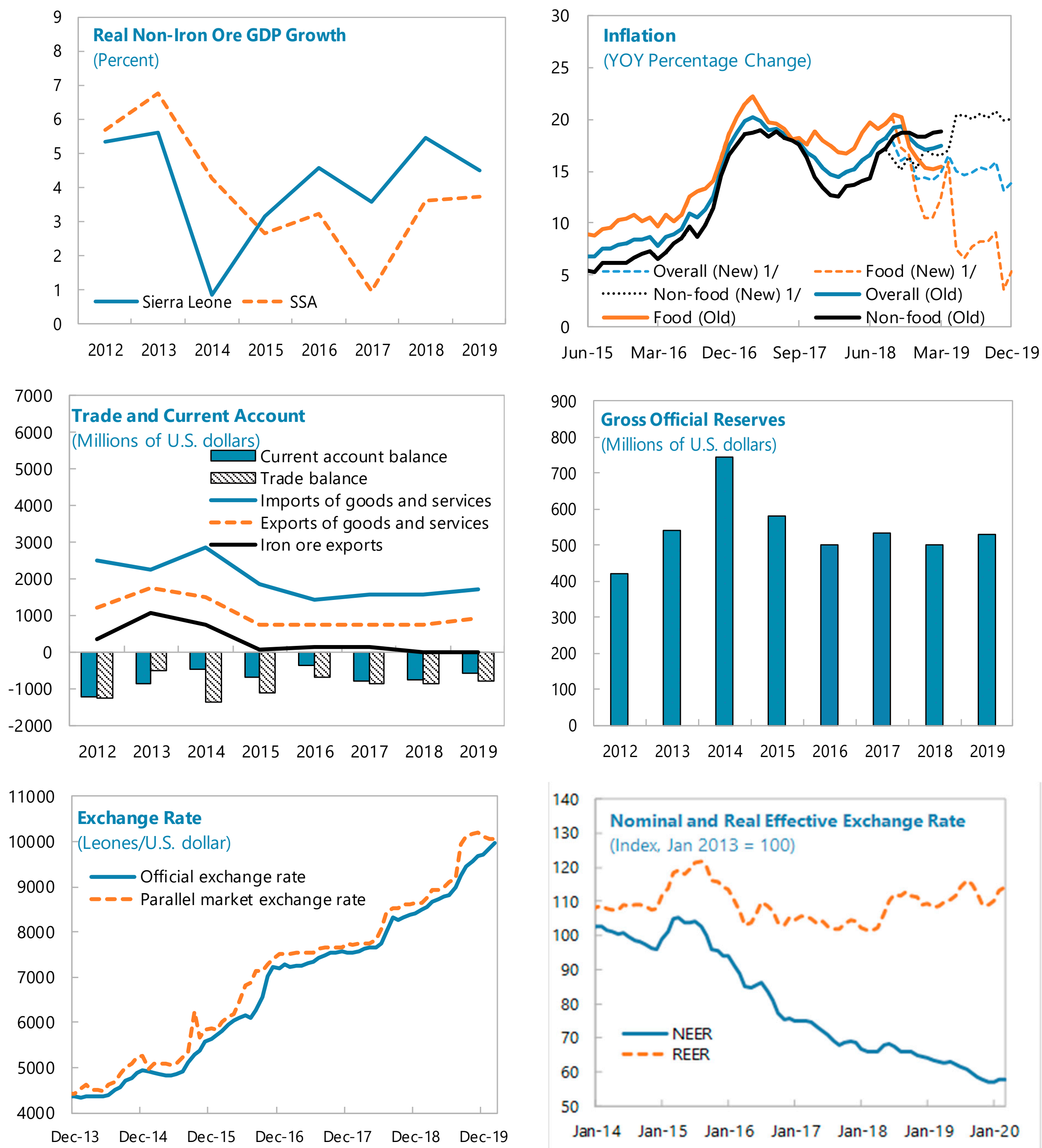
69. The authorities' focus on strengthening financial sector stability, through improved guidelines and oversight, and financial inclusion is welcome. Staff encourages the authorities to fully use the FSSR that will help develop a roadmap for financial sector reform. It will help identify priorities for continuing the BSL's efforts, supported by a comprehensive capacity development program. Continued actions to improve financial literacy, establishing a National Payment Switch and leveraging technology should help improve the role of financial system for monetary policy transmission and supporting economic development.

70. Building on recent effort, the authorities should also keep strengthening the BSL's governance arrangements and internal controls. Careful planning would help avoid delays in the 2019 audit and ensure the outstanding IMF safeguards assessment recommendations continue to be implemented. Finalizing the remedial action plan to address the findings of the forensic audit will further bolster the BSL's institutional independence. Fully implementing the new BSL Act 2019, including by stepping up efforts to appoint a second Deputy Governor, will position the institution to maintain the momentum of supervisory and financial stability actions.

71. Efforts to strengthen statistics and improve associated governance structures are welcome. Steps to ensure more accurate and timely data would continue to build a stronger basis for economic decision-making.

72. Staff supports the authorities' request for completing the second review under the ECF-supported arrangement and the request for a waiver regarding the nonobservance of the continuous performance criteria on concessional external debt, in view of the corrective measures taken by the authorities, including refraining from further borrowing in 2019 and steps toward strengthening debt management.

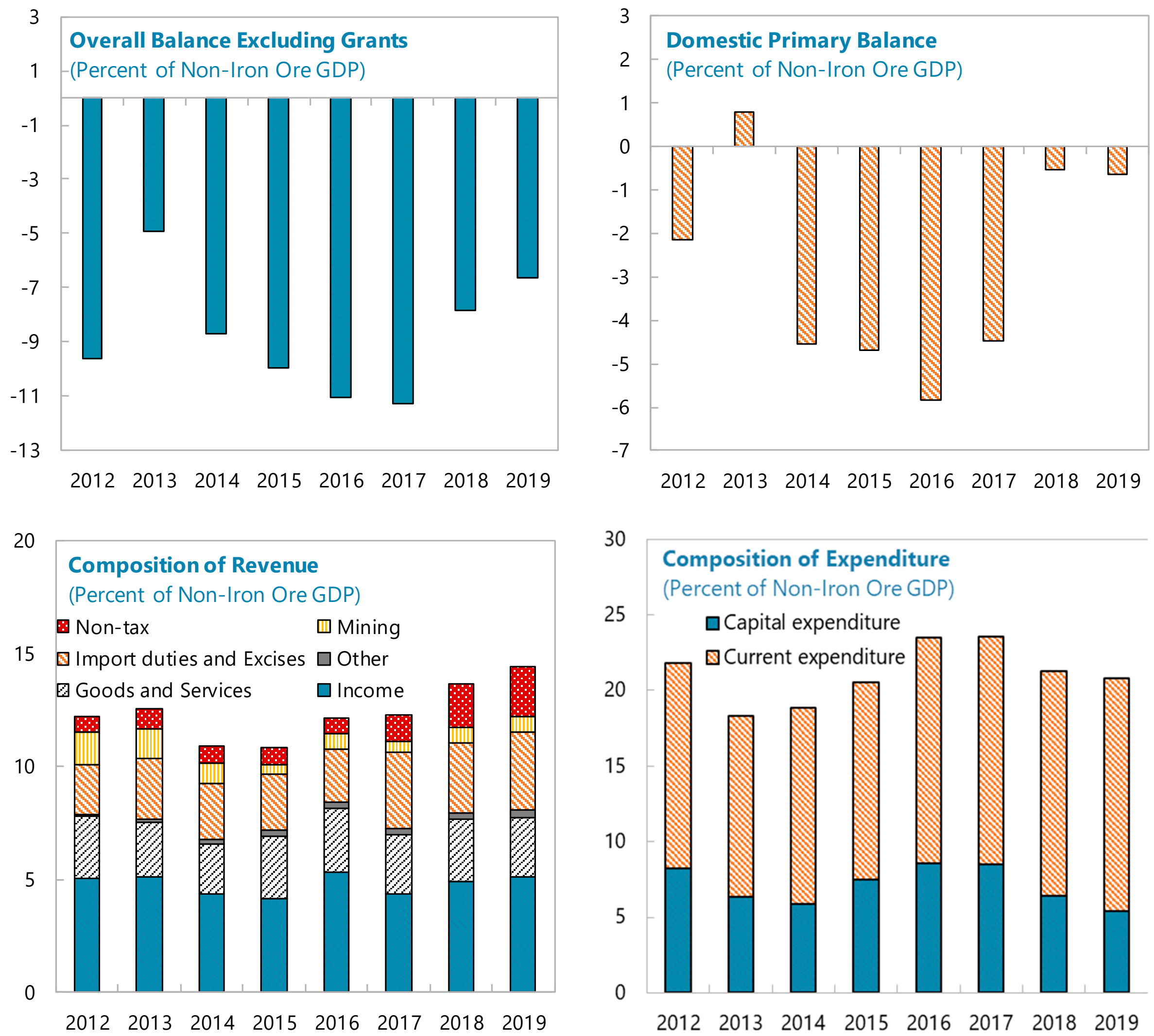
Figure 1. Sierra Leone: Real and External Sectors, 2012–20



1/ Reflects updated CPI series with technical corrections

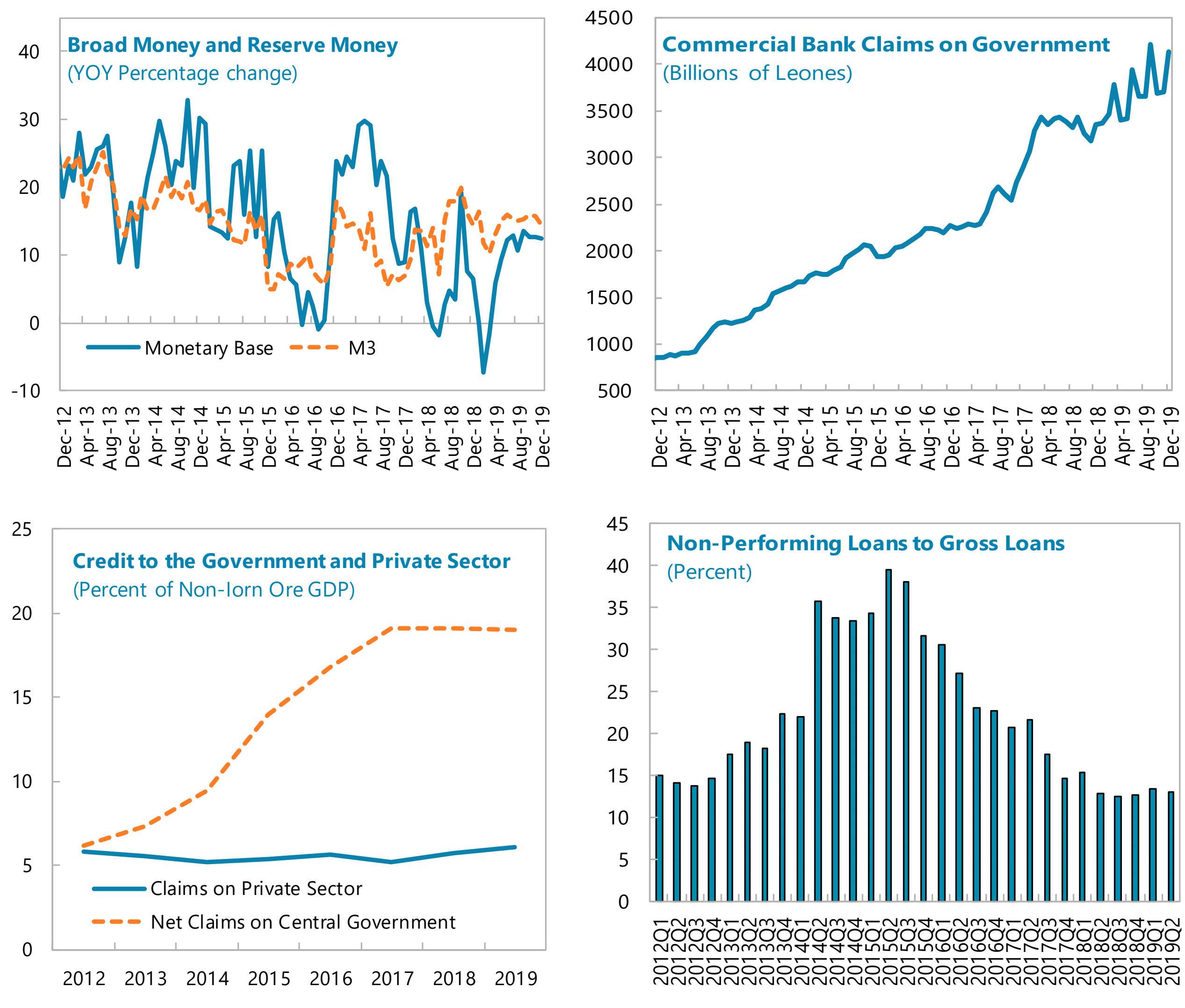
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 2. Sierra Leone: Fiscal Sector, 2012–19



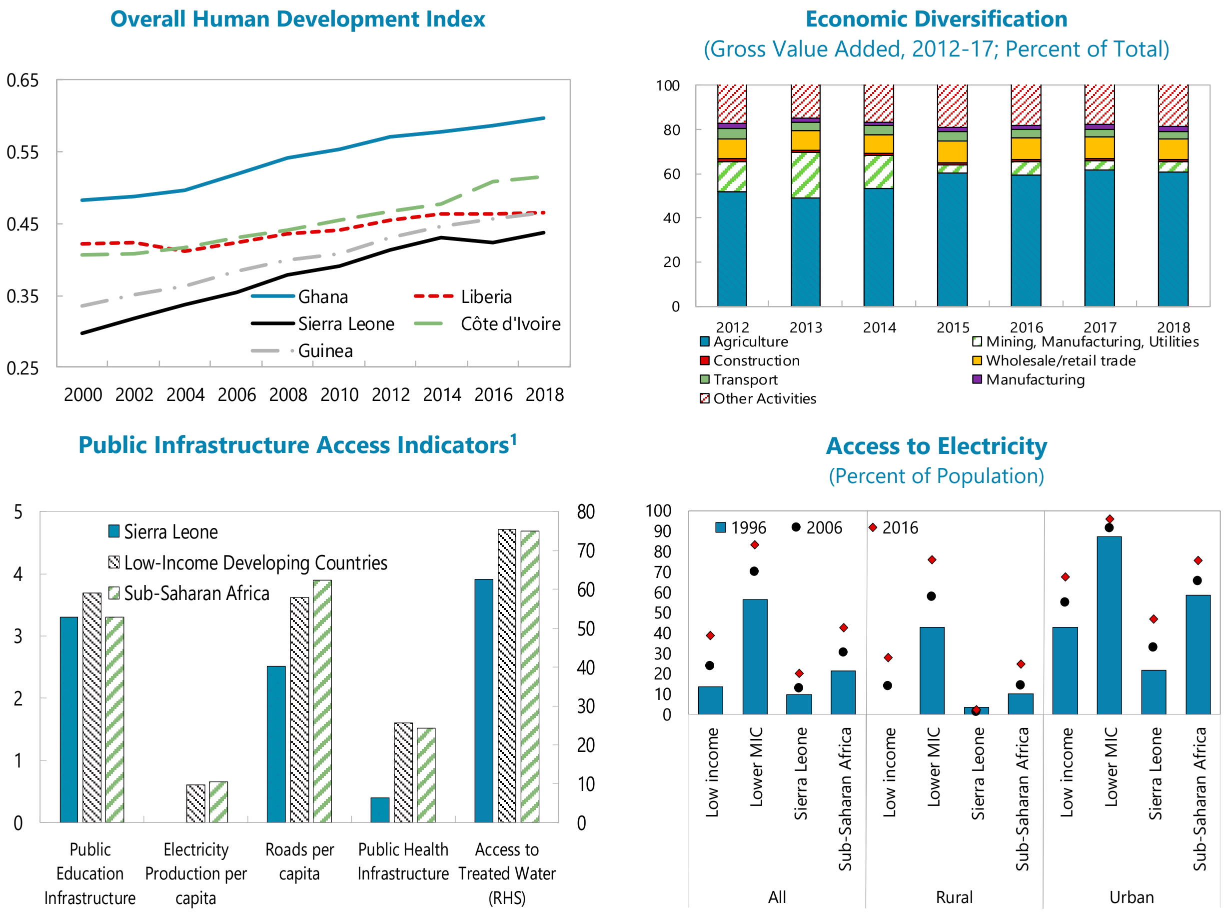
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2012–19



Sources: Sierra Leonean authorities; and IMF staff estimates.

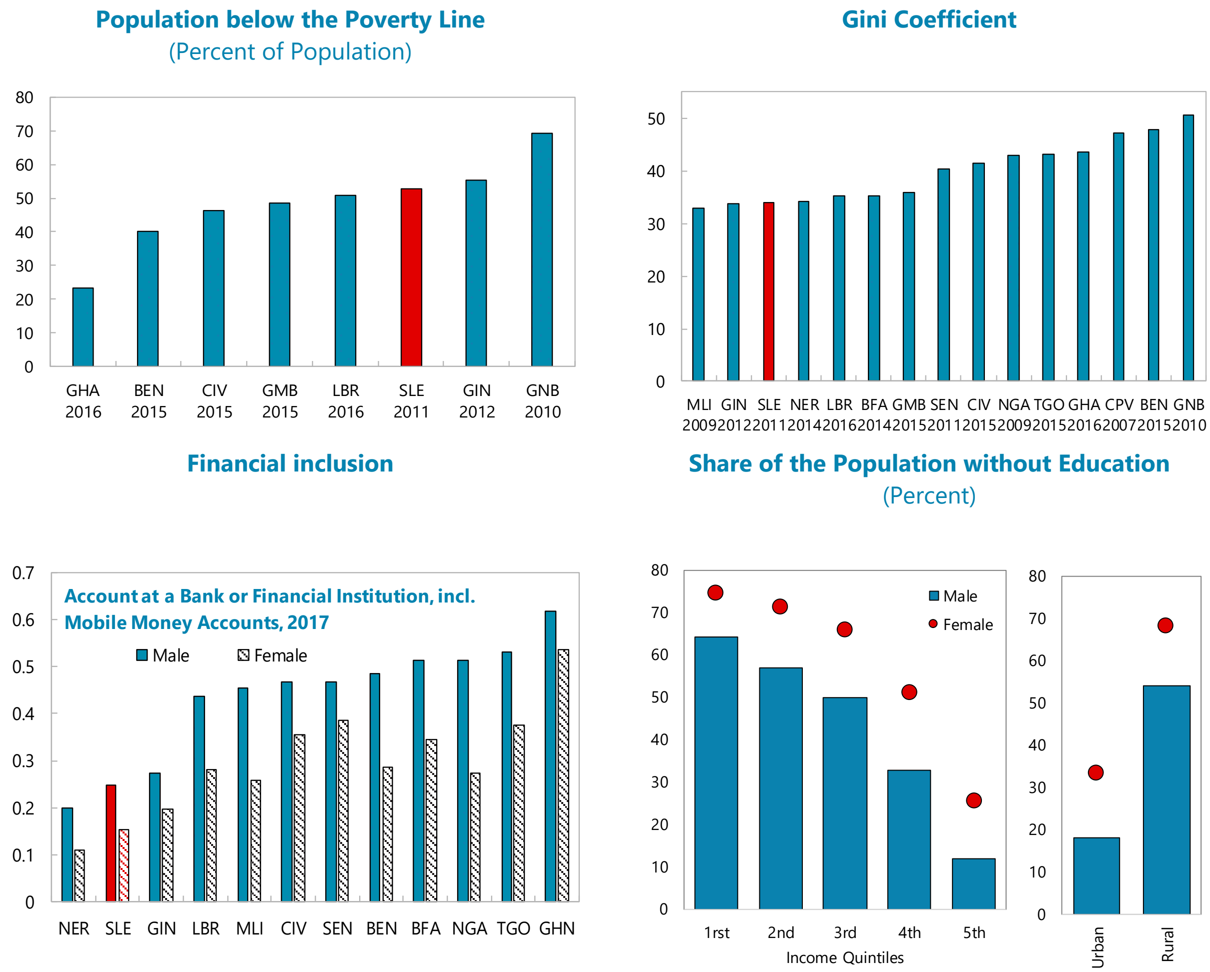
Figure 4. Sierra Leone: Development Indicators



[1]Note: Left hand side: Public education infrastructure (secondary teachers per 1,000 persons); electricity production per capita (thousands of kWh per person); roads (per capita as km per 1,000 persons); and public health infrastructure (hospital beds per 1,000 persons). Right hand axis: Access to treated water (percent of population).

Sources: World Bank World Development Indicators, UN Statistics Division, and Global Findex Database.

Figure 5. Sierra Leone: Poverty and Inclusion Indicators
(2013 Demographic and Health Survey)



Source: Demographic and Health Survey and World Bank Human Development Index.

Table 1. Sierra Leone: Selected Economic Indicators

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			CR No. 19/217	Est.	CR No. 19/217	Proj.			Proj.		
					(Annual percent change, unless otherwise indicated)						
National account and prices											
Growth											
GDP at constant prices	3.8	3.5	5.1	5.1	4.7	4.2	4.6	4.5	4.5	4.5	4.6
GDP excluding Iron ore	3.6	5.4	4.5	4.5	4.4	4.4	4.5	4.4	4.4	4.4	4.4
Inflation											
Consumer prices (end-of-period)	15.3	14.2	14.0	13.9	12.0	13.0	11.0	9.6	8.8	8.0	7.5
Consumer prices (average)	18.2	16.0	15.7	14.8	13.0	13.4	12.0	10.3	9.2	8.4	7.8
External sector											
Terms of trade (deterioration -)	15.9	-9.8	4.7	-4.2	-0.8	2.3	-1.0	-0.8	-1.0	-1.3	-1.3
Exports of goods	-0.3	-2.0	38.7	11.4	21.6	28.1	10.9	9.2	5.1	6.3	7.3
Imports of goods	23.7	0.6	5.4	4.7	5.9	4.0	4.6	4.2	3.5	3.9	3.4
Gross international reserves (excluding swaps), months of imports 1/	3.8	3.7	3.4	3.5	3.5	3.7	3.6	3.5	3.5	3.5	3.5
Money, credit and reserves											
Domestic credit to the private sector	4.9	30.6	24.9	22.9	7.5	9.3	20.2	13.0	3.6	2.5	13.9
Domestic credit to the private sector in percent of non-iron GDP	5.2	5.6	...	6.0	...	5.7	5.9	5.8	5.3	4.8	4.9
Base money	9.0	6.5	25.2	12.4	16.6	26.3	15.5	14.1	13.3	12.5	12.0
M3	7.0	14.5	18.4	14.3	16.6	17.4	15.5	14.1	13.3	12.5	12.0
Gross Intl. Reserves (excluding swaps, in US$ millions)	501	487	500	506	551	572	577	586	592	616	651
Net Intl. Reserves (excluding swaps, in US$ millions)	128	107	75	125	113	154	158	204	270	360	452
					(Percent of non-iron ore GDP, unless otherwise indicated)						
National accounts											
Gross capital formation	19.2	16.9	16.9	15.9	17.9	17.6	16.9	18.4	18.7	19.0	19.3
Government	8.6	6.4	6.2	5.4	6.7	6.6	6.2	6.4	6.7	7.0	7.3
Private	10.6	10.5	10.7	10.5	11.2	11.0	10.8	12.0	12.0	12.0	12.0
National savings	-1.9	-1.8	5.2	1.9	7.7	6.3	5.5	7.5	7.9	8.6	9.8
Financing and debt											
Public debt	69.4	68.7	62.6	67.4	63.9	66.6	65.6	63.1	60.0	56.9	53.8
Domestic	28.0	27.9	23.4	24.7	24.4	19.4	17.8	15.9	14.2	12.7	11.4
External public debt (including IMF)	41.4	40.8	39.3	42.6	39.6	47.2	47.8	47.2	45.8	44.2	42.4
External sector											
Current account balance											
(including official grants)	-21.1	-18.7	-11.7	-14.1	-10.2	-11.3	-11.4	-10.9	-10.8	-10.4	-9.5
(excluding official grants)	-22.5	-19.7	-15.2	-17.4	-12.9	-15.2	-14.2	-13.7	-13.5	-12.9	-12.0
Central government budget											
Domestic primary balance 2/	-4.5	-0.5	-0.7	-0.6	-0.3	0.3	1.0	1.5	1.4	1.5	1.4
Overall balance	-8.8	-5.6	-3.6	-2.9	-4.2	-3.3	-3.4	-2.6	-2.4	-2.3	-2.3
Overall balance (excluding grants)	-11.3	-7.7	-7.4	-6.3	-6.7	-7.4	-5.8	-4.9	-4.5	-4.2	-4.2
Revenue (excluding grants)	12.3	13.7	14.1	14.3	14.8	14.8	15.3	15.9	16.3	16.8	17.1
Grants	2.5	2.1	3.8	3.4	2.5	4.0	2.4	2.3	2.1	1.9	1.9
Total expenditure and net lending	23.5	21.4	21.5	20.6	21.5	22.2	21.2	20.8	20.8	21.1	21.3
Memorandum item:											
GDP at market prices (billions of Leone)	27,465	32,402	38,015	37,911	44,631	43,846	50,908	58,305	66,268	74,859	84,287
Excluding iron ore	27,257	32,402	37,574	37,588	43,944	43,569	50,538	57,841	65,679	74,043	83,097
Excluding iron ore in millions of US$	3,700	4,082	4,190	4,142	4,354	4,149	4,213	4,300	4,426	4,588	4,802
Per capita GDP (US$)	498	534	548	535	559	523	521	522	527	537	553
National currency per US dollar (average)	7,366	7,938	...	9,076	...	...	...	...	...	...	...
National currency per US dollar (EOP)	7,537	8,396	...	9,756	...	...	...	...	...	...	...

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

1/ Refers to reserves and imports in current year.

2/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capital spending, and arrears paydown from grants.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government

(Billions of leone)

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			CR No.		CR No.						
		Act.	19/217	Est.	19/217	Proj.			Proj.		
Total revenue and grants	**4,023**	**5,101**	**6,717**	**6,658**	**7,582**	**8,229**	**8,974**	**10,519**	**12,104**	**13,916**	**15,758**
Revenue	3,340	4,428	5,302	5,378	6,488	6,467	7,755	9,176	10,706	12,475	14,199
Tax revenue	3,034	3,809	4,512	4,561	5,578	5,486	6,624	7,873	9,243	10,828	12,355
Personal Income Tax	972	1,158	1,405	1,508	1,729	1,823	2,165	2,507	2,849	3,294	3,696
Corporate Income Tax	214	438	463	384	596	380	483	622	732	863	968
Goods and Services Tax	714	886	992	984	1,246	1,241	1,566	1,936	2,307	2,801	3,293
Excises	424	358	522	571	612	683	694	799	908	1,026	1,154
Import duties	486	650	750	710	879	852	1,087	1,262	1,495	1,759	2,027
Mining royalties and licenses	149	223	240	269	331	323	406	480	552	637	712
Other taxes	76	95	140	134	185	184	223	266	399	449	504
Non-tax	306	620	790	818	910	982	1,131	1,303	1,463	1,647	1,844
Grants	683	673	1,414	1,279	1,094	1,762	1,219	1,343	1,397	1,441	1,559
Budget support	137	218	758	767	545	1,027	664	780	826	861	970
Project grants	546	454	655	512	549	735	555	563	572	580	589
Expenditures and net lending	**6,412**	**6,920**	**8,079**	**7,742**	**9,435**	**9,687**	**10,702**	**12,027**	**13,676**	**15,587**	**17,670**
Excluding arrears paydown (cash)	***6,412***	***6,920***	***…***	***7,742***	***…***	***9,422***	***10,443***	***11,767***	***13,416***	***15,327***	***17,411***
Current expenditures	4,121	4,748	5,746	5,656	6,431	6,508	7,224	7,992	8,903	10,043	11,258
Wages and salaries 1/	1,890	2,057	2,510	2,588	2,746	3,175	3,465	3,783	4,163	4,612	5,015
Goods and services	1,079	1,155	1,371	1,175	1,503	1,058	1,238	1,452	1,685	1,942	2,233
Subsidies and transfers	549	629	727	903	1,032	1,018	1,168	1,372	1,702	2,081	2,492
Interest	602	906	1,138	990	1,149	1,258	1,353	1,386	1,352	1,408	1,518
Domestic	535	812	1,027	880	1,050	1,105	1,172	1,188	1,134	1,229	1,316
Foreign	67	95	111	110	99	153	181	198	219	179	202
Capital Expenditure	2,308	2,083	2,293	2,035	2,914	2,874	3,129	3,685	4,414	5,185	6,052
Foreign financed	1,246	1,409	1,391	1,136	1,648	1,814	1,851	2,060	2,292	2,552	2,840
Domestic financed	1,062	674	901	899	1,267	1,060	1,278	1,626	2,121	2,633	3,212
Net lending	(23)	-	-	-	-	-	-	-	-	-	-
Contingent expenditure	6	89	40	51	90	40	90	90	100	100	100
Arrears Paydown (cash)						266	260	260	260	260	260
Domestic primary balance 2/	(1,223)	(176)	(247)	(238)	(150)	117	516	854	935	1,107	1,146
Overall balance including grants	(2,389)	(1,819)	(1,362)	(1,085)	(1,853)	(1,458)	(1,728)	(1,508)	(1,572)	(1,671)	(1,912)
Overall balance excluding grants	(3,072)	(2,492)	(2,776)	(2,364)	(2,947)	(3,220)	(2,947)	(2,851)	(2,969)	(3,112)	(3,471)
Financing	**2,389**	**1,819**	**1,362**	**1,085**	**1,853**	**1,458**	**1,728**	**1,508**	**1,572**	**1,671**	**1,912**
External financing (net)	766	714	277	222	567	510	755	842	917	1,339	1,526
Borrowing	1,030	1,023	737	630	1,099	1,078	1,459	1,691	1,956	2,250	2,574
Projects	727	1,023	737	630	1,099	1,078	1,296	1,496	1,721	1,971	2,251
Budget	303	-	-	-	-	-	163	195	235	278	323
Amortization	(264)	(309)	(460)	(409)	(531)	(569)	(704)	(849)	(1,039)	(911)	(1,048)
Domestic financing (net)	1,623	1,104	1,085	863	1,285	948	974	665	655	332	386
Total Banking Sector (net)	…	998	…	942	…	1,209	1,099	788	799	455	425
Banks, net of onlending	1,193	815	958	819	1,400	1,325	1,336	1,218	1,321	1,093	960
SDR onlending, Net	228	183	127	123	(115)	(116)	(237)	(430)	(521)	(638)	(536)
Disbursements	228	183	127	123	-	-	-	-	-	-	-
Repayments	-	-	-	-	(115)	(116)	(237)	(430)	(521)	(638)	(536)
Non-Bank Sector	…	440	…	(77)	…	(261)	(125)	(123)	(144)	(123)	(39)
Government Securities, General	…	5	…	174	…	-	-	-	-	-	-
Government Securities, Arrears-Related	…	435	…	(251)	…	(261)	(125)	(123)	(144)	(123)	(39)
o/w Pre-Arrears Strategy	…	435	…	(251)	…	(241)	(106)	(104)	(125)	(103)	(19)
Other 3/	202	(333)	-	(3)	-	-	0	-	-	-	-
Memorandum item:											
Change in unpaid checks (+ = accumulation)	…	265	…	208	…	…	…	…	…	…	…
Total Stock of Arrears	3,077	3,377	…	…	…	…	…	…	…	…	

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, foreign financed capital spending, and arrears paydown from grants.

3/ In CR No 19/217 and prior, "other" includes the non-bank sector. 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government

(Percent of non-iron ore GDP)

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			CR No.		CR No.						
		Act.	19/217	Est.	19/217	Proj.			Proj.		
Total revenue and grants	**14.8**	**15.7**	**17.9**	**17.7**	**17.3**	**18.9**	**17.8**	**18.2**	**18.4**	**18.8**	**19.0**
Revenue	12.3	13.7	14.1	14.3	14.8	14.8	15.3	15.9	16.3	16.8	17.1
Tax revenue	11.1	11.8	12.0	12.1	12.7	12.6	13.1	13.6	14.1	14.6	14.9
Personal Income Tax	3.6	3.6	3.7	4.0	3.9	4.2	4.3	4.3	4.3	4.4	4.4
Corporate Income Tax	0.8	1.4	1.2	1.0	1.4	0.9	1.0	1.1	1.1	1.2	1.2
Goods and Services Tax	2.6	2.7	2.6	2.6	2.8	2.8	3.1	3.3	3.5	3.8	4.0
Excises	1.6	1.1	1.4	1.5	1.4	1.6	1.4	1.4	1.4	1.4	1.4
Import duties	1.8	2.0	2.0	1.9	2.0	2.0	2.2	2.2	2.3	2.4	2.4
Mining royalties and licenses	0.5	0.7	0.6	0.7	0.8	0.7	0.8	0.8	0.8	0.9	0.9
Other taxes	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.6
Non-tax	1.1	1.9	2.1	2.2	2.1	2.3	2.2	2.3	2.2	2.2	2.2
Grants	2.5	2.1	3.8	3.4	2.5	4.0	2.4	2.3	2.1	1.9	1.9
Budget support	0.5	0.7	2.0	2.0	1.2	2.4	1.3	1.3	1.3	1.2	1.2
Project grants	2.0	1.4	1.7	1.4	1.3	1.7	1.1	1.0	0.9	0.8	0.7
Expenditures and net lending	**23.5**	**21.4**	**21.5**	**20.6**	**21.5**	**22.2**	**21.2**	**20.8**	**20.8**	**21.1**	**21.3**
Excluding arrears paydown (cash)	***23.5***	***21.4***	**…**	***20.6***		***21.6***	***20.7***	***20.3***	***20.4***	***20.7***	***21.0***
Current expenditures	15.1	14.7	15.3	15.0	14.6	14.9	14.3	13.8	13.6	13.6	13.5
Wages and salaries 1/	6.9	6.3	6.7	6.9	6.3	7.3	6.9	6.5	6.3	6.2	6.0
Goods and services	4.0	3.6	3.6	3.1	3.4	2.4	2.5	2.5	2.6	2.6	2.7
Subsidies and transfers	2.0	1.9	1.9	2.4	2.3	2.3	2.3	2.4	2.6	2.8	3.0
Interest	2.2	2.8	3.0	2.6	2.6	2.9	2.7	2.4	2.1	1.9	1.8
Domestic	2.0	2.5	2.7	2.3	2.4	2.5	2.3	2.1	1.7	1.7	1.6
Foreign	0.2	0.3	0.3	0.3	0.2	0.4	0.4	0.3	0.3	0.2	0.2
Capital Expenditure	8.5	6.4	6.1	5.4	6.6	6.6	6.2	6.4	6.7	7.0	7.3
Foreign financed	4.6	4.3	3.7	3.0	3.8	4.2	3.7	3.6	3.5	3.4	3.4
Domestic financed	3.9	2.1	2.4	2.4	2.9	2.4	2.5	2.8	3.2	3.6	3.9
Net lending	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.0	0.3	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Arrears Paydown (cash)	…	…	…	…	…	0.6	0.5	0.4	0.4	0.4	0.3
Domestic primary balance 2/	-4.5	-0.5	-0.7	-0.6	-0.3	0.3	1.0	1.5	1.4	1.5	1.4
Overall balance including grants	-8.8	-5.6	-3.6	-2.9	-4.2	-3.3	-3.4	-2.6	-2.4	-2.3	-2.3
Overall balance excluding grants	-11.3	-7.7	-7.4	-6.3	-6.7	-7.4	-5.8	-4.9	-4.5	-4.2	-4.2
Financing	**8.8**	**5.6**	**3.6**	**2.9**	**4.2**	**3.3**	**3.4**	**2.6**	**2.4**	**2.3**	**2.3**
External financing (net)	2.8	2.2	0.7	0.6	1.3	1.2	1.5	1.5	1.4	1.8	1.8
Borrowing	3.8	3.2	2.0	1.7	2.5	2.5	2.9	2.9	3.0	3.0	3.1
Projects	2.7	3.2	2.0	1.7	2.5	2.5	2.6	2.6	2.6	2.7	2.7
Budget	1.1	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.4
Amortization	-1.0	-1.0	-1.2	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6	-1.2	-1.3
Domestic financing (net)	6.0	3.4	2.9	2.3	2.9	2.2	1.9	1.2	1.0	0.4	0.5
Total Banking Sector (net)	…	3.1	…	2.5	…	2.8	2.2	1.4	1.2	0.6	0.5
Banks, net of onlending	4.4	2.5	2.6	2.2	3.2	3.0	2.6	2.1	2.0	1.5	1.2
SDR onlending, Net	0.8	0.6	0.3	0.3	-0.3	-0.3	-0.5	-0.7	-0.8	-0.9	-0.6
Non-Bank Sector	…	1.4	…	-0.2	…	-0.6	-0.2	-0.2	-0.2	-0.2	0.0
Government Securities, General	…	0.0	…	0.5	…	0.0	0.0	0.0	0.0	0.0	0.0
Government Securities, Arrears-Related	…	1.3	…	-0.7	…	-0.6	-0.2	-0.2	-0.2	-0.2	0.0
o/w Pre-Arrears Strategy	…	1.3	…	-0.7	…	-0.6	-0.2	-0.2	-0.2	-0.1	0.0
Other 3/	0.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Change in unpaid checks (+ = accumulation)	…	0.8	…	0.6	…	…	…	…	…	…	…
Total Stock of Arrears	11.3	10.4	…	…	…	…	…	…	…	…	
Non-iron ore GDP (Le billions)	27,257	32,402	37,574	37,588	43,944	43,569	50,538	57,841	65,679	74,043	83,097

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, foreign financed capital spending, and arrears paydown from grants.

3/ In CR No 19/217 and prior, "other" includes the non-bank sector. 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

Table 2c. Sierra Leone: Fiscal Operations of the Central Government on a Quarterly Basis

(Billions of leone)

	2018					2019					2020				
	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Prel.	Est.	Est.	Proj.				
Revenue	**881**	**1117**	**1127**	**1303**	**4428**	**1370**	**1405**	**1301**	**1303**	**5378**	**1435**	**1508**	**1693**	**1832**	**6467**
Personal Income Tax	256	345	298	258	1158	328	420	343	418	1508	417	437	474	494	1823
Corporate Income Tax	59	77	134	169	438	108	95	121	60	384	87	87	99	107	380
Goods and Services Tax	195	224	236	231	886	243	264	249	228	984	274	287	323	357	1241
Excises	58	49	96	156	358	157	139	135	139	571	147	151	178	207	683
Import Duties	122	189	179	159	650	179	179	170	181	710	183	188	222	260	852
Other	192	232	183	330	938	355	306	283	277	1221	326	357	398	407	1488
Grants	**113**	**117**	**125**	**317**	**673**	**113**	**586**	**116**	**464**	**1279**	**88**	**894**	**189**	**590**	**1762**
o/w Budget Support	0	0	0	218	218	2	527	0	245	774	0	762	0	265	1027
Expenditure	**1873**	**1437**	**1514**	**2096**	**6920**	**1659**	**1916**	**2062**	**2106**	**7742**	**2017**	**2563**	**2427**	**2680**	**9687**
Wages 1/	513	536	510	498	2057	580	630	682	696	2588	754	807	807	807	3175
Goods and Services	250	179	239	487	1155	206	293	451	224	1175	238	249	275	296	1058
Subsidies and Transfers	108	76	168	276	629	224	301	129	249	903	229	239	265	285	1018
Other	20	44	9	17	89	13	15	23	0	51	10	10	10	10	40
Interest	240	236	210	220	906	271	243	228	248	990	270	320	326	342	1258
Capital Expenditure	743	365	378	597	2083	364	435	548	687	2035	517	673	745	940	2874
Arrears Paydown (cash)						...	...	...	...	...	0	266	0	0	266
Domestic primary balance 2/	**-399**	**268**	**175**	**-221**	**-176**	**224**	**-107**	**-296**	**-59**	**-238**	**24**	**-57**	**50**	**100**	**117**
Overall Balance incl. grants	-879	-203	-261	-475	-1819	-176	75	-645	-339	-1085	-495	-161	-545	-257	-1458
Financing	**879**	**203**	**261**	**475**	**1819**	**176**	**-75**	**645**	**339**	**1085**	**495**	**161**	**545**	**257**	**1458**
Foreign	215	163	196	141	714	14	26	32	150	222	162	94	155	99	510
Disbursement (Projects)	256	256	256	256	1023	130	102	121	278	630	248	280	270	280	1078
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	-41	-93	-60	-115	-309	-117	-76	-88	-128	-409	-86	-187	-114	-182	-569
Domestic	664	41	65	335	1104	162	-100	612	189	863	333	67	390	158	948
Total Banking Sector, Net	482	-38	73	481	998	327	-100	382	334	942	369	187	452	201	1209
o/w Banks, net of onlending	482	-38	73	298	815	327	-100	259	334	819	369	225	491	241	1325
o/w SDR onlending, Net	0	0	0	183	183	0	0	123	0	123	0	-37	-39	-40	-116
Non-Bank	-60	24	30	445	440	-64	-50	83	-47	-77	-36	-120	-62	-43	-261
Government Securities, General	-60	24	30	11	5	45	43	61	25	174	0	0	0	0	0
Government Securities, Arrears-Related	0	0	0	435	435	-109	-92	23	-72	-251	-36	-120	-62	-43	-261
o/w Pre-Arrears Strategy	0	0	0	435	435	-109	-92	23	-72	-251	-36	-120	-43	-43	-241
Other 3/	242	55	-38	-592	-333	-101	49	147	-98	-3	0	0	0	0	0
Memorandum items:															
Total Bank Financing, excluding special bonds 4/	482	-34	73	484	...	327	-96	382	338	...	...	...	...	...	...
Change in unpaid checks (+ = accumulation)	176	-1	0	91	265	21	-45	328	-96	208	...	...	...	...	...

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, foreign financed capital spending, and arrears paydown from grants.

3/ 2018 onward, "other" includes the corresponding transaction for securities issued to reduce the stock of arrears.

4/ Special bonds, as defined in the TMU, are excluded from the program definition of NCG but are included in and impact the overall availability of financing

Table 3. Sierra Leone: Monetary Accounts[1]

(Billions of leone, unless otherwise indicated)

	2017	2018				2019						2020				2021
							CR No.			CR No.	Est.		Proj.			Proj.
		Mar.	Jun.	Sept.	Dec.	Mar.	19/217	Jun.	Sept.	19/217	Dec.	Mar.	Jun.	Sept.	Dec.	
I. Monetary Survey																
Net foreign assets	**2,956**	**3,059**	**2,787**	**2,581**	**2,707**	**2,549**	**2,833**	**3,100**	**2,888**	**2,958**	**2,964**	**3,117**	**3,270**	**3,424**	**3,577**	**3,928**
Net domestic assets	**3,566**	**3,794**	**4,048**	**4,427**	**4,758**	**5,011**	**5,382**	**4,825**	**5,194**	**5,876**	**5,569**	**5,774**	**6,100**	**6,402**	**6,445**	**7,648**
Net domestic credit	**6,690**	**7,172**	**7,244**	**7,569**	**8,039**	**8,565**	**8,863**	**8,541**	**9,067**	**9,580**	**9,287**	**9,628**	**10,089**	**10,528**	**10,706**	**12,307**
Claims on central government (net)	5,193	5,675	5,637	5,710	6,190	6,517	6,504	6,417	6,798	7,253	7,133	7,501	7,689	8,141	8,341	9,440
Claims on private sector	1,413	1,464	1,559	1,828	1,845	2,073	2,311	2,181	2,295	2,304	2,269	2,241	2,515	2,502	2,479	2,981
Claims on others 2/	84	33	48	31	3	(25)	48	(56)	(26)	23	(115)	(115)	(115)	(115)	(115)	(115)
Other items (net)	(3,124)	(3,379)	(3,196)	(3,142)	(3,281)	(3,554)	(3,481)	(3,716)	(3,872)	(3,703)	(3,717)	(3,853)	(3,989)	(4,125)	(4,262)	(4,659)
Money and quasi-money (M3)	**6,522**	**6,852**	**6,835**	**7,008**	**7,465**	**7,560**	**8,215**	**7,924**	**8,083**	**8,835**	**8,533**	**8,892**	**9,370**	**9,826**	**10,022**	**11,575**
II. Bank of Sierra Leone																
Net foreign assets 3/	**1,217**	**1,326**	**1,211**	**818**	**901**	**826**	**891**	**1,290**	**1,203**	**881**	**1,212**	**1,116**	**1,684**	**1,643**	**1,728**	**2,008**
Net domestic assets	**1,068**	**941**	**897**	**1,202**	**1,532**	**1,403**	**1,873**	**1,074**	**1,089**	**2,166**	**1,523**	**1,950**	**1,548**	**1,746**	**1,728**	**1,984**
Net domestic credit 4/	**2,323**	**2,268**	**2,234**	**2,357**	**2,872**	**2,829**	**4,573**	**2,506**	**2,659**	**4,927**	**3,255**	**3,729**	**3,373**	**3,617**	**3,646**	**4,131**
Claims on other depository corporations	0	1	6	52	7	74	415	14	60	550	234	679	273	469	430	900
Claims on central government	2,296	2,247	2,208	2,280	2,839	2,729	2,839	2,481	2,579	3,053	3,004	3,050	3,099	3,149	3,198	3,214
o/w SDR onlending	989	989	989	989	1,172	1,172	1,298	1,172	1,295	1,298	1,295	1,295	1,258	1,219	1,179	942
Claims on other sectors	28	21	20	24	26	26	21	12	20	26	18	0	0	0	18	18
Other items (net) 5/	(1,256)	(1,327)	(1,338)	(1,155)	(1,340)	(1,426)	(1,401)	(1,432)	(1,570)	(1,462)	(1,732)	(1,779)	(1,825)	(1,871)	(1,918)	(2,148)
Reserve money	**2,284**	**2,267**	**2,108**	**2,020**	**2,433**	**2,229**	**2,764**	**2,364**	**2,293**	**3,046**	**2,735**	**3,066**	**3,231**	**3,388**	**3,456**	**3,992**
Memorandum items:																
(Annual percent change unless otherwise indicated)																
Base money	9.0	11.2	-1.8	3.5	6.5	-1.7	31.4	12.2	13.5	25.2	12.4	37.6	36.7	47.8	26.3	15.5
M3	7.0	14	7	18	14.5	10.3	20.2	15.9	15.3	18.4	14.3	17.6	18.2	21.6	17.4	15.5
Credit to the private sector (growth)	4.9	10.4	6.8	19.0	30.6	41.6	48.2	39.9	25.5	24.9	22.9	8.1	15.3	9.0	9.3	20.2
Velocity 6/	4.3	n.a.	n.a.	n.a.	4.3	…	…	…	…	4.6	4.7	…	…	…	4.7	4.7
Money multiplier (M3/base money)	2.9	3.0	3.2	3.5	3.1	…	…	…	…	2.9	3.1	…	…	…	2.9	2.9
Credit to the private sector (in percent of non iron ore GDP)	5.2	n.a.	n.a.	n.a.	5.7	…	…	…	…	6.1	6.0	…	…	…	5.7	5.9
Nominal exchange rate, average (Leones/US $)	7366	n.a.	7710	8238	8437	8646	…	8793	9,336	…	9,076	…	…	…	…	…
Nominal exchange rate, end of period (Leones/US $)	7537	7623	7741	8260	8396	8676	…	8826	9,444	…	9,756	…	…	…	…	…

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/ BSL's NFA before June 2018 included swaps.

4/ Includes SDR onlending.

5/ Includes valuation.

6/ Velocity is calculated as non-iron ore GDP /the average of M3 at the end of the current year and the preceding year.

Table 4. Sierra Leone: Balance of Payments

(Millions of U.S. dollars; unless otherwise indicated)

	2017	2018	2019		2020		2021	2022	2023	2024	2025
		Prel.	CR No. 19/217	Est.	CR No. 19/217	Proj.		Proj.			
Current account	**-781.5**	**-762.6**	**-489.9**	**-582.0**	**-443.5**	**-466.9**	**-480.3**	**-468.7**	**-476.9**	**-476.5**	**-457.0**
Trade balance	-551.2	-570.8	-427.7	-555.3	-321.5	-406.3	-368.2	-332.8	-327.0	-311.5	-273.3
Exports, f.o.b.	652.1	639.2	834.8	712.1	1,015.1	912.1	1,011.5	1,104.1	1,160.1	1,233.0	1,323.0
Of which: diamonds	118.2	157.1	218.9	161.9	171.7	163.3	171.4	177.7	184.1	190.7	197.6
iron ore	131.9	13.1	60.0	13.0	84.6	70.4	81.4	89.2	83.4	106.3	144.6
Imports, f.o.b	-1,203.3	-1,210.0	-1,262.5	-1,267.4	-1,336.7	-1,318.4	-1,379.7	-1,436.9	-1,487.1	-1,544.5	-1,596.3
Of which: oil	-153.0	-204.8	-170.5	-193.5	-182.0	-182.2	-186.3	-193.1	-202.3	-212.9	-224.7
Services (net)	-285.9	-285.4	-292.8	-243.4	-354.6	-314.2	-328.4	-354.6	-358.6	-378.1	-403.2
Income (net)	-99.7	-71.2	-77.2	-79.1	-50.0	-67.1	-63.8	-67.3	-79.1	-77.5	-80.5
Of which: interest on public debt	-10.0	-7.1	-10.6	-12.1	-9.8	-14.6	-15.1	-14.7	-14.7	-11.1	-11.7
Transfers	155.8	164.8	307.8	295.8	282.6	320.8	280.1	286.0	287.8	290.6	299.9
Official transfers	51.7	43.2	149.0	138.8	118.3	162.7	119.8	122.3	119.8	117.3	119.8
Other transfers	104.1	121.6	158.8	157.0	164.3	158.1	160.3	163.7	168.0	173.3	180.1
Capital and financial account	**709.7**	**388.7**	**476.4**	**595.5**	**475.8**	**497.0**	**484.2**	**514.8**	**543.8**	**565.8**	**549.2**
Capital account	147.7	66.3	78.0	97.5	59.4	120.1	101.4	102.6	105.5	105.5	82.8
Of which: Project support grants	30.4	48.6	73.0	55.7	54.4	70.0	46.3	41.9	38.5	36.0	34.0
Financial account	562.0	322.5	398.4	498.0	416.3	376.9	382.8	412.2	438.2	460.2	466.5
Foreign direct and portfolio investment	413.7	250.5	353.3	367.7	348.7	235.3	304.0	335.1	390.9	392.4	392.9
Other investment	148.3	72.0	45.1	130.4	67.6	141.6	78.8	77.1	47.4	67.8	73.6
of which: Public sector (net)	105.4	59.9	31.3	94.7	56.2	126.4	65.0	62.6	61.8	82.9	88.2
Disbursements	145.2	104.2	82.2	142.9	108.9	180.6	123.7	125.7	131.8	139.4	148.7
Amortization	-39.8	-44.3	-50.9	-48.2	-52.6	-54.1	-58.7	-63.1	-70.1	-56.4	-60.6
Errors and omissions	**18.1**	**377.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-53.7**	**3.8**	**-13.5**	**13.5**	**32.2**	**30.1**	**3.9**	**46.1**	**66.8**	**89.2**	**92.2**
Financing	**53.7**	**-3.8**	**13.5**	**-13.5**	**-32.2**	**-30.1**	**-3.9**	**-46.1**	**-66.8**	**-89.2**	**-92.2**
Change in central bank reserves, net (- increase)	53.7	-3.8	13.5	-13.5	-32.2	-30.1	-3.9	-46.1	-66.8	-89.2	-92.2
of which: Use of Fund credit (net)	36.5	3.6	27.7	6.1	13.9	37.5	1.2	-36.8	-61.5	-64.8	-55.4
Disbursements	52.7	21.6	43.4	21.6	43.4	64.3	42.9	21.5	0.0	0.0	0.0
Repayments	-16.2	-18.1	-15.7	-15.6	-29.6	-26.8	-41.6	-58.3	-61.5	-64.8	-55.4
Other	0.0	0.0	0.0	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	-21.1	-18.7	-11.7	-14.1	-10.2	-11.3	-11.4	-10.9	-10.8	-10.4	-9.5
Trade Balance	-14.9	-14.0	-10.2	-13.4	-7.4	-9.8	-8.7	-7.7	-7.4	-6.8	-5.7
Capital and Financial Account	19.2	9.5	11.4	14.4	10.9	12.0	11.5	12.0	12.3	12.3	11.4
Overall Balance	-1.1	0.1	-0.3	0.3	0.7	0.7	0.1	1.1	1.5	1.9	1.9
Budget support (grants and loans)	**1.3**	**1.2**	**2.0**	**2.1**	**1.2**	**2.4**	**1.6**	**1.7**	**1.6**	**1.5**	**1.6**
Budget support (grants and loans, in US dollars)	48.8	49.1	84.5	88.0	54.0	98.0	68.9	72.5	71.5	70.6	74.7
Gross International Reserves (Including swaps)	534	503	517	533	563	584	577	586	592	616	651
Gross International Reserves (excluding swaps)											
US$ millions	501	487	500	506	551	572	577	586	592	616	651
Months of imports	3.8	3.7	3.4	3.5	3.5	3.7	3.6	3.5	3.5	3.5	3.5
National currency per US dollar (average)	7,366	7,938	...	...	...	...	...	...	...	...	...

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

Table 5. Sierra Leone: External Financing Requirements and Sources
(Millions of U.S. dollars)

	2017	2018	2019	2020	2021
I. Total financing requirements	**-871**	**-836**	**-789**	**-749**	**-664**
Current account balance (excl. official transfers)	-833	-806	-721	-630	-600
Debt amortization	-40	-44	-48	-54	-59
Gross reserves accumulation	2	14	-20	-65	-5
II. Available and expected financing	**800**	**437**	**767**	**685**	**621**
Project support grants and debt relief	148	66	97	120	101
Disbursements from official creditors /1	145	104	143	181	124
Budget support (grants)/2	52	43	139	163	120
Foreign direct and portfolio investment	414	250	368	235	304
Change in net foreign assets of commercial banks	52	8	36	15	14
Repayment of IMF credit and loans	-1	-18	-16	-27	-42
Other	-9	-18	0	-2	0
IV. Errors and omissions	**18**	**378**	**0**	**0**	**0**
III. Financing gap	**53**	**22**	**22**	**64**	**43**
Exceptional financing					
ECF program	53	22	22	64	43
Memorandum items:					
Gross International Reserves (Excl. swaps)	501	487	506	572	577
Months of imports	3.8	3.7	3.5	3.7	3.6

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

				Projection										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit 1/														
(in millions of SDRs)														
Principal	19.5	30.2	42.1	44.3	46.5	36.6	23.8	10.1	6.2	3.1	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
Fund obligations based on existing and prospective credit														
(in millions of SDRs) 1/														
Principal	19.5	30.2	42.1	44.3	46.5	39.7	34.7	27.3	24.9	21.8	15.6	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
Total obligations based on existing and prospective credit 1/														
In millions of SDRs	19.5	30.2	42.1	44.3	46.5	39.7	34.7	27.3	24.9	21.8	15.6	7.8	1.6	0.0
In millions of US$	26.8	41.6	58.3	61.5	64.8	55.4	47.6	36.6	32.8	28.1	19.7	9.7	1.9	0.0
In percent of exports of goods and services	2.4	3.4	4.4	4.5	4.5	3.6	2.8	2.0	1.6	1.3	0.9	0.4	0.1	0.0
In percent of debt service 2/	27.4	36.1	42.8	42.0	49.0	42.7	36.3	28.6	24.9	21.0	18.0	8.7	1.6	0.0
In percent of GDP	0.6	1.0	1.3	1.4	1.4	1.1	0.9	0.7	0.6	0.4	0.3	0.1	0.0	0.0
In percent of Gross International Reserves	4.6	7.2	9.9	10.4	10.5	8.5	6.9	5.0	4.2	3.4	2.3	1.1	0.2	0.0
In percent of quota	9.4	14.6	20.3	21.4	22.4	19.1	16.7	13.1	12.0	10.5	7.5	3.8	0.8	0.0
Outstanding Fund credit														
In millions of SDRs	289.7	290.6	264.0	219.7	173.2	133.5	98.8	71.6	46.7	24.9	9.3	1.6	0.0	0.0
In millions of US$	397.6	400.3	365.1	304.9	241.3	186.6	135.3	96.1	61.4	32.1	11.8	1.9	0.0	0.0
In percent of exports of goods and services	35.3	33.0	27.9	22.2	16.6	12.0	8.0	5.2	3.1	1.5	0.5	0.1	0.0	0.0
In percent of debt service	406.5	346.9	268.2	208.5	182.4	143.7	103.3	75.2	46.6	24.0	10.8	1.7	0.0	0.0
In percent of GDP	9.5	9.4	8.4	6.8	5.2	3.8	2.6	1.8	1.1	0.5	0.2	0.0	0.0	0.0
In percent of Gross International Reserves	68.1	69.4	62.3	51.5	39.2	28.7	19.7	13.2	8.0	3.9	1.4	0.2	0.0	0.0
In percent of quota	139.7	140.1	127.3	105.9	83.5	64.4	47.6	34.5	22.5	12.0	4.5	0.8	0.0	0.0
Net use of Fund credit (in millions of SDRs)	10.0	0.0	-26.6	-44.3	-46.5	-41.2	-34.7	-27.3	-24.9	-21.8	-14.0	-7.8	-1.6	0.0
Disbursements	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	21.2	31.1	42.1	44.3	46.5	41.2	34.7	27.3	24.9	21.8	14.0	7.8	1.6	0.0
Memorandum items:														
Exports of goods and services (in millions of US$)	1125	1213	1,310	1,372	1,453	1,554	1,695	1,844	2,002	2,166	2,277	2,407	2,545	2,693
Debt service (in millions of US$)	98	115	136	146	132	130	131	128	132	134	109	111	117	122
Nominal GDP (in millions of US$)	4175	4244	4,335	4,466	4,639	4,871	5,128	5,460	5,844	6,252	6,658	7,093	7,556	8,051
Gross International Reserves (in millions of US$)	584	577	586	592	616	651	688	729	772	817	859	903	948	994
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

Source: IMF staff estimates and projections.

1/ Projected forthcoming payments to the IMF as at September 30, 2019.

2/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2018-2022

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, 2012-19

	2012	2013	2014	2015	2016	2017				2018				2019		
						Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
	(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	46.4	47.2	44.9
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	41.4	40.6	...
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	13.4	13.1	12.1
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	9.3	8.9	...
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	6.1	6.5	4.8
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	28.6	27.2	19.8
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	30.6	29.6	...
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	70.3	64.8	101.8
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	32.9	31.4	...
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	35.9	39.3	36.8
Memorandum Item:																
Number of banks	13	13	13	13	13	14	14	14	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. IT				Dec. PC	Mar IT.	Jun. PC	Sept. IT	Dec. PC
	Stock	Prog.	Adj. Prog.	Act.	Status 6/	Prog.	Adj. Prog.	Act.	Status	Prog. 5/	Adj. Prog.	Act.	Status	CR No. 19/217	Adj. Prog.	Est.	Status 4/	CR No. 19/217				
Performance criteria																						
Net domestic bank credit to the central government (ceiling) 1/	5171	823	431	557	Not Met	407	495	327	Met	812	949	230	Met	791	523	612	Not met	1085	369	556	1008	1209
Unadjusted target (ceiling)			823				407				812				791							
Adjustment for the shortfall in external budget support			175				45				0				6							
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments			-91				-21				24				-304							
Adjustment for the excess(shortfall) in leone value of net issuance of government securities to non-bank private sector			-476				64				113				30							
Net domestic assets of the BSL (ceiling)	858	404	617	636	Not met	223	303	-129	Met	341	-59.9	-459	Met	522	548	-443	Met	634	427	25	223	205
Unadjusted target (ceiling)			404				223				341				522							
Adjustment for the shortfall (excess) in external budget support			175				45				-426				6							
Adjustment for exchange rate depreciation (appreciation)			38				35				25				21							
Gross international reserves of the BSL, US$ millions (floor)	474	7	-21	10	Met	-20	-21	-11	Met	-27	2	34	Met	-6	-3	30	Met	17	-19	45	47	64
Unadjusted target (floor)			7				-20				-27				-6							
Adjustment for the shortfall (excess) in external budget support			-40				-5				47				-1							
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement			0				0				-22				0							
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			13				4				4				3							
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		42	Met	100		122	Not met	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	Met	0		0	Met	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	Met	0		0	Met	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0
Indicative targets																						
Total domestic government revenue (floor)	...	2356		2430	Met	1224		1370	Met	2549		2775	Met	3797		4076	Met	5302	1435	2942	4635	6467
Poverty-related spending (floor) 3/	...	275		749	Met	293		196	Not met	634		767	Met	1016		1251	Met	1495	387	785	1207	1652
Domestic primary balance (floor)	...	-282		-45	Met	-98		224	Met	-208		117	Met	-171		-179	Not Met	-247	24	-33	17	117
Memorandum items:																						
External budgetary assistance (in $ million)	...	67		27		5		0		13		60		61		60		85	0	74	74	98
Exchange rate (Leones/US$)																						
Program	7741	8743				9040				8999				9280				9539	9908	10291	10674	11057
Actual	7741			8396				8676				8826				9444						

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.
6/ December 2018 performance for NCG has been revised in line with new information on securities issued to the non bank sector primarily for the purpose of clearing legacy arrears. Given the nature of the non-observance and the corrective actions taken by the authorities (MEFP ¶¶12 13, ¶49), staff supports their request for a waiver. A short, stand-alone report on misreporting will be issued to the Board in parallel.

Table 10. Sierra Leone: Structural Benchmarks		
STRUCTURAL BENCHMARKS	**TIMING**	**STATUS**
Benchmarks for Second Review		
Adopt a remedial action plan to address the findings of the forensic audit report.	August 31, 2019	Not Met
Complete the stocktaking of payment arrears to domestic suppliers to determine a comprehensive arrears figure, drawing on IMF technical assistance recommendations.	August 31, 2019	Not met, completed with a delay
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	Met
Update the 2016 diagnostic study of the two state-owned banks, with support from the World Bank.	September 30, 2019	Met
Continue to use the automatic fuel price indexation mechanism to set fuel price determination.	Continuous	Met
Benchmarks for Third Review[1]		
Submit the revised NRA Act to the Parliament, based on Fund staff review and advice on the draft NRA Act.	April 30, 2020	
Finalize and publish an arrears clearance strategy, consistent with the resource envelope in the 2020 budget and the program; and refrain from issuing securities for arrears clearance until the strategy is finalized and published.	April 30, 2020	
Prepare a long-term business strategy for both state-owned banks, including a time-bound action plan on steps to put in place a new business model that would ensure they operate on a firm commercial footing and effectively contribute to financial intermediation.	May 31, 2020.	
Continue to use the automatic fuel price indexation mechanism to set fuel price determination and begin publishing the fuel price formula and the outcome of fuel price setting decision, regardless of whether fuel prices are changed.	Continuous	

[1]To ensure effective integration between the program and Fund CD, SBs for the fourth review will draw upon the recommendations from the PIMA (late 2019) and upcoming FSSR (early 2020).

Annex I. Status of Staff's 2016 Article IV Recommendations

Specific Recommendations	Status
Fiscal Policy	
• Increase fiscal space through higher and more diversified revenues. (P21)	In progress. Revenue mobilization is a key objective of the government, as set out in the NDP and ECF.
• Eliminate implicit fuel subsidies. (P24)	Fuel prices were liberalized in 2018, with the introduction of the automatic fuel price indexation mechanism to set fuel price. Done
• Review tax exemption list with the aim of eliminating most exemptions. (P23)	In progress
• Conduct a comprehensive review of tax administration through a TADAT mission and identify critical areas of needed improvement (P21)	[Done]
• Target a wage cost of 6 percent of GDP in the medium-term through measures including nominal freeze of the wage bill for 2017; harmonizing subvented agency wages with the civil service pay scale, eliminating ghost workers and continuous monitoring thereof; and eliminating retired staff from the payroll (P24)	Harmonization is in progress; a biometric exercise was used to identify ghost workers and several retired staff were removed from the payroll in 2017-2018
• Implement the PFM Act. (P32)	In progress. The new PFM Act came into effect in June 2016 and implementation is underway but needs to be further strengthened.
Financial Sector	
• Partner with the World Bank to perform independent diagnostic study of two state owned banks which suffer from high non-performing loans. (P35)	[Done]
• Review the situation of other banks with either high NPLs, or violations of prudential regulations, and ensure that those banks take necessary steps to meet the prudential requirements (P39)	In progress. BSL has been transitioning to risk-based supervision (RBS) and are focusing its supervisory resources on the banking institutions that pose the greatest risk. Has carried over ten RBS examinations in 2018 and 2019 so far.
• Adopt reforms to improve the enabling environment for financial sector development, including making the collateral registry operational, introducing a reserve requirement on foreign currency deposits while lowering the reserve requirement on domestic currency deposits, and minimizing fiscal arrears to eliminate one source of NPLs of banks. (P39)	Collateral registry is operational, reserve requirement not changed.

Annex II. Capacity Development

A. CD Strategy and Priorities

1. Sierra Leone's CD Strategy is closely aligned with the Government's development agenda, Article IV recommendations and priorities under the 2018 ECF-supported program (Table III.1).

- *Substantial financing needs amidst tight fiscal space and high debt levels call for smart management of resources and further revenue mobilization.* To this end, the strategy focuses on strengthening public finance management to improve the efficiency of public spending, improving tax policy and revenue administration to support revenue mobilization (a key goal under the authorities' National Development Plan (NDP) and commitments under the ECF), and more effective debt management to limit debt vulnerabilities going forward.

- *Limited transmission of monetary policy to other sectors and previous central bank governance weaknesses motivate the focus on central banking operations and governance.* Analysis for the 2019 Article IV consultation highlights that fiscal dominance and underdeveloped financial markets limit the effectiveness of monetary policy. The 2017 safeguards assessment and recent forensic audit of the BSL revealed governance challenges within the central bank. The strategy therefore focuses on modernizing monetary policy frameworks and implementing the new banking and BSL Acts (submission of which were prior actions for the ECF request).

- *Declining but still high non-performing loans and weaknesses in state-owned banks require strengthened financial sector supervision.*

- *Statistics compilation and dissemination are a priority in all sectors to enable effective policy design and implementation and monitor the reform process.*

B. Main Risks and Mitigation

2. Risks to TA implementation in Sierra Leone relate to absorptive capacity, political risks, and financing constraints. Policy implementation is often constrained by the small number of officials that are a handling large variety of tasks. These constraints can become binding without careful prioritization, particularly in light of numerous requests for TA and subsequent TA missions in the past year (Table A2), along with TA delivery by other development partners. Vested political interests can also 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 sometimes delayed reform implementation in the past.

3. The authorities and the country team discussed several measures 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. The Res Rep office has served as interlocutor for financial assistance from development partners, for example on the forensic audit of the central bank. The team has initiated discussions with other development partners to coordinate more closely on TA needs and delivery to promote coherent of policy advice, avoid duplication, and be more mindful of the burden on the already-stretched time officials.

C. Authorities' Views

4. **The authorities concur with the priorities outlined above**. The reform orientation of the current administration provides an opportunity to make faster progress on structural reforms. They 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 effectively than other modes of delivery and have therefore requested that workshops be built into TA delivery on a routine basis.

Table 1. Sierra Leone: Capacity Development 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 to safeguard price and foreign exchange stability. (ii) Implement the revised Banking and BSL Acts to strengthen the BSL's ability to manage the banking system.
Statistics	Produce timely, frequent and credible indicators of economic activities in all sectors to inform policy.

Table 2. Sierra Leone: Technical Assistance, FY 2019-20		
Fiscal		
FAD	Improving Risk Processes, Compliance Management (1 of 2)	June 4–15, 2018
	Policy Advice and Revenue Modeling	June 13–23, 2018
	Strengthen Management: Organizational Structure	August 8–21, 2018
	Strengthening Reform Strategy; Reforming Governance	September 5–18, 2018
	Strengthen Core Tax Administration Procedures and Processes	October 18–31, 2018
	Reform Strategy and Implementation update	October 18–31, 2018
	Risk Identification, Compliance etc.	December 3–14, 2018
	Central Bank Revenue Modelling and Forecasting	December 3–7, 2018
	Central Bank Revenue Modelling and Forecasting	February 18–26, 2019
	Fiscal Risks and Arrears Management	March 20–April 1, 2019
	EI Risk Based Compliance Strategy	May 6–17, 2019
	Improving Risk Processes, Compliance Management etc. (2 of 2)	June 3–12, 2019
	Core Process Re-engineering	June 20–July 3, 2019
	Modernization Strategy	July 25–26, 2019
	Modelling and Support to Petroleum Licensing Round	September 26–30, 2019
	EI Risk Based Compliance Strategy 1 of 2	Sept. 23-Oct.4, 2019
	Dispute Resolution	November 4-15, 2019
	Joint STX mission under MNRW	November 4-15, 2019
	EI Risk Based Compliance Strategy 2 of 2	January 20-31, 2020
	Filing and Payment, Process re-engineering	January 22-31, 2020
	Filing and Payment, Process re-engineering	February 3-7, 2020
	Modelling and Support to Petroleum Licensing Round	February 26- March 6, 2020
	Follow-up on natural resource regime mission	March 2-11, 2020
AFRITACW2	Building excise duties compliance management system	January 7–18, 2019
	Development of Controls for ECOWAS Customs Integrity Framework—Phase 1	July 15–19, 2019
	Design of Risk Management Strategy and Supporting Framework	September 16–27, 2019
	Sierra Leone Training on PPP Fiscal Risk Management Tool	September 9–13, 2019
	Training on Excel Based Modelling Techniques	November 11-22, 2019
	Review of the Sierra Leone Integrated Macroeconomic Model (SLIMM)	November 11-22, 2019
	Strengthen excise duites management capacity	November 18-29, 2019
	Development of Stakeholder Engagement Strategy	November 25-29, 2019
	Development of Stakeholder Engagement Strategy	November 26-December 6, 2019
	GST Compliance and Data Matching	January 22-24, 2020
	GST Compliance and data matching	February 17-28, 2020
	Strengthen capacity to audit telecom sector	February 24-March 6, 2020
	Delivery of Training on Stakeholder Engagement Strategy	March 2-13, 2020
	Professional Attachment for NRA Risk Management Unit to Mauritius Customs	March 16-27, 2020
	Follow-up Mission to Support Authorities Implement Commitment Control Measures	April 6-17, 2020
	Development of Customs Integrity Framework (ECOWAS)	April 20-24, 2020
	PIMA	December 4-17, 2019

Monetary/Foreign Exchange/Financial		
MCM	Resident Advisor: Central Bank Modernization Extension	April 30, 2018–May 31, 2018
	Central Bank Modernization Advisor (Extension)	June 1, 2018–March 31, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Bank Supervision and Regulation (Extension)	January 26–31, 2019
	Bank Supervision and Regulation (Extension)	February 1–March 8, 2019
	Central Bank Modernization Advisor (Extension)	April 1–30, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Central Bank Modernization Advisor (Extension)	May 1–28, 2019
	FSSR Scoping Mission	December 2-6, 2019
	Project Assessment	November 11-15, 2019
LEG	Review Banking Law	August 23–28, 2018
AFRITACW2	Credit Risk Analysis	April 9–20, 2018
	Improving Monetary Policy Analysis and Foreign Exchange Operations	May 21–June1, 2018
	Debt Management and central Bank Balance Sheet	April 23–May 3, 2019
	RBS: Developing RBS Manual	October 14-25, 2019
	WAH-Supporting MPC Preparations and Monetary Policy Report Issuance	September 6-13, 2019
	Improving Monetary Policy Analysis and Follow-Up on Monetary Operations	May 20-24, 2019
Statistics		
STA	Balance of Payments Statistics and International Investment Position (EDDI2)	November 11–16, 2018
	Balance of Payments Statistics and International Investment Position (EDDI2)	October 14–25, 2019
	Government Finance Statistics	February 2–15, 2019
	FSI: Financial Soundness Indicators (FSSF)	March 1–15, 2019
	National Accounts (EDDI2)	April 15–19, 2019
	Consumer Prices/Producer Price (EDDI2)	April 29–May 10, 2019
	External Sector Statistics (EDDI2)	October 14-25, 2019
	Price Statistics (EDDI2)	September 9-13, 2019
	Consumer Price Index (EDDI2)	February 24-28, 2020
AFRITACW2	Completion of TNA for Valuation and Classification Training and Preparation of Training Module	April 1–12, 2019
	Supporting the Upgrade of Chart of Accounts Complying GFSM 2014, and their Implementation	July 8–22, 2019

Source: IMF TAIMS.

Annex III. Tackling Governance and Corruption[1]

Longstanding governance weaknesses and corruption in Sierra Leone have impeded effective policy making and undermined macroeconomic and human development outcomes. Since coming to office in April 2018, the Government committed to strengthening governance and anti-corruption efforts and has made this a flagship issue in their 2019-23 National Development Plan. In this context, governance-related reforms have featured prominently in Fund engagement, with the current ECF-supported program and Fund capacity development supporting the Government's efforts to strengthen policy frameworks and accountability. As a fragile state with large institution-building needs and limited capacity, discussions in the Article IV consultation prioritized governance-related reforms that promote effective policymaking and help achieve the authorities' development goals.

A. Background

1. Sierra Leone has made little, if any, progress in strengthening governance over the past 10–15 years and continues to lag regional peers. Following the civil war, the country made good progress in the early 2000s in rebuilding government capacity and institutions. However, additional gains proved more difficult (Gelbard et al., 2015). Despite recent improvements in political stability, perceived levels of corruption remain high and lag neighboring countries, and many governance indicators have stalled (e.g., regulatory quality and rule of law) (Figures 1 and 2). Among these, weak government effectiveness has been most pronounced and persistent.

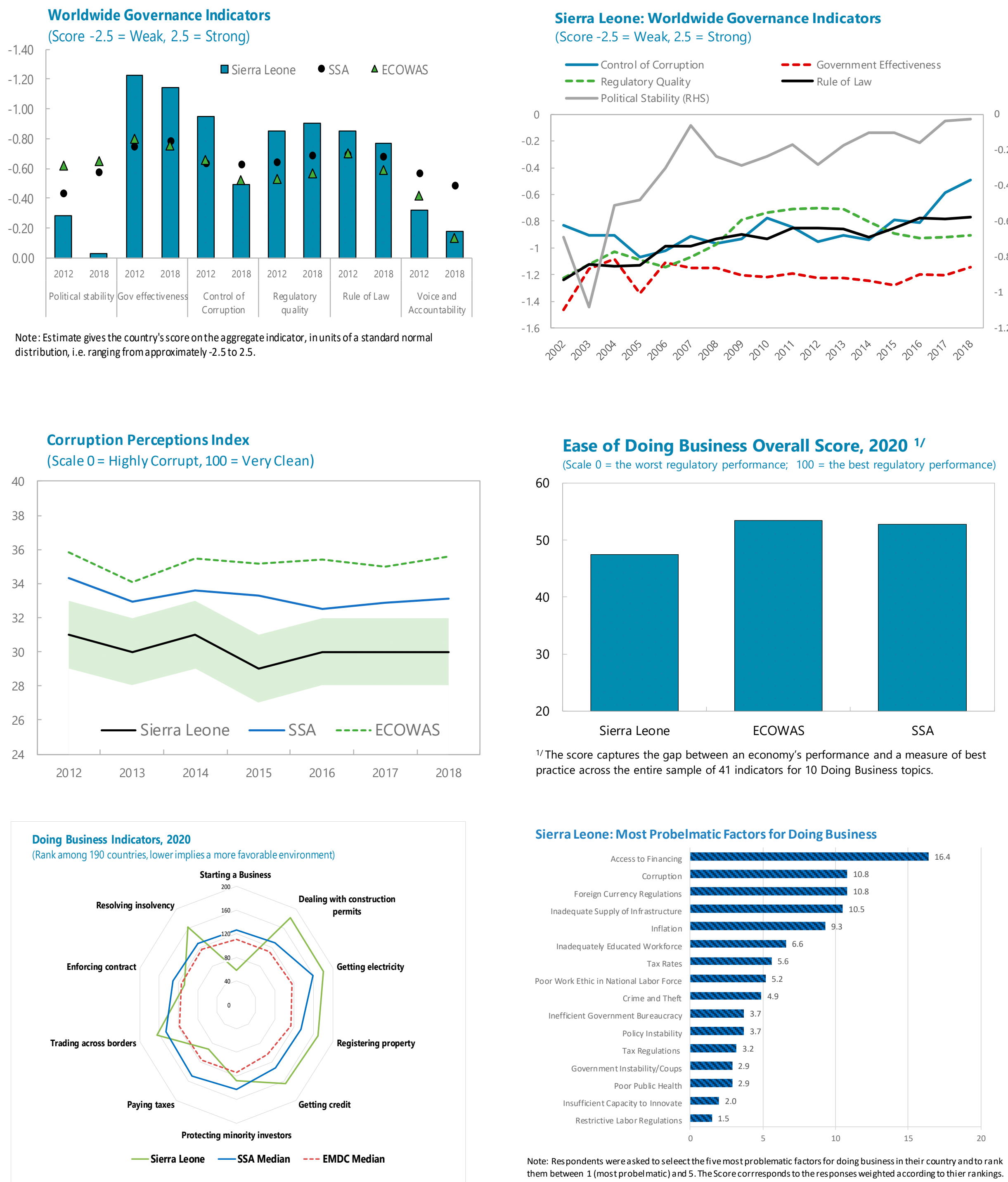
2. Governance weaknesses impacting public policies and corruption are major obstacles to doing business. Sierra Leone ranked 163 out of 190 countries in the World Bank's 2019 Doing Business report, with six of ten indicators scoring below other sub-Saharan African (SSA) economies—construction permits, property registration, getting electricity, getting credit, trading across borders, and resolving insolvency (Figure 1). Indeed, the country performed poorly in most areas in the life cycle of a business. Both the World Bank's Enterprise Survey and the World Economic Forum's business leaders survey identified corruption as a main constraint (Figure 1).

B. Economic Costs of Weak Governance and Corruption

3. The literature demonstrates that weak governance and corruption are roadblocks to higher and more inclusive growth. Several Fund studies find corruption to be a statistically significant determinant of real GDP growth. Strengthening governance—especially through institution-building to promote policy and government effectiveness—can have large growth dividends in the long run. For example, capita growth by about 1–2 percentage points. While good

[1]Prepared by Yiqun Wu (SPR), Jiaxiong Yao, and Ornella Kaze (all AFR). This annex benefitted from engagement with the Sierra Leonean authorities, in particular staff of the Ministry of Finance and Bank of Sierra Leone, at a seminar with staff during the Article IV consultation mission.

Figure 1. Sierra Leone: Governance and Corruption



Sources: Word Bank Group, *Doing Business 2019, Worldwide Governance Indicators, World Economic Forum Executive Opinion Survey 2017*; Transparency International; and IMF Staff estimates.

Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

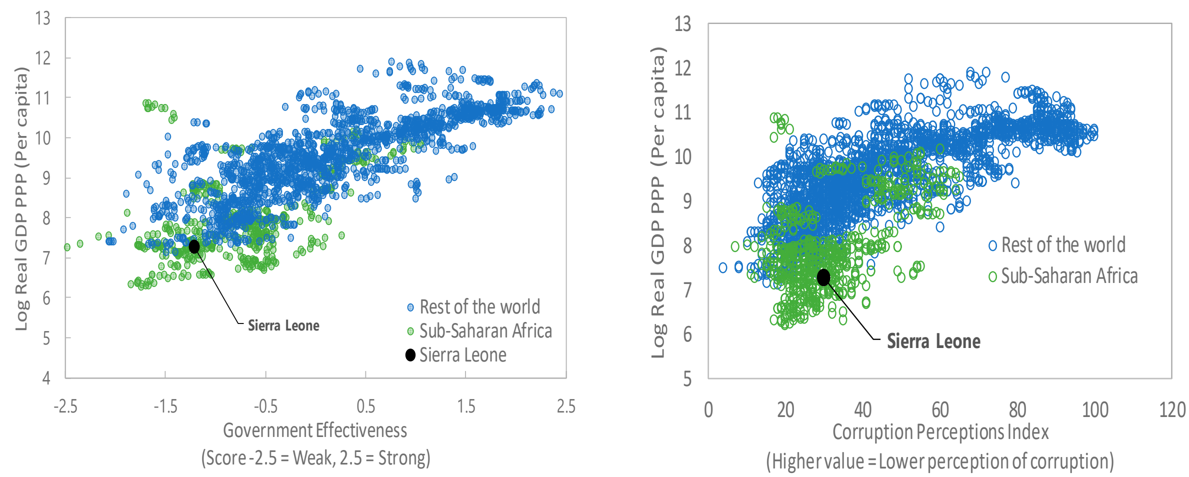
Figure 2. Sierra Leone: Policy Effectiveness

Sources: Word Bank Group, *Doing Business 2019*, *Worldwide Governance Indicators*, *Open Budget Survey* 2017; and IMF Staff estimates.

Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

governance in general supports income growth, better quality governance via government effectiveness and rule of law play an important role in making growth more inclusive (Doumbia 2018) (Figure 3). These results also "suggest that enhancing human capital, infrastructure improvement, and financial development are the main factors positively influencing poverty reduction and inclusive growth." With these three issues central to Sierra Leone's development plans and with real GDP per capita growth below 1 percent in recent years, improving governance levels could significantly contribute to development.

Figure 3. Sierra Leone: Weak Governance and Corruption Weigh on Economic Growth



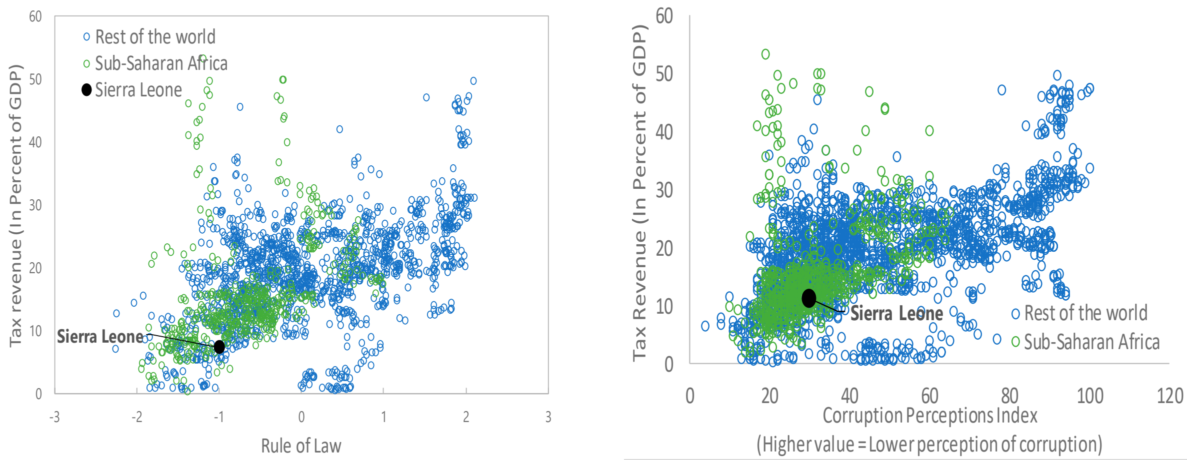
Sources: Word Bank *World Governance Indicators*; and IMF Staff Estimates.

Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

4. Weak governance and corruption are associated with weak fiscal performance. IMF analysis found that the fiscal costs of corruption can be substantial for economies at all levels of development (IMF, 2019). As corruption can undermine revenue collection efforts (Figure 4), reducing corruption can be instrumental in countries successfully boosting tax revenues as a share of GDP (IMF, 2019). For Sierra Leone, increased revenue mobilization will be essential to create the fiscal space needed to finance the government's priority programs. Corruption also distorts how governments use public money, as composition of government spending can be directed towards unproductive activities to capture economic rents and bribes, instead of social spending. Addressing Sierra Leone's weaknesses in controls over public expenditure would limit the risk of corruption and ensure that scarce resources are spent effectively and in priority areas.

5. Monetary and financial stability are also vulnerable to weak governance and corruption. By eroding fiscal performance and contributing to fiscal dominance, corruption can also damage central bank independence and impede money transmission mechanisms (Huang and Wei, 2006). Corruption can lead to weaker financial market oversight that undermine the stability of the financial system. Moreover, perceived corruption can increase borrowing costs for both government and the private sector (Akitoby and Stratmann, 2010, Ciocchin et al., 2003, Hlatshwayo et al., 2018). These factors are particularly relevant in Sierra Leone and addressing governance challenges in both fiscal and monetary institutions could significantly improve the effectiveness of monetary policy and help lower the government's large borrowing costs.

Figure 4. Sierra Leone: Weak Governance is Associated with Lower Revenue



Sources: Transparency International; and IMF Staff Estimates.

Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

C. The Government's Reform Agenda

6. **Although key elements of a governance and anti-corruption architecture are in place, in practice this framework has not worked effectively in Sierra Leone**. Key governance and anti-corruption institutions include the Anti-Corruption Commission (ACC), Audit Service Sierra Leone (ASSL), National Public Procurement Authority, Financial Intelligence Authority, Parliamentary Committees (e.g., the Public Accounts Committee), various law enforcement agencies, and the Ombudsman. Despite establishing these institutions, anti-corruption efforts over the past decade have not successfully detected and prosecuted corruption offenses in Sierra Leone.

7. **Since coming to office in April 2018, the Government has demonstrated a commitment to tackling corruption**. The actions over the past 12–18 months suggest there may be more political resolve than previous reform efforts, with the Government taking steps to:

- *Improving enforcement and compliance*. Soon after taking office, the new government established a transition and governance team to investigate "state plunder" and fraud during the previous administration. In the year following April 2019, the ACC recovered stolen assets amounting to Le16 billion (about US$1.9 million).[2] The "Pay No Bribe" campaign also aims to collect real time evidence on corruption in key service sectors via an innovative reporting mechanism for citizens to anonymously report corruption and bribery.

[2]The Sierra Leone Anti-Corruption Commission, Press Release (ACCPR/19/007), June 18, 2019.

- *Upgrading legislative and regulatory frameworks.* The authorities established a special anti-corruption court. The new Commissioner General at the National Revenue Authority (NRA) is driving forward institutional reforms, including finalizing the 2018–20 Strategic Plan, establishing a new modernization and reform office, and upgrading the NRA legislation to improve the organization's governance structure and accountability. The new Bank of Sierra Leone (BSL) law came into effect in mid-2019, providing the basis to bolster the institution's independence and accountability. In December 2018, the BSL signed an MoU with the Financial Intelligence Unit to strengthen collaboration, cooperation and information sharing.

- *Promoting greater transparency and public accountability.* President Bio and senior officials declared their assets to the ACC three months after taking office. The ASSL's technical "value for money" audit on previous procurement contracts in four key sectors—social security, telecommunications, civil works, and energy—identified public financial management (PFM) weaknesses related to funds that we either spent unnecessarily or not collected.

8. **The authorities' National Development Plan[3] (NDP) 2019–23, launched in early 2019, sets ambitious goals for enhancing transparency and accountability**, including:

- Adopting a new National Public Sector Transparency and Accountability Initiative (NAPSTAI) to subject the public sector to more scrutiny by civil society and development partners;

- Establishing a Rapid Response Team for Investigations and intelligence management;

- Enhancing inter-agency cooperation between local and national governments to prevent, detect and punish corrupt practice; and strengthening international cooperation on asset recovery; and

- Detecting and deterring cross-border tax evasion and enhancing implementation of AML laws and practices; and deepening international cooperation for asset recovery.

D. The Role of Fund Engagement

9. **Recent Fund engagement has focused on enhancing governance by supporting reforms to strengthen economic institutions and promote policy effectiveness**. This has been based on close coordination between the ECF-supported program and Fund capacity development (CD) in areas such as central bank governance and safeguards, tax administration, PFM, expenditure control and procurement, and public investment efficiency.

- *This has yielded progress in strengthening legislative frameworks and institutional structures*, including: reconstituting the BSL Board and Audit Committee in 2018; passage of new BSL and banking laws, which received Presidential assent in June 2019; completing the forensic

[3]See Sierra Leone's *Medium-term National Development Plan 2019-2023: Education for Development*.

audit of the BSL; enacting a new Extractive Industries Revenue Act based on IMF technical advice; and preparing draft amendments to the NRA Act, drawing on IMF TA.

- *Reforms in the context of the Fund-supported program will also facilitate improvements in transparency and accountability*. Key among these include: continue to apply the automatic fuel price indexation mechanism introduced in 2018 and increase transparency by publishing the outcome of fuel price setting decision starting in 2020; completing in September 2019 the stocktaking of outstanding domestic arrears, followed by plans to finalize and publish an arrears clearance strategy in 2020Q2; and developing a remedial action plan to address the findings of the forensic audit.

10. Going forward, the priority will be to promote and support implementation of reforms that enhance government effectiveness. While Fund CD has helped with strengthening legislative and institutional architecture for policymaking, continued engagement is needed to build capacity and improve in practice policy implementation.

- *Promoting transparency to strengthen the governance framework.* Key elements include (i) bringing expenditures public for better planning and execution, and enhanced transparency in PFM; (ii) presenting budget statements in accordance with the government chart of accounts at all levels of classification to ensure uniformity between budget data and the in-year/annual fiscal reports; and (iii) reviewing the investment policy and profile of large trusts and funds, for enhanced fiscal transparency

- *Strengthening PFM and revenue administration, focusing on outcomes and spending efficiency.* Streamlining the stand-alone processes of expenditure control in MDAs in preparing the annual budget would be important, including (i) upgrading and rolling out the core IFMIS modules to all MDAs; and (ii) ensuring timely budget allotment to MDAs and implementing sanctions for incurring commitments in excess of budget allotments/outside IFMIS. Enhancing oversight by the NRA and tightening internal controls by putting in place an IT system are first steps toward building a more effective revenue administration. However, it will be important to balance enforcement with good customer service. It will also be important to establish a good accounting system and accountability for state-owned enterprises to prevent inter-agency dependencies that could lead to broader fiscal risks.

- *Enhancing central bank governance.* It is important to have a clear decision-making structure with well-defined roles for the executive and nonexecutive board. Successful implementation of monetary policy hinges on top level coordination with fiscal policy. Putting in place and enhancing structures within the BSL for monetary analysis and operations would be key to strengthening capacity. Adding a second deputy governor will help address capacity issues.

- *Stepping up efforts to reduce corruption* by implementing recommendations of the phase I and II reviews of the implementation of the United Nations Convention Against Corruption.[4] These include ensuring that the ACC is guaranteed the same level of operational and financial independence as constitutionally mandated institutions such as the Auditor General, strengthen the asset declaration system including by verification and establishing sanctions for non-compliance, formalize adequate whistleblower protection in line with international best practice and adopt a system of public function rotation in positions and areas of the government particularly at high risk of corruption.

E. Continuing to Promote Better Governance—Policy Priorities

11. The Government's focus on governance and anti-corruption is well-placed as these issues underlying almost all macroeconomic development challenges facing Sierra Leone. In this regard, the authorities' governance goals, as outlined in the NDP, are particularly ambitious.

- Persistent fiscal deficits, elevated public debt levels, and crowding out of private investment threaten the sustainability of economic growth. Yet successfully addressing fiscal challenges —mobilizing revenues, efficiently allocating resource, effective public spending, and preventing arrears—is ultimately predicated on fiscal discipline and public accountability.

- While fiscal discipline will also help reduce inflation, this will also depend on overcoming the weak monetary policy transmission channels. In this regard, steps to promote the autonomy and sound governance of central bank can help make monetary policy more effective.

- With fiscal dominance having a significant bearing on financial sector vulnerabilities, and potential fiscal risks from the two state-owned banks, steps to promote fiscal accountability and central bank autonomy can help alleviate risks and enhance prudential oversight.

- Deepening governance reforms and reforming the regulatory framework can help promote a more favorable business environment that can attract foreign capital, facilitate a more competitive economy, and reduce external vulnerabilities.

12. Given significant capacity constraints, well-coordinated policies and support will be instrumental in advancing the anti-corruption agenda. Strong coordination of fiscal and monetary policy is crucial to maintaining the stability of the economy. Advancing fiscal and central bank governance at the same time is indispensable for making economic policies effective. Good alignment between Fund CD and policy advice (including in the ECF-supported program) is equally critical. Capacity constraints—particularly in the context of a fragile state—can create a gap between policy aspirations and implementation. Fund CD has been critical in supporting progress to date and will continue to play a key role in supporting Sierra Leone's governance reform agenda, helping meet the objectives of their ECF-supported program, and promoting long-term growth.

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[4] United Nation Office on Drugs and Crime: Sierra Leone.

13. In this context, efforts to enhance governance more broadly would be well-served by prioritizing actions to foster institution-building and improve policy effectiveness. More concretely:

- On fiscal governance, advancing fiscal structural reforms, including those on tax policy and administration, PFM, public investment management, and debt management, will help the authorities implement more effectively their ambitious infrastructure plans and address Sierra Leone's sizable infrastructure gap.

- On central bank governance and operations, implementing the new BSL Act will improve the central bank's autonomy and effectiveness; promptly putting new accountability mechanisms in place will be counterbalance increased autonomy; and reinforcing the oversight role of the Audit and Risk Committee, as clarified under the Act, is crucial to the sound governance and autonomy of the central bank.

- On financial sector oversight, strengthening supervisory process and addressing weakness in internal control framework in the two state-owned banks, drawing on the World Bank supported study, will be a first and necessary step.

- On AML/CFT, strengthening the AML/CFT framework, in accordance with the evaluation of Sierra Leone by the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) and the upcoming plenary discussion (scheduled for May 2020), will enhance governance and curb corruption.

- On regulatory framework, removing trade restrictions, restoring competition, and introducing a one-stop window for imports clearance, will be a good start toward promoting a healthy and sustainable business environment and reducing opportunities for corruption.

- On rule of law, increase the efficiency and predictability of the court system in processing cases of foreclosure, insolvency and contract enforcement. Addressing any potential inefficiencies of debt recovery in the court system and improving market trust in this regard could increase the availability of credit and could potentially enhance private sector development.

- On anti-corruption framework, strengthening preventive measures and modalities for detecting corruption. Efforts should be made to better understand the areas of high corruption risk in the country and develop mitigating measures accordingly. Without delay the electronic asset declaration submission process should be improved and extended to address conflict of interest disclosure. A verification process should be implemented with dissuasive enforceable sanctions introduced for non-compliance. A formal whistleblower protection system should be established to encourage the reporting of corruption instances by public officials without fear of reprisal.

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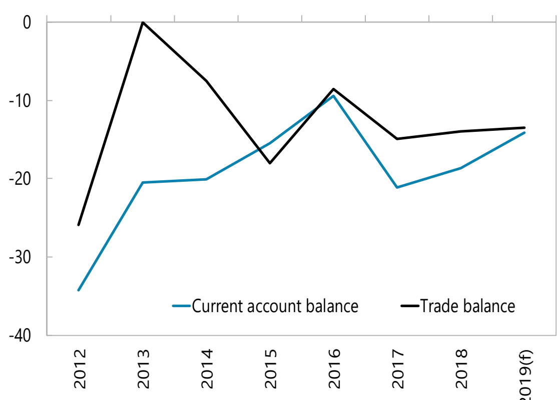
Annex IV. External Sector Assessment[1]

Sierra Leone's external position in 2018 appears to be substantially weaker than that implied by medium-term fundamentals and desirable policies. Preliminary data for 2019 suggest a broadly similar assessment. While data weakness and limits in applying the standard methodologies in Sierra Leone suggest quantitative results should be treated with caution, a qualitative assessment tends to reaffirm the assessment of overvaluation. The policy mix and structural reforms should aim to boost competitiveness and improve external balance over time. The level of international reserves in 2018 was broadly adequate, and the adjustment programmed under the ECF arrangement aims to ensure that the authorities actively work to maintain adequate reserve coverage in the medium term.

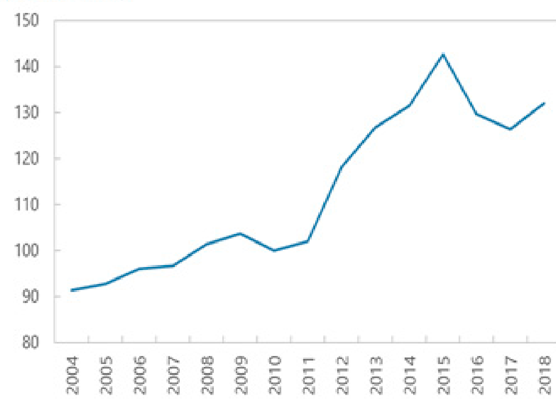
1. **The current account (CA) deficit remained elevated in 2018 and 2019**. The trade deficit in US dollar terms widened by nearly 5 percent in 2018 compared with the previous year. This primarily reflected the continuing drop in export dollar receipts since 2016, the result of the closure of the country's only operating iron ore mine, which was only partly offset by higher diamond exports. The CA deficit is expected to narrow gradually in 2019–20 with the resumption of iron-ore production (despite disruptions in late 2019/early 2020 associated with mining license disputes) and the pickup of diamond, bauxite, and rutile exports. In the medium term, the external balance is expected to improve on the back of sustained export earnings from both minerals and agricultural commodities.

Sierra Leone: Current Account
(In percent of GDP)



Sources: The authorities; and staff estimates.

Sierra Leone: Real Effective Exchange Rate
(Index; 2010=100)



Sources: IFS; and staff calculations.

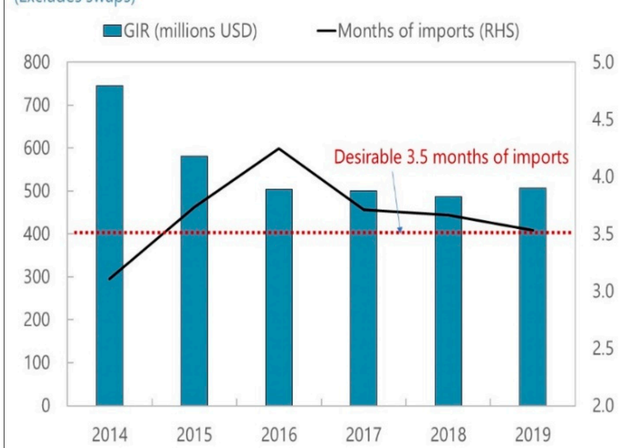
2. **The Leone has been largely on a real appreciation trend since 2004, despite occasional bouts of volatility and a correction during the Ebola crisis**. In 2018, the real effective exchange rate (REER) appreciated by 4.7 percent relative to 2017 and 30 percent relative

[1]Prepared by Yiqun Wu (SPR), with inputs from Mathew Sandy and Jiaxiong Yao (both AFR).

to 2010, as inflation outpaced the nominal depreciation. The nominal effective exchange rate (NEER) depreciated by 7.3 percent (y/y) in 2018. The Leone's depreciation pressure intensified in recent months, partly reflecting seasonal import-related foreign currency demand toward the end of the rainy season. The spread between the official and parallel market rate peaked at almost 10 percent in late August. The Bank of Sierra Leone (BSL) issued three FX directives in August that, so far, do not appear to have significantly mitigated FX pressures. As of end-2019, the Leone depreciated by 13.4 percent (y/y).

3. **While gross international reserves (GIR) declined somewhat in 2018, reserve coverage was broadly adequate**. The Ebola crisis hit reserves hard, with GIR declining rapidly over 2014–16, which remained largely unchanged since. GIR (excluding swaps)[2] stood at US$487 million at end-2018, covering about 3.7 months of imports and equivalent to 55 percent of broad money. The authorities have stemmed the decline in reserves in the context of the ECF-support program, with a modest increase in reserves over 2019 to preliminarily reach US$506 million at end-December (3.5 months of imports). Without a proactive effort to accumulate reserves, the declining trend will continue over the medium term (a trend compounded by the scheduled repayment of Ebola-related IMF support starting in 2020). Staff assesses the desirable reserve coverage is about 3.5 months of imports, higher than 3.1 months using the IMF's reserve adequacy template to account for the country's high level of foreign debt and its vulnerability to external shocks. A key goal of the ECF-supported program is to build up reserves to keep pace with rising imports and thus maintain adequate reserve coverage in the medium term.

Sierra Leone: Gross International Reserves (GIR)
(Excludes swaps)



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

4. **Quantifying the extent of external imbalances is particularly challenging in Sierra Leone**. Historical data are fraught by instability and structural breaks, and thus the current account (CA) norm as estimated by the EBA-lite[3] CA model provides little guide. Sierra Leone has suffered frequent shocks, including a decade-long civil war that ended in 2002, the 2014–16 Ebola crisis, and natural disasters. The narrow export base is subject to uncertain mining operations and swings in global commodity prices and demand. Capacity constraints impede the

[2]During 2017–18, the Government issued special Treasury bills under a foreign exchange swap arrangement with commercial banks. The BSL swapped US dollars with banks, in exchange for domestic currency, which was then used to purchase Treasury bills and bonds of various maturities.

[3]See Revised EBA-lite Methodology (IMF, 2019). EBA-lite extends the Fund's External Balance Assessment (EBA) methodology to Fund members in lower-income and developing economies.

quality of balance of payments (BoP) data across numerous indicators—including the CA and FDI—resulting in large errors and omissions.

5. In this context, the model-based estimate—which signals substantial misalignment in 2018—is subject to large uncertainty and should be interpreted with caution. Yet, some approaches can usefully signal the order of magnitude of misalignment. Considering data constraints, this assessment relies only on the EBA-Lite External Sustainability (ES) method.[4] It compares the CA to that which would stabilize the net international investment position (NIIP) at a benchmark level. Using a trade elasticity of -0.35 percent,[5] to stabilize the NIIP at -46 percent of GDP (the estimated 2018 level), the real effective exchange rate (REER) would have to depreciate by about 20-30 percent.[6] The model-based approach suggests a large REER overvaluation, which is reflected in persistent depreciation pressures in the FX market (Box 5), and implies that the external position in 2018 was substantially weaker than medium-term fundamentals and desirable policies settings. However, the result is sensitive to several indicators, including in areas where the authorities are working to address data weakness, such as the estimated NIIP. Although the 2019 NIIP is not yet available, exchange rate developments in 2019 did not change qualitatively the assessment.

6. A qualitative assessment of the numerous challenges facing the economy tend to reaffirm the assessment of overvaluation. With agriculture accounting for a large and increasing share of the economy, and exports continuing to concentrate on minerals, productivity gain in the nontradable sector and knowledge spillover from the tradable sector have both been limited. Such lack of diversification makes the economy less competitive than its peers, suggesting the equilibrium real exchange rate is more depreciated than the current level. Moreover, doing business in Sierra Leone has been difficult, reflected in survey results that suggest access to financing, corruption, and foreign currency regulation are most problematic. This discourages foreign investment and capital inflows.

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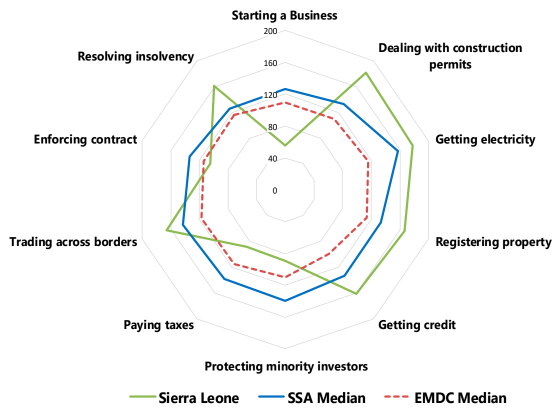
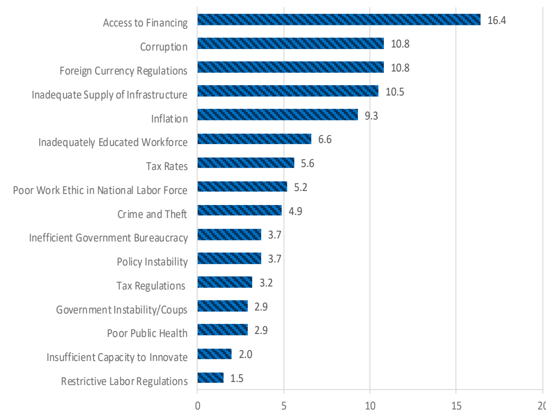
[4]Unreliable historical CA deficits lead to difficulties in applying the CA approach in Sierra Leone. However, preliminary results from the ES methodology suggested the CA norm to be in the range of 6-8 percent of GDP and the CA gap to be the range of -10 to -12 percent of GDP, broadly consistent with the REER gap. However, lack of key data series also prevents the REER approach from producing definitive results.

[5]The estimated trade elasticity is consistent with previous external assessments for Sierra Leone and is in line with the authorities' own estimates; yet it too is subject to uncertainties. Other assumptions include the authorities' estimates of foreign currency share in foreign assets (68 percent) and foreign currency share in foreign liabilities (53 percent).

[6]Staff's 2018 external sector assessment estimated the real exchange rate overvaluation to be 5-12 percent, and possibly wider (0 – 18 percent) subject to certain assumptions. The higher overvaluation in the current assessment reflects, in part, the revisited EBA-Lite methodology, including accounting for return differentials between external assets and liabilities, the exchange rate adjustment affecting both net exports and the NIIP; and comparing discounted debt in the future to its level today, rather than requiring debt in the future to be stabilized at the present level (IMF, 2019). The overvaluation is also consistent with the projected large CA deficits over the forecast period.





Note: Respondents were asked to seleect the five most problematic factors for doing business in their country and to rank them between 1 (most probelmatic) and 5. The Score corrresponds to the responses weighted according to thier rankings.

Sources: Word Bank Group, *Doing Business 2020*; and IMF Staff estimates.

Notes: Use of these indicators should be considered carefully, as they are derived from perceptions-based data. There is uncertainty around the point estimates.

Appendix I. Letter of Intent

MINISTRY OF FINANCE

GOVERNMENT OF SIERRA LEONE

BANK OF SIERRA LEONE

March 17, 2020
Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Dear Managing Director Georgieva,

1. **On behalf of the Government of Sierra Leone, we hereby request the IMF Executive Board to complete the second review of the Extended Credit Facility (ECF) arrangement** and approve disbursement of the third tranche of the loan following fulfillment of the end-June 2019 quantitative performance criteria and substantial progress toward implementing the structural benchmarks.

2. **As described in the attached Memorandum of Economic and Financial Policies (MEFP), the economy is recovering within a still challenging macroeconomic environment**. The Government is implementing bold policies to stabilize the macroeconomy, tackle structural impediments, and boost economic activity. Against the backdrop of tight budgetary financing, we are continuing actions geared to enhancing domestic revenues, while tightening expenditure controls and improving spending efficiency to ensure we can also expand priority programs, including in social areas. Nevertheless, the economy is recovering from subdued growth in 2017 and 2018.

3. **Program performance remains on track**. We met all at end-June 2019 quantitative performance criteria and indicative targets—net credit to the government and net domestic assets of the Bank of Sierra Leone (BSL) by large margins. We also met the end-June indicative targets on total domestic government revenue, poverty-related spending, and the domestic primary balance. We continued to refrain from borrowing on non-concessional terms. However, by August we had exceeded the 2019 annual target on contracting new concessional debt due to a highly concessional loan to address a high-priority, high-yield infrastructure project. We refrained from ratifying more loans for the remainder of 2019 and will closely monitor the contracting of new loans in 2020 to not exceed the limit, consulting the IMF when in doubt. On the basis of these commitments, we request the IMF Executive Board to approve a waiver for the non-observance of the continuous ceiling on concessional borrowing.

4. **We are also advancing our structural reform agenda**. We submitted ahead of schedule draft amendments to the National Revenue Authority Act for IMF staff review. The updated diagnostic study on the two state-owned banks was prepared, on schedule, with World Bank

support. We finalized the stocktaking of domestic arrears, with a short delay, in early September. We are also iterating with IMF staff to finalize the remedial action plan to address the findings of the forensic audit of the BSL. We feel it is important to take the time, in consultation with Fund staff, to appropriately design and prioritize the necessary actions. Fuel prices have been adjusted, in line with the current petroleum pricing formula, to account for movements in the international fuel prices and exchange rate beyond the ±5 percent band.

5. The accompanying MEFP lays out specific government policies for 2020 and the medium-term to safeguard macroeconomic stability, diversify the economy, and invest in human capital development to achieve sustainable and inclusive green growth consistent with our National Development Plan. We remain committed to fiscal consolidation, domestic revenue mobilization and prudent expenditure management to ensure fiscal and debt sustainability. We will accelerate implementation of structural reforms to further support our program goals. To facilitate continued fiscal adjustment and prevent new arrears we will continue to broaden the scope of the Treasury Single Account, automate the budget execution process and introduce e-procurement, and implement the recommendations of the Public Investment Management Assessment and our forthcoming arrears clearance strategy. To contain fiscal risks, we will further enhance fiduciary oversight of state-owned enterprises, including the state-owned banks. The BSL will continue to focus on achieving single digit inflation in the medium-term while limiting its intervention in the foreign exchange market to smooth excess volatility. Financial sector reforms will aim to deepen intermediation and promote financial access and stability.

6. The Government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of our program. Yet, should it become appropriate, we stand ready to take any further measures that may needed to achieve our objectives. 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.

7. The Government consents to make public the content of the IMF staff report and its supporting materials, including this letter, and the attached MEFP and TMU. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the completion of the second 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

Freetown, March 17, 2020

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated May 7, 2019**. 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, and promote sustainable broad-based inclusive economic growth and poverty reduction over the medium-term.

2. **We continue to operate in a stable but challenging macroeconomic environment**. The Government is implementing bold policies to stabilize the macroeconomy, tackle structural impediments, boost economic activity, enhance revenues, tighten expenditure controls and improve inefficiency, and expand social programs. Our Government is pursuing these goals against the backdrop of tight financing, exacerbated by a large stock of legacy domestic arrears.

3. **Our National Development Plan 2019–23 (NDP), *Education for Development*, aims to put the country on a sustainable development path**. We strive to develop human and physical capital, while strengthening governance and accountability to build an economy that is inclusive and resilient to shocks. In this context, our NDP prioritizes education, health, and agriculture. Developed through a consultative process with two million Sierra Leoneans, our aim was to build a plan for the future based on consensus and accountability. Sierra Leone passing the scorecard of the Millennium Challenge Corporation is evidence of our progress on wider governance reforms and the fight against corruption.

RECENT ECONOMIC DEVELOPMENTS

4. **The economy is recovering from subdued growth in 2017 and 2018**. Economic growth is estimated to have picked up in 2019 to 5.1 percent, from 3.5 percent in 2018. In the non-mining sector, agriculture, manufacturing, construction, trade and tourism, transport and communications are expected to lead the recovery of the economy. In the mining sector, iron ore production resumed during the first half of 2019, producing more than half of the projected annual output before the mining licenses of SL Mining were suspended and subsequently cancelled in the third quarter. Diamond and bauxite output are estimated to increase in 2019 based on preliminary data for January to July.

5. **Inflation has been declining, with seasonal pressures in the third quarter of 2019**. Current estimates suggest that, after moderating at the end of 2018, consumer price inflation (CPI) continued to ease to 13.9 percent by end-December 2019. Continued depreciation of the exchange

rate and the pass-through into domestic prices explains part of these price pressures. We are continuing to work with IMF support on ongoing technical updates to the CPI series.

6. Above-target revenues and prudent expenditure management resulted in a lower than programmed overall fiscal deficit (excluding grants):

- The deficit, excluding grants, narrowed to 5½ percent of non-iron ore GDP (annualized) during the first three quarters of the year compared to 7.7 percent in 2018. During this period, domestic revenues improved to Le 4.1 trillion, exceeding the target by Le 279 billion. We expect revenues slightly exceed the annual target of Le 5.3 trillion, reaching around 14.3 percent of non-iron ore GDP by the end of 2019. Increased revenues were driven mainly by administrative reforms, including: extensive taxpayer education; the enhanced tracking system of payments including the Treasury Single Account (TSA); tracking of PAYE and GST compliance of taxpayers; and the continued application of the liberalized fuel pricing mechanism that we introduced last year.

- Overall expenditures remain in line with the program. After underspending in the first half of 2019, spending picked up in the third quarter to reach Le 5.6 trillion and is estimated to end the year below 21 percent of non-iron ore GDP, in line with the budget. The reclassification of the salaries of the university staff from subsidies and transfers into the payroll, along with the payment of salaries to Paramount Chiefs resulted in higher-than-programmed wages and salaries. Increased payments to the electricity company as part of efforts to improve public financial management increased subsidies and transfers beyond budgeted amounts.

7. Tight liquidity conditions in the interbank market proved challenging for implementing monetary policy. The large stock of domestic arrears to the private sector, delayed disbursement of inflows from development partners, and banks buying tradable securities from the non-bank sector compounded the tight liquidity situation, despite lower-than-expected credit to the government in the first half of the year. Credit to the private sector increased by 25.5 percent through September 2019 amidst a contraction of Bank of Sierra Leone's (BSL's) financing of the budget with less-than-programmed broad money growth. With high but easing inflationary pressures, the BSL kept the MPR on hold in the first half of the year, particularly on the back of slowing growth momentum, rollover risk in the domestic debt market, and tight liquidity conditions in the banks.

8. The banking system remains stable, with banks appearing largely profitable and adequately capitalized, albeit with large diversity across institutions. As of end-June 2019, the industry capital adequacy ratio was 47.2 percent, up from 43.4 percent a year earlier, and all banks met the minimum 15 percent. While the state-owned banks continue to hold large stocks of T-bills, their goal is to decrease exposure to the government. In this regard, both banks have cautiously resumed lending mostly to existing private sector customers within the context of updated enhanced supervision directives issued in April 2019 and under the oversight of the reconstituted boards of both banks. The asset base and total deposits of the banking system continue to increase, and gross loans and advances increased by 26.7 percent year on year by end-June 2019, with more than half going to commerce, finance and construction. Borrowing costs remain persistently high. Aggregate non-performing loans (NPLs) were 13.1 percent at end-June 2019, up from 12.8 percent a year earlier.

9. While the external accounts improved, pressure on the exchange rate remains. Revised balance of payments estimates, prepared with IMF technical support, suggest that the current account deficit narrowed slightly to 18.7 percent of non-iron ore GDP in 2018 from 21.1 percent in 2017, partly on account of income and current transfers. Yet weak performance of exports and demand for imports of essential commodities caused the Leone to depreciate by 13.4 percent year-on-year against the US dollar in 2019. The BSL intervened in the market through wholesale foreign exchange auction to smooth out volatility and complement the supply of foreign exchange to support essential imports. Gross international reserves (excluding swaps) increased from their end-2018 level (US$487 million), exceeding our end-June target and reaching US$513 million at end-September 2019 (about 3.6 months of imports), and are preliminarily on track for end-2019.

10. The total stock of public debt was estimated at US$ 2.3 billion (62.7 percent of GDP) at end-June 2019. External debt amounted to US$1.61 billion (or 70.3 percent of total debt) compared to US$1.57 billion at end-2018. This increase mainly reflects disbursements for priority power, water, road and education projects. Multilateral debt accounted for the largest share of the stock of external debt (76.1 percent), commercial debt (11.6 percent), and bilateral debt (12.3 percent). Domestic debt amounted to US$676.9 million (or 29.7 percent of total debt). The increase in domestic debt by around 6.5 percent was mainly due to new issuances in securities, mainly the 364-day T-bills, but also the new issuance of zero-coupon treasury bonds associated with clearing arrears. Domestic interest payments during January-June 2019 amounted to Le 464.9 billion from Le 422.3 billion during the same period last year, an increase of 10.1 percent due mainly to the volumes of new T-bills issued.

PROGRAM PERFORMANCE

11. Program performance is on track.

- We met all at end-June 2019 quantitative performance criteria (PCs) and indicative targets (ITs)—net credit to the government (NCG) and net domestic assets (NDA) of the BSL by large margins. We also met the end-June ITs on total domestic government revenue, poverty-related spending, and the domestic primary balance. We continued to refrain from borrowing on non-concessional terms (continuous PC). However, by August we had exceeded the annual target on contracting new concessional debt (continuous PC) by US$22 million in August. This is due to a high-priority highly concessional loan for a communication infrastructure project that is integral to our NDP, which addresses the country's large infrastructure gap and provides high economic return. We will keep further ratification of loans on hold in 2019 and will closely watch that contracting of new loans in 2020 does not exceed the limit. We will consult the IMF team when in doubt.

- We are advancing on our structural reform agenda. We submitted ahead of schedule draft amendments to the National Revenue Authority Act for IMF staff review (end-September SB). The updated diagnostic study on the two state-owned banks was prepared, on schedule, with World Bank support (end-September SB). We finalized the stocktaking of domestic arrears in early September (end-August SB). We have shared with IMF staff drafts of a remedial action plan to address the findings of the forensic audit, with contributions from both the Bank of Sierra Leone and Ministry of Finance (end-August SB). As having a strong plan in place is a priority for us, we are iterating with IMF staff to further refine and prioritize of actions and will complete the plan with a delay. Fuel prices have been adjusted, in line with the current formula, to account for movements beyond the ±5 percent band (continuous structural benchmark), most recently in January 2020.

12. A recently-completed reconciliation of bank and non-bank financing will strengthen program monitoring going forward. Initial data suggested the end-September NCG IT had been missed by a large margin, despite continued budget execution in line with the program. In large part this appeared due to securities issued to the non-bank sector to clear legacy arrears. The BSL and Ministry of Finance therefore undertook a comprehensive reconciliation exercise to ensure that these securities were recorded at the time of issuance and eliminated double counting with NCG when securities were discounted to commercial banks. Throughout this process we have worked closely and transparently with IMF staff to ensure consistency of reporting with the program. Going forward, the Government has requested urgent technical assistance from the IMF to further improve the recording of arrears-related securitization, and debt stocks, as this will become ever more important as the government works to clear legacy arrears.

13. The updated recording of these non-bank securities alters the outcome of NCG for end-December 2018. In the fourth quarter of 2018, we issued securities to the non-banking sector including securities in the order of 1⅓ percent of 2018 non-iron ore GDP to regularize legacy arrears inherited from the previous administration. This impacts the calculation of the "non-bank adjustor" on NCG and results in a breach of the end-December 2018 NCG PC by almost 0.4 percent of non-iron ore GDP. However, as the issuance of these securities reflected a below-the-line transaction to regularize existing arrears, our execution of the budget remains in line with the program. Moreover, the government has suspended issuing any securities to clear legacy arrears pending finalization of our forthcoming Arrears Clearance Strategy and an agreed path for managing such transactions under the program (discussed further below in paragraphs 46-49).

PROGRAM OBJECTIVES AND POLICIES

A. Program Objectives

14. 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, and 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, preserving financial sector stability, promoting transparency and accountability in the use of public resources, improving business environment, and strengthening social protection systems. While we remain committed to the overall fiscal objectives of the program, we are mindful of the growing uncertainties and risks related to the global COVID-19 pandemic. In this context, we and IMF staff agree that meeting additional virus-related spending needs—and protecting the health of Sierra Leoneans—has to be our top priority.

B. Medium Term Macroeconomic Outlook

15. The economic outlook for 2019 and the medium term is broadly balanced. After reaching 5.1 percent growth in 2019, the economy is expected to average 4½ percent growth per year over the medium term. The return to a normal pace of agricultural activity, alongside a gradual and targeted scaling up of public construction and improvements in the business environment (with the intensified fight against corruption and broad ranging structural reforms) are expected to support growth prospects. Inflation is projected to return to single digits by 2022, reflecting the proactive stance of monetary policy, as well as the projected increase in exports and domestic food production in the medium-term. The overall fiscal deficit (excluding grants) is projected to decline steadily, from 6.3 percent of non-iron ore GDP in 2019 to 5 percent in 2022, driven by a mix of expenditure reforms and strong revenue mobilization. Continued foreign inflows, including direct investment, would finance the still high but declining current account deficit. Increasing international reserves over the program period will strengthen external stability and the country's resilience to shocks.

PROGRAM POLICIES

C. Fiscal Policy

16. Strong revenue performance in 2019 supported improved budget execution. Total revenue collected during the first three quarters of the year exceeded the program target and budget execution rate through end-September was 73 percent. In the first half of the year, the government also paid down on a net basis unpaid checks and the abovementioned arrears-related securities to ensure continued service delivery in strategic sectors. However, tight banking sector liquidity in the third quarter forced an accumulation of unpaid checks, which we worked to reduce by year end as preliminary data indicate.

17. The fiscal path for the rest of the program entails a significant deficit reduction to put the debt-to-GDP ratio on a declining path by the end of the program. Fiscal adjustment will continue to be guided by two key anchors—debt sustainability and domestic financing. We target a gradual decline in the overall deficit (excluding grants), on average 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 net domestic financing from 2.5 percent of non-iron ore GDP in 2019 to 1.4 percent in 2022. Reliance on domestic bank financing will be somewhat higher to offset the repayment of Fund budget support (extended during the Ebola epidemic and on-lent from the BSL), scheduled to begin in 2020.

18. While the budget assumes a large increase in budget support grants, there is also the prospect of even more budget support. To avoid disruptive expenditure adjustments in case of shortfalls, our budget was cautiously formulated on the most certain budget support grants from development partners. Should additional budget support become available, we plan to prioritize faster arrears clearance (including any remaining unpaid checks) or reducing expensive domestic debt, thereby freeing space in future years for additional poverty-alleviating and other priority expenditure in line with our NDP. We prudently assume that external budget support would return to more typical levels in future years, and thus would ensure that additional priority spending focuses on one-off or capital projects that do not create large ongoing spending commitments. We plan to consult IMF staff on any supplementary budget needed to appropriate additional expenditures.

D. Domestic Revenue Mobilization

19. Progress on implementing several revenue-enhancing measures outlined in our previous May 2019 MEFP helped us to exceed the program target. The measures associated with the sustained improvements in revenue collection in 2019 included: (i) strengthened tax enforcement by the National Revenue Authority (NRA) including third party recovery; (ii) thorough examination of audited accounts; (iii) special audits informed by third party data matching; (iv) close tracking of PAYE and GST compliance by taxpayers under the purview of the Large and Medium Taxpayer Offices (LTO and MTO); (v) extensive taxpayer education programs (including a dedicated NRA Hour on TV, other Radio and TV discussions, writing social media articles, launching of a comprehensive tax guide, print media, and sending taxpayer reminders; (vi) continued liberalization of fuel prices; (viii) implementing a tracking system of NTR payments including TSA, mines and fisheries obligations; (ix) increased data analysis and investigations of taxpayers; (x) increased coverage of the FMCA/TSA agencies; (xi) collection of cargo tracking fees; and (xii) implementation of visa on landing and the collection of ensuing fees domestically. The NRA is also continuing to monitor more closely and communicate more regularly the revenue losses from tax and duty exemptions.

20. In addition to these actions, the NRA also implemented other measures to enhance revenue collection through trade facilitation. These included: implementation of ASYCUDA World at the main seaport in January 2019; roll out the system to Oil Marketing Companies through the Kissy Terminal in May 2019 the Lungi International Airport in July 2019 and Gbalamuya customs posts in August 2019; introduction of in-housing banking at the main seaport and airport to bring the banks closer to taxpayers in August 2019; introduction of Saturday customs clearing; and the introduction of an SMS alert and emailing system to improve the efficiency and transparency of transactions in cross-border trade in August 2019.

21. To ensure we maintain the performance and achieve our 2020 targets, the Government will:

(i) **Submit a revised NRA Act to the Parliament by end-April 2020** that reflects Fund staff review and advice (*structural benchmark for third review*).

(ii) **Complete the strategy to settle the arrears of several SOEs and MDAs on their tax payments**.

(iii) **Undertake a robust revenue enforcement drive (Short-term Revenue Improvement Program STRIP) in 2019Q4**, establishing tax liabilities prior to pursuing them, conducting issue audits for specific taxes in selected sectors (energy, road construction, and contracts to Ministries, Departments and Agencies of Government (MDAs)), strictly monitoring domestic excise collection, and closely monitoring GST compliance (issuing GST receipts, filing and payment).

(iv) **Continue engaging MDAs and TSA agencies** to track and pursue outstanding payments.

22. To preserve government resources, we will continue applying the automatic fuel price mechanism (*continuous structural benchmark*). As done with the January 2020 price increase, the Petroleum Revenue Agency (PRA) will continue to improve the application of the automatic fuel price mechanism, including by developing (in consultation with the Fund) and implementing improvements to the formula in line with the structural changes of Sierra Leone's economy.

23. In 2020 and over the medium term, the Government will continue pursuing measures and reforms to further strengthen tax policy and administration to yield the needed revenues to support and expand priority spending:

Tax Policy

24. Following a comprehensive review of tax policy, with assistance from the World Bank, we envision embarking on tax policy changes in the second half of 2020. We will be guided by two broad principles in prioritizing tax policy measures: those that yield the biggest bang for the buck and/or measures to help in simplifying administration or compliance, with a view to improving the business environment. Subject to the outcome of the review, possible measures that could be considered include:

Elimination of exemptions and improved controls:

(i) **Introducing transfer pricing legislation to ensure consistency** with international best practice, and to minimize transfer mispricing and revenue loss from related party transactions, with World Bank support.

(ii) **Streamlining definitions** to avoid abuse and misuse of duty and tax waiver.

(iii) **Revoking the granting of duty-free concessions** on grounds of false information during application.

(iv) **Reviewing duty and tax exemptions**, and creating a consistent policy framework for a level playing field going forward and ensure minimum revenue losses

(v) **Implementing duty and tax waivers consistent with this framework**.

(vi) **Limiting the GST exemption on free and promotional calls** and free data use to the extent that the value of such supply does not exceed 10 percent of the total billable and unbillable calls and data use in that period.

Reducing rates and exemptions to improve the business environment:

(i) **Reducing the Corporate Income Tax Rate from 30 percent to 25 percent** effective January 2020 to address concerns of high tax burden, in conjunction with complementing tax administration measures to enhance compliance and broaden the tax base.

(ii) **Exempting GST on all aviation-related charges** with a view to reducing air ticket prices encouraging tourist flows and consequently raise domestic GST collections and other taxes on increased tourist consumption.

(iii) **Revising import duties** to ensure that all raw materials, semi-processed and finished products (the definitions of which were clarified in the revised *Customs Act, 2011*), properly labelled for use as input into the production of goods by manufacturing companies will attract an import duty of 5 percent instead of 20 percent; products imported by Packing Industries will attract an import duty of 10 percent instead of the higher percentages specified in the tariff code.

New and enhanced tax regimes:

(i) **Reviewing the fiscal regimes** in all existing agreements in a view to reducing revenue losses and creating a competitive platform for all investments.

(ii) **Implementing a special tax regime** for professional services providers and other high net worth individuals.

(iii) **Implementing the Domestic Tax Preparers Scheme and simplifying the tax regime for small and medium enterprises**.

Tax Administration

25. The Government will also continue to pursue gains from more effective tax administration, with a focus on the following areas:

Improving systems and leveraging digitalization:

(i) ***Ensuring ITAS becomes operational in the first half of 2020 thereby enhancing efficiency and effectiveness in tax administration.*** The NRA will continue to put in place the remaining modules of the system through the end of 2019 to realize the sustained benefits of the system, whilst ensuring post implementation support for at least two more years.

(ii) ***Implementing the pilot Electronic Cash Register (ECR) in 2020*** with the aim of enhancing efficiency in administering the GST and, based on the lessons of the pilot, later rolling out the scheme to the remainder of the GST taxpayers to realize its full benefits. The associated legislation, the *Electronic Transactions Bill*, has been enacted and will be enforced to ensure better compliance with the scheme.

(iii) **Introducing the single electronic window for customs in 2020** to reduce the time spent on the clearance of imported goods following a successful pilot phase in 2019.

Building capacity:

(i) **Setting up a data warehouse and training NRA staff** to be able to extract, transform and store data in a centralized repository.

(ii) **Reinforcing capacities of the Local Councils** through technical support from the World Bank and revised guidance for local revenue collection.

Strengthening enforcement and controls:

(i) **Strictly enforcing tax legislation through ongoing efforts to enhance intelligence and investigations**.

(ii) **Enhancing the NRA's capacity to undertake specialized tax and transfer pricing audits**.

(iii) **Continuing to improve the customs administration's risk management functions** by better reflecting main areas of risks, and monitoring and updating risk profile modules of ASYCUDA, as well as reinforcing capacities of the Risk Management Unit.

(iv) **Operationalizing the excise stamp duty regime to reduce smuggling** from imported alcoholic and tobacco products.

(v) **Obliging beneficiaries of GST Relief Purchase Order** (GRPO) to an upfront payment of the tax and then get a refund within 90 days upon filing of a reclaim for refund.

Broadening the tax base:

(i) ***Continuing to implement a robust tax education program***, including a taxpayer communication strategy, taxpayer workshops, publishing relevant taxpayer education materials, and implementing a National Taxpayer Day.

(ii) ***Undertaking 'block' registration of taxpayers*** to further enhance the accuracy and reliability of the tax register. The nationwide block registration will capture taxpayers not verified from the current verification process.

(iii) ***Undertaking a rented property census in the major cities*** to establish a reliable and complete rental income tax database and beginning with the automatization of the cadaster systems.

E. Expenditure Management

26. The Government is committed to improving public expenditure management and control. This will be vital to ensure that taxpayers' resources and scarce fiscal financing are spent as efficiently and effectively as possible, targeting priority needs. To this end, we will embark on reforms to improve the integrity and sustainability of the government payroll; improve the quality and efficiency of non-salary non-interest recurrent and capital expenditures; and strengthen expenditure controls on other recurrent expenditures.

Treasury Single Account (TSA)

27. We have made good progress in operationalizing the TSA and are stepping up efforts to broaden its coverage. Operation of the TSA commenced in 2018, with six semi-autonomous agencies. Following the enactment of the *Finance Act 2019*, we broadened the coverage to include an additional five semi-autonomous agencies. While the TSA has enabled the Government to mobilize additional revenue into the Consolidated Fund, idle cash balances continue to exist in the accounts of MDAs, especially sub-vented agencies that receive bulk disbursements. To ensure efficient cash management, the Government will commence implementing Phase II of the TSA in 2020. This will further broaden the scope of the TSA to include all sub-vented and semi-autonomous agencies.

28. The Accountant General will take stock of all foreign currency accounts of the Government, including MDAs. An inventory of Central Government bank accounts conducted between 2013 and 2014 found that most of the bank accounts for projects funded by development partners are held at the various commercial banks, mainly in foreign currencies and managed within those projects. Other MDA accounts are held in Leones only and mostly at the Bank of Sierra Leone, except for transit revenue accounts held at the Commercial banks for collection purposes and transfers to the Consolidated Fund. We plan to prepare an updated inventory of Central Government bank accounts in the first half of 2020, with a view to ensuring that all foreign currency accounts (excluding transaction accounts associated with funding from development partners) remain at the BSL.

Strengthening Commitment Controls

29. The Government will redouble efforts to strengthen commitment controls to avoid the further arrears accumulation. In this regard, and in the context of our forthcoming arrears clearance strategy, we are committed to pursuing zero net arrears accumulation on an annual basis. To support these efforts, we will follow-up on the arrears prevention recommendations based on the recent Public Investment Management Assessment (PIMA) mission. Once we receive the final report, we will further specify and prioritize these plans in the context of the third ECF review. In the interim, we will continue with our ongoing efforts. Starting in 2020, the Ministry of Finance (MoF) will automate the Public Expenditure Tracking (PET) forms for the processing of budgetary requests from MDAs. Currently, PET forms are processed and uploaded into IFMIS manually, leading to delays in which MDAs can generate purchase orders and commitment control forms within IFMIS.

This has inevitably led to commitments made outside of IFMIS. With automated PET, and more timely budget releases, the MoF will take a stronger stance against commitments made outside IFMIS in line with the *Public Financial Management Act 2018*. It will also strongly discourage suppliers from accepting purchase orders that are not generated within IFMIS.

30. Integrating IFMIS with other systems will also be a priority. The manual processing of payment instructions to the BSL by the Accountant-General's Department (AGD) has resulted in delays and omissions and involves significant transaction costs. This is because interbank funds transfer between the BSL and AGD cannot be done electronically as the IFMIS systems at the AGD and the T-24 software at the BSL are not yet integrated. To address this constraint, an Electronic Funds Transfer (EFT) System is being developed to provide the AGD with the capability to make cashless and paperless disbursements to recipients and beneficiaries of Government payment obligations through the BSL; enable the real time processing of all payment transactions from the AGD; and provide for a seamless reconciliation process between the BSL and AGD. We are also exploring similar integration between the IFMIS and NRA systems to improve tax compliance checks.

31. For effective commitment controls, the Government will also continue strengthening budget preparation to better reflect the spending needs of MDAs. Quarterly budget allocations often do not reflect MDAs' spending projections. While this could reflect the current situation of cash constraints, it could also be related to insufficient appreciation of the needs of MDAs and/or unrealistic projections by the latter. Earlier this year, the MoF started deploying budget officers to MDAs to strengthen their projections, with a view to ensuring better budgetary allocations. The PET Survey undertaken in 2019 on selected 2018 expenditures in the education, agriculture and health sectors will help ensure that disbursed resources reach the intended beneficiary, and also better inform future budget preparation and allocation.

Improving Procurement

32. As part of its commitment to improve transparency and accountability in procurement processes, the Government has implemented the following:

(i) **Established the Independent Procurement Review Panel** in October 2019 to transparency and sustainability of the process;

(ii) **Introduced specialised standard bidding documents** in November 2019, with bidding documents and evaluation processes now reviewed before awards are made;

(iii) **Reviewed the Public Procurement Regulations**, and work on introducing and implementing electronic procurement;

(iv) **Discouraged procuring entities from the use of sole source** and restricted bidding based on sections 41 and 46 of the Public Procurement Act, 2016; and

(v) **Produced quarterly price norms** since August 2018.

33. **Building on this progress, the Government will ensure that all procuring entities prepare credible and realistic procurement plans**. These plans will be linked to activities in their budgets and this will be the basis for disbursement of budgetary resources. Starting this year, the Government will also publish annual procurement assessment reports, with the report on procurement activities of procuring entities for 2018 to be published by December 2019. Work on the Public Procurement Manual has been ongoing to reflect the new regulations after Parliamentary approval. Following consultations with the private sector, the revised Public Procurement Regulation will be submitted to Parliament for approval by December 2019.

Wage Reforms

34. **The Government remains committed to returning the wage bill, over time, to not more than 6 percent of GDP while ensuring fair salaries, particularly in priority areas**. A critical first step towards our medium-term goal is to have accurate records for all public sector employees. This included our cleaning of the payroll based on the biometric verification that was completed in August 2018 and resulted in removing about 4,500 employees from the payroll for a number of reasons, including dual employment, complete name change, and ghost workers. The Government stepped up efforts to improve on the sustainability of the wage bill including by reinforcing a timely retirement of employees (above 60 years), producing payroll monitoring reports, continuing to minimize manual voucher payments by automating the payroll of sub-vented agencies and tertiary institutions and instituting a policy which ensures no staff is added on the payroll without valid unique identifiers (BBAN, NASSIT, National Identification Numbers). These changes allowed us to create part of the space needed for wage increases in priority sectors starting in April 2020.

35. **We are optimistic that by the end of the ECF-supported program, the Government will achieve a transparent, accountable and manageable wage bill**. The near-term upward pressure on the wage bill from correctly recording all public employees under wages and salaries addressing acute gaps in priority areas (teachers and nurses) and granted teachers a much-needed increase in minimum wages underscore the need for systematic reforms. To this end, the Government is pursuing the following actions:

Strategic direction and policy:

(i) **Take a strategic and holistic approach to payroll reforms** by developing a comprehensive payroll strategy by [the first quarter of] 2020, well ahead of preparing the 2021 budget. The successor strategy will propose future reform measures that are needed to address emerging payroll challenges.

(ii) **Institute an annual teacher retirement and recruitment policy starting in January 2020** to ensure teachers are only retired and recruited once a year (starting in August 2020, in time for the FY2020/21 school year) to minimize disruption during the school year and improve the predictability and control of the teacher wage bill.

Payroll management and planning:

(i) **Continue to implement the findings of the National Civil Registration Authority verification exercise** in November and December 2019 by taking action in relation to employees that have refused to come forward for verification despite several opportunities ('no-show' employees) and employees with a partial or complete name mismatch. The cost savings potential is about Le 108 billion (around ¼ percent of non-iron ore GDP) annually.

(ii) **Strengthen the personnel planning process** to develop credible personnel plans in a timely manner. The Ministry of Finance, in collaboration with the Human Resource Office (HRMO) and the Employing authorities, aims to begin the personnel planning process early in 2020 in preparation for the 2021 budget. This will allow enough time for the employing authorities to plan their recruitment process and submit accurate data to the MoF. We also plan to develop a comprehensive database on the existing staff strength, with accurate costings of these positions, by July 2020, ahead of the budget circular.

Payroll monitoring and governance:

(i) **Regular payroll monitoring reports by the Payroll Unit of the Budget Bureau that has recently been strengthened** as a monitoring mechanism for movements in the wage bill and promote prompt action on any challenges of payroll management.

(ii) **Operationalize a Wages and Compensation Commission**, including through appropriate staffing, to be by law 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. The Bill establishing the Commission will be laid before Parliament for ratification in the first half of 2020.

(iii) **Minimize manual voucher payments** to increase on the control and transparency of the public sector payroll, including in local councils and foreign missions' payroll.

Capital Expenditure Management

36. The Government is taking steps to enhance the quality and implementation of domestic and foreign-funded capital projects. To speed up implementation and improve the quality of delivery of capital projects, the MoF and the Ministry of Planning and Economic Development (MoPED) have established a two-tier oversight system: (i) an Inter-Ministerial Committee that provides policy oversight of projects; and (ii) a Technical Implementation Committee that monitors and evaluates the implementation of development interventions. The Government is reviewing the draft National Public Investment Management Policy, which it plans to adopt before the end of 2020, to guide capital expenditure planning, execution and coordination, and appraisal of developmental projects for informed decision-making.

37. The Government will enter into contracts for implementing domestically-funded capital expenditures in local currency to enhance the Government's FX liquidity management and reduce the exchange rate risk.

38. The Government is planning to improve on the design of projects and preparation of national plans. We will introduce a planning system that links Ward-level planning with Districts to MDAs and the national portfolio of Public Investments Projects (PIP). MoPED will collaborate with the Ministry of Local Government to develop the system. The Government has operationalized the National Monitoring and Evaluation Department (NaMED) in the MoPED. NaMED, in collaboration with DSTI, is developing an automated Management Information System for monitoring and evaluation of public expenditure on development projects in the NDP. The disbursement of budgetary allocations to projects will henceforth be triggered by the submission of satisfactory monitoring reports by NaMED.

39. A comprehensive review of our public investment framework will inform further actions. To improve efficiency and effectiveness of the public investment process, the Government in collaboration with the IMF undertook a PIMA in December 2019. This assessment highlighted the strengths and weaknesses of our public investment systems and will provide the basis for improving decision-making process and prioritizing capital expenditures. As noted above, once the PIMA recommendations are finalized, we will articulate further and prioritize reforms to strengthen public investment management in the context of the third review under the ECF.

F. State-owned Enterprises and Fiscal Risks

40. The Fiscal Risk Management and State-owned Enterprises (SOEs) Oversight Division at the MoF continues to make significant progress in providing fiduciary oversight of SOEs. The Division, operational since April 2018, focused initially on SOEs with the greatest potential to cause substantial fiscal burden on Government. Since March 2019, it has been expanding its oversight role to all SOEs, including in the financial sector. Starting with the 2019 budget, budget documents now include an annex on the financial performance of most SOEs.

41. During 2019, the Division has substantially expanded its analysis and oversight of fiscal risks from SOEs. It has:

(i) Actively rationalized the budgets of SOEs to identify and eliminate unproductive expenditures that could be fiscal burden on Government;

(ii) Reviewed investment proposals from SOEs and private investors that could impact fiscal space;

(iii) Reviewed suspicious investment proposals to limit government exposure;

(iv) Continued to monitor implementation of the collection account mechanism of EDSA;

(v) Facilitated the reduction of the backlog of SOEs' audited financial statements since late 2018 (most SOEs have now produced audited financial statements for up to 2017 and some for 2018); and

(vi) Developed fiscal risk register.

42. To minimize fiscal risks, the Division will continue to:

Enhance performance monitoring:

(i) **Monitor the operations and performance of SOEs** to mitigate potential risks and facilitate the timely and efficient reporting of financial and non-financial information;

(ii) **Develop key performance indicators and produce guidelines** for fiduciary oversight of SOEs in the first half of 2020;

(iii) **Produce an annual performance review report of all SOEs**, commencing with an initial report in the first quarter of 2020 that would serve as a baseline for future monitoring;

(iv) **Start classifying SOEs according to GFSM2014**; and

(v) **Establish a Fiscal Risk Committee comprising high-level public officials** from relevant MDAs and the BSL in the first half of 2020 to review fiscal risks statement and any other reports to enhance the performance of SOEs; exchange information and make recommendations relating to fiscal risks; and give directives on the implementation of policy recommendations.

Explore safe financing options and partnerships:

(i) **Analyze different financing models** for investments in large infrastructure projects and explore off-balance sheet financing models that are non-debt creating to reduce contingent liabilities;

(ii) **Start reviewing all Public-Private Partnership (PPP) proposals**, in line with the Government's debt management strategy (see below), with the aim of identifying and quantifying potential fiscal burden. We will also continue efforts to build capacity in this area, drawing on the findings of the PIMA.

(iii) **Develop a strategy to facilitate settlement of arrears among SOEs, and between SOEs and MDAs based on the August 2019 survey**.

G. Debt Management and Domestic Arrears Clearance Strategy

Public Debt Management

43. The significant build-up on public debt in recent years poses substantial debt management challenges. Sierra Leone still faces a high risk of overall public debt distress as domestic financing pressures remain high, and external debt service indicators remain elevated. Indicators of external debt sustainability have improved marginally, owing to sustained strong domestic revenue, but low export projections due to the challenges in the mining sector. The increased level of domestic borrowing in recent years predicated on high interest costs and reduced maturity profile is posing significant refinancing and rollover risks in the domestic debt portfolio. A large stock of verified domestic arrears, almost 90 percent of which accrued in 2016 and 2017, adds to the stock of domestic debt and, depending on the mode of clearance, could compound pressure on the public debt portfolio.

44. Public debt management will be guided by the new Medium-Term Debt Strategy (MTDS), supported by fiscal consolidation and effective monetary policy implementation. The MTDS, developed by Government with the support of development partners, aims at deepening the domestic debt market to allow for the issuance of medium to long-term treasury securities to help lower domestic interest rates, and lessen rollover and refinancing risks. It also focuses on reducing foreign currency risks in the debt portfolio by continuing to prioritize grant and concessional external financing over the medium to long term. In line with commitment in the previous MEFP, we will examine the use of non-debt creating financing models (such as PPPs), supported by sound feasibility studies and robust business case analysis—without recourse to government guarantees. We remain committed to sustaining fiscal consolidation to improve the domestic primary balance over the program period and slowing the accumulation of domestic debt.

45. We will continue our practice of preparing regular Debt Sustainability Analyses ahead of the annual budget cycle to provide early warning signals on debt levels and the risks of debt distress to inform debt management policy.

Clearance of Domestic Arrears

46. The Government is well advanced in developing a strategy for clearing the stock of verified domestic arrears over the short to medium term. We finalized in September 2019 a thorough arrears stocktaking exercise. The total stock of verified pre-April 2018 domestic arrears, following several rounds of verification by the Audit Service Sierra Leone and consultations with MDAs, amounts to Le 3.3 trillion (US$337 million) or 8¾ percent of 2019 non-iron ore GDP. The Government is working to develop a strategy for clearing these arrears that is anchored in fairness and equity, while also ensuring affordability, leading to the following principles for clearing arrears:

(i) **Further work was done to reclassify the stock of verified arrears by source of procurement**—competitive tender, local purchase order (request for quotation), sole souring etc.—to inform the level of competitiveness of the original procurement method employed by MDAs. The objective was to inform the level of haircuts to be deployed against specific methods of procuring the goods, services and works that led to the arrears. Arrears in the form of printed cheques are reclassified into: (i) social security obligations; (ii) suppliers and contractors' arrears; (iii) unpaid transfers, grants, and imprest to MDAs were excluded from the stock to prevent double counting.

(ii) **Appropriate discounting or "haircut" assumptions** based on the procurement method with higher discounts being applied to a less competitive methods of procurement. Final discounts and haircuts will depend on negotiations with creditors.

(iii) **Arrears of social security contributions** owed to the National Social Security and Insurance Trust (NASSIT) will attract the issuance of a 10-year treasury bond at an interest rate of inflation plus 2 percent, amortized equally on annual basis to avoid bunching or bullet repayment risks.

(iv) **Payment would be in domestic currency** for arrears are owed to domestic suppliers and contractors that were originally denominated in foreign currency.

(v) **Where necessary to issue securities, rather than cash repayment, prioritize non-tradable securities**, mindful of the banking sector's capacity to absorb additional securities and risk of crowding out regular budget financing.

47. Considering the above, we have developed a repayment plan within our budgetary envelope. The plan assumes a combination of outright cash payments in 2020 (0.6 percent of GDP), while the average annual budgetary cost from 2021 onwards (including amortization linked to the NASSIT bond) will average less than ½ percent of GDP. A total of Le 285 billion (approximately US$30 million) of arrears will be cleared in 2020, with allocations made in the medium-term budget for clearing the remaining arrears. As noted above, additional or windfall support from development partners would enable us to resolve these arrears more expeditiously.

48. To ensure a transparent and equitable approach, the Government is committed to finalizing and publishing the arrears clearance strategy by end-April 2020 (*structural benchmark*). This will give suppliers to whom Government MDAs are in arrears full visibility on the principles guiding the Government's engagement with suppliers. The Government will continue to refrain from issuing new securities for arrears clearance, and start negotiations with suppliers, only after the strategy is published.

49. We are committed to closely monitoring securities issued to clear arrears in the ECF-supported program and to enhance our debt management practices. Given the recent reconciliation exercise regarding previously issued arrears-clearance securities, we are stepping up effort to improve recording and program monitoring. In this regard, the Government has requested technical assistance from the IMF to further improve the recording of arrears-related securitization and domestic debt. This will become ever more important as the government works to clear legacy arrears. Going forward, securities issued for the specific purpose of regularizing the stock of legacy arrears (i.e., exclusively a below-the-line transaction) would not, for the purposes of the program, would not impact NCG (consistent with the spirit of NCG being calculated to meet the above-the-line financing need).

H. Monetary and Exchange Rate Policies

50. Monetary policy succeeded in bringing inflation in line with the end-2019 goal of 14 percent. Consistent with the medium-term macroeconomic outlook, monetary policy will continue to focus on achieving single digit inflation over the course of the program. As efforts to deepen the financial market continue, the BSL will continue to use monetary aggregates as operating targets together with policy corridor system. In this context, the monetary policy stance has been broadly neutral, with the Policy Rate maintained at 16.5 percent. Over the medium term, the BSL will continue to advance efforts, with IMF technical support, to strengthen the role of indirect policy instruments to allow for effective price based monetary policy. We repaid the recent €20 million loan to bridge the expected EU budget support in December. Going forward, we will limit the use of bridge loans to unplanned emergency situations, in line with the BSL Act 2019. If using a bridge loan is unavoidable, the interest rate will be market-based.

51. We are committed to maintaining a flexible exchange rate to help cushion against adverse external developments. The BSL will participate in the foreign exchange (FX) market only to smooth disorderly market conditions, while continuing to increase the level of international reserves as a share of imports. We will continue to build the foundation that will help us operationalize two-way auctions as the FX market develops. As a step towards the wholesale system, we have already moved to the Reuters platform and, with most banks having signed on, this is proving for more transparency in quoting rates. The BSL issued three temporary FX directives intended to help rationalize and make more predictable FX flows to the banking system. We will continue to monitor the impact of these directives. We remain committed to obligations under Article VIII and will consult the IMF on any future foreign exchange directives.

I. Financial Sector Policies

52. The key objective of the financial sector policy is to deepen financial intermediation in a financially stable environment, with strong central bank oversight. The BSL remains committed to safeguarding financial stability by strengthening the supervisory framework and managing risks within the banking system and other financial institutions as outlined above.

Safeguarding financial stability

53. Measures in 2019 continued to focus on strengthening financial sector stability through improved guidelines and effective oversight. To this end, key actions included:

- **Stress testing the resilience of the banking system**. With technical support from the IMF (MCM), the BSL is making progress in building capacity for assessing the resilience of the banking system using single factor stress test scenarios (increase in NPLs, exchange rate depreciation, and liquidity risk). The results of the stress tests are published in the BSL's financial stability reports.

- **The BSL recently completed and published its second annual Financial Stability Report**. Alongside analysis of banking sector developments and risks, this report covers also the developments in the non-bank financial institutions sector and insurance and pension industries.

- **Developed guidelines on Agency Banking** to guide financial institutions wishing to enter into agent agreement as a channel for delivering financial services and to specify necessary safeguards and consumer protections aimed at mitigating associated risks.

- **Complete the review of the procedures on fit and proper persons test** by end-March 2020 to ensure that institutions providing financial services are soundly and prudently managed and that none of the key persons may be a source of weakness to those entities to safeguard the financial system.

- **Continued to examine commercial banks using the Risk Based Supervision Framework.** In this framework, banks are rated based on their inherent risks regarding core activities and the effectiveness of the measures put in place to mitigate these risks.

- **Strengthened the supervisory and risk management guidance to banks and non-bank financial institutions**. We streamlined the supervision of banks and non-bank financial institutions to make it more focused on risks to encourage banks and non-bank financial institutions to implement sound risk management practices.

54. Going forward in 2020, the BSL will continue to work towards a stronger and more resilient financial system by undertaking the following:

- **Financial Sector Stability Review**. The IMF's Financial Sector Stability Review (FSSR) scoping mission took place in early December 2019, with the main FSSR mission scheduled for March 2020. The BSL will utilize this diagnostic assessment to identify key weaknesses in the financial sector and its institutional capacity to monitor and safeguard financial stability, set out action plans for financial sector reforms, and agree on an intensive and targeted TA roadmap.

- ***Setting up a Deposit Protection Scheme*** to ensure that small depositors are insured against potential losses arising from market failures, thereby giving confidence to the general public to utilize the financial system;

- ***Risk-Based Supervision***. The central bank will continue to implement risk-based supervision with the aim of ensuring that banks remain resilient in the event of domestic and/or global shocks. The BSL will continue to examine and supervise banks using the Risk Based Framework aimed at promoting transparency, providing early warning signals and encouraging regulated entities to self-evaluate their position at regular intervals;

- ***Put in place a regulatory framework for digital financial services*** (such as E-Money Guidelines), with support from the US Treasury, by December 2020; and amend the *Other Financial Services Act 2001*, which will be passed by Parliament by December 2020.

- ***Developing the Security and Exchange Bill**,* which when enacted will create the enabling environment required for the bank to cede its current regulatory and supervisory role over the stock exchange to the Securities and Exchange Commission (SEC) to support increased supply of long-term capital through the Stock Exchange to promote private sector led growth as well as deepen the financial system;

- ***Developing the Collective Investment Bill*** to support the establishment and operation of collective investment schemes, with the view to deriving benefit through synergies.

Managing risks from the State-Owned Banks

55. Some progress has been made in improving the governance and soundness of the two state-owned banks. The boards of the two banks have been reconstituted, with all board members in place as of July 2019. The BSL is also continuing with the enhanced supervision regime, which has helped to limit the banks' fiscal risks, and restore profitability and resilience with enough capital and buffers. The cautious resumption of lending will allow the banks to perform their core function of financial intermediation and mitigate the risk of overexposure to Government treasury securities, which has been identified as the key risk for the two state-owned banks. In the context of ongoing efforts, the banks are taking steps to put in place proper credit administration and management in managing their credit portfolio.

56. The diagnostic study conducted on the two banks, sponsored by the World Bank, was completed in late September 2019 (*completed structural benchmark for 2nd review*). This study provided a comparative assessment of the banks' positions now as against their positions in the 2016 Ernst & Young diagnostic assessment. The study found that political interference in the banks has decreased, in line with this administration's commitment to thwart corruption, but further work is needed to strengthen the banks' internal controls, governance, and credit processes. Lack of up-to-date data, however, limited the diagnostic value of this study.

57. We therefore plan to take decisive steps to assess the current health of the banks and take a final decision on their future. To this end:

- The BSL undertook on onsite inspections of the two state banks in late 2019/early 2020, with the inspection reports expected to be completed in the first quarter of 2020.

- In parallel, the BSL will also develop a liquidity contingency plan, expected to be completed on a similar timeline to the onsite inspection reports.

- The BSL will maintain its enhanced supervision framework and directives of no lending to Politically Exposed Persons (PEPs), pending a longer-term solution.

- The Government is working with consultants to prepare by end-May 2020 a long-term business strategy for both state-owned banks, including a time-bound action plan on steps to put in place a new business model that would ensure they operate on a firm commercial footing and effectively contribute to financial intermediation (*structural benchmark for the third review*). In this context, we are working toward putting in place stronger governance and risk management frameworks, and internal controls before either bank engage in significant new lending activity.

- To complement this, the Government also plans to develop a legal or regulatory framework for the corporate governance of the banks, possibly in the context of a broader SOE regulatory framework, and a timeline for putting it in place.

Promoting financial access

58. The BSL has taken steps to promote financial inclusion and access, including:

- **Developing a Tiered KYC framework in 2019 for commercial banks,** aimed at promoting financial inclusion by improving on the banking population particularly, targeting the informal sector.

- **Establishing a National Payment Switch** as part of the Sierra Leone Financial Inclusion Project (SLFIP) 2019 and the National Strategy for Financial Inclusion (2017-2020). The National Switch will facilitate interconnectivity and interoperability of digital systems across the country, building on previous steps to improve payment systems.

- **Engaging in financial education and consumer protection**, with a view to formalize the informal sector of the economy.

- **Working closely with the MoF on establishing an Electronic Funds Transfer** (EFT) mechanism that would ensure a seamless transfer of payment instructions between BSL and MoF. This would facilitate timely execution of payment of salaries and other emoluments or payment to suppliers.

- **Revising the *Borrowers and Lenders Act***, in place since May 2019, to improve access to credit, by widening the scope of collateral usable by borrowers in obtaining access to credit and strengthening operations of the Collateral Registry in a one-stop-shop.

59. The BSL is also leveraging technology and innovation to promote financial access, inclusion, and accountability.

- **Innovative product developments in the banking system**. These include an upgrade on the existing electronic payment and clearing system as well as various financial products such as different types of accounts, loans, financial services and payment methods. In addition, a number of mobile phone and internet banking services have been introduced and continue to be introduced in line with the growing global trends. These developments have not only increased competitiveness in the financial sector, but also improved financial access and inclusion across the country. This is a significant step towards easing the payments side of economic activities in our country.

- **Credit Reference Bureau Digitalization**. The central bank will continue to ensure that the Credit Reference Bureau is able to produce credit reports for financial institutions in order to make informed judgement on the debt obligation of individuals and companies in the financial system. Once the national registration project with KIVA is fully implemented, automation of the Credit Reference Bureau will be enhanced to provide digital identification for customers.

- ***The second Sierra Leone FinTech Challenge*** was launched in March 2019. It aims at supporting financial technology innovations for domestic resource mobilization. To enhance collaboration in the Digital Financial Services ecosystem, the BSL also signed a Memorandum of understanding (MOU) with the Directorate of Science, Technology and Innovation (DSTI) and the National Telecommunication Commission (NATCOM).

Enhancing institutional governance and accountability

60. The new BSL and Banking Acts, effective since June 2019, will enhance the autonomy, accountability and transparency of central bank operations. They also broadened the BSL's mandate to include, e.g., financial stability, macro-prudential policy and resolution authority. Pursuant to the revised provisions, the BSL issued new regulations to commercial banks requiring an increase in capital and reporting obligations in line with best international financial reporting standards. The increase in the minimum paid-up capital of commercial banks to Le 85 billion from Le 30 billion will be implemented over the next three years.

61. We will fully implement the new BSL Act, including to strengthen the BSL's governance arrangements. We will step up efforts in the first half of 2020 to appoint a second Deputy Governor in line with the Act. This will, among other things, position the institution to maintain the momentum of supervisory and financial stability actions. The Banking Act 2019 ensures that banking is conducted in line with the revised Basel Core Principles for effective banking supervision, as well as detailing a framework for bank resolution, receivership and liquidation.

62. We are also taking steps to strengthen the BSL's governance arrangements and internal controls.

- We moved decisively to address the delayed audit of BSL's 2018 financial statements and contracted an international audit firm in late 2019 to conduct the audit jointly with a local firm. We will strive to publish the audited 2018 financial statements audit by end-June 2020. To avoid delays with future year audits, we will appoint the external auditor to conduct the audit of the BSL's 2019 financial statements by end-June 2020 and publish the results by end-October 2020 (*structural benchmark for the fourth review*). In parallel, we will continue to implement outstanding IMF safeguards assessment recommendations.

- We published the final forensic audit report in July 2019. The BSL moved immediately to enhance its security policies and procedures, and, as noted above, the Accountant General plans to prepare an inventory of public sector FX accounts with commercial bank. While identifying and properly reflecting the priority recommendations from the forensic audit required more time than initially envisaged, the forthcoming BSL and MoF remedial action plans to address the audit findings (*structural benchmark for end-August 2019*). We will continue to monitor progress in implementing these plans to ensure that identified weaknesses are addressed. Based on the transition report and Auditor General's report, we will investigate further highlighted suspicious transactions, including to recover any amounts.

J. Inclusive Growth and Social Protection

63. Human Capital Development is at the center of the Government's NDP, as the foundation for achieving our goal of reaching middle-income country status by 2039. We are investing in our children—our future—by substantially increasing spending on the education sector. Accordingly, we are successfully implementing the Free Quality School Education Program launched in 2018. During the 2018/2019 academic year, we:

- Paid examination fees for NPSE, BECE and WASSCE;
- Invested in providing schools with updated textbooks, teaching and learning materials;
- Paid tuition fees for all children in Government-owned and Government-assisted schools;
- Commenced the School Feeding Program in selected districts;
- Invested in 50 new school buses;
- Following these investments in our students, we decided to invest in our teachers through increasing their staff count and wages, to ensure quality teaching as par of the Free Quality Education program.
- Operationalized the Teaching Service Commission (TSC) for teacher management and teacher development;
- As pregnant teenagers often leave school, we are committed to help them resume school after delivery. We also seek assistance for these girls before and after delivery through cash transfers, child support, and other means to enable teenage mother's access to schooling.
- Revamped the defunct Technical, Vocational and Educational Training (TVET) Unit and upgraded it to a Directorate of TVET in the newly-created Ministry of Technical and Higher Education; and
- Launched the Education Challenge of the Human Capital Development Incubator.

64. **In the health sector, we are continuing to fund the Free Health Care Initiative and provide resources for both primary and secondary health care services**. We are doing this at both the national and sub-national levels. We are prioritizing allocating resources to health services targeting our children, adolescents and women. Funds recovered from corrupt persons, as part of our anti-corruption drive, are also being ring-fenced for the construction of an ultramodern diagnostic health center. The Government also supports the monthly national cleaning exercise to improve sanitation and public hygiene nationwide.

65. **In our quest to leave no one behind, we are providing cash transfers to over 250,000 of the poorest and most vulnerable in our society**. This is being complemented by various ongoing youth development and empowerment programs. For instance, we will commence a project that will provide skills training and micro credit for persons living with disabilities. We estimate that 2,000 persons living with disability will be targeted in the next three years for economic empowerment.

K. Business Environment and Economic Diversification

66. **To complement broader macroeconomic reforms, the Government is developing strategic sector policies to help gradually diversify the economy**. We have adopted the National Agricultural Transformation Programme—comprehensive and focused on achieving rice self-sufficiency. To support this programme, we have established the Seed Certification Agency and the Fertilizer Regulatory Agency to increase the role of the private sector in the provision of agricultural inputs. In addition, Cabinet the 2019 Cocoa, Coffee and Cashew Policy to stimulate production, reaffirm the importance of these traditional exports, and improve the livelihood of our people in the rural areas. Also, the Government and World Bank Economic Diversification Project includes a component focused on implementing selected Doing Business reforms.

67. **In that regard, we are taking steps to improve the business environment**. The recently launched 2020 World Bank Doing Business Report ranked Sierra Leone at 163 out of 190 countries, with a score of 47.5 out of 100, which is below the Sub-Saharan average score of 51.8. Sierra Leone performed relatively well on the 'Starting a Business' Indicator, ranked 58 ahead of other reformers like Ghana and Kenya. However, our performance in the other indicators such as Paying taxes, Getting Electricity, Registering Property, Dealing with Construction permits, and Protecting Minority Investors remains relatively weak. To improve on our Doing Business ranking, the Government has collected and analysed data on ongoing reforms and existing processes; produced and validated end-to-end business process maps for the ten main Doing Business indicators. Our approach to tax policy reform, as outlined above, also aims to strike a careful balance between business-friendly reforms and achieving our ambitious revenue mobilization.

68. **Our resolve to transform our economy by mainstreaming technology and innovation has never been stronger**. The Directorate of Science, Technology and Innovation (DSTI) collaborating across Government is leading these efforts. With the launch of the Government's National Digital and Innovation Strategy on November 1, 2019, Sierra Leone is poised to be among

the regional and global leaders in the digital economy, governance, innovation and entrepreneurship, focusing on effective service delivery.

L. Strengthening Statistics

69. Continued efforts to strengthen governance and improve efficiency of the national statistical agency have produced encouraging results. Reforms initiated by Statistics Sierra Leone's (SSL's) new leadership over the past year have been key to attracting support from the World Bank, the Bill and Melinda Gates Foundation, UNFPA, and others. With improved governance and financial management, the coverage and quality of data are improving. The coverage of statistical information has expanded to various areas including: (i) Social Safety Nets, (ii) National Civil Registration, (iii) a Rental Census to support NRA's Revenue Mobilization, (iv) completing the Integrated Household Survey to support poverty analysis, and (v) launching the multiple indicator cluster indicator survey report amongst others. Collaboration with IMF technical support facilitated the resumption of the publication of the Consumer Price Index.

70. Going forward, SSL will continue to:

(i) Strengthen collaboration with, and seek additional funding from, development partners to help strengthen national statistical systems.

(ii) Work with the IMF on CPI revisions, including to update the CPI expenditure weights and item basket using the results of the 2018 Sierra Leone Integrated Household Survey to ensure the CPI is representative of current expenditure patterns.

(iii) Conduct the business establishment survey, as a bases for new supply and use tables to build the foundation to GDP rebasing.

(iv) Partner with organizations across the country to bring timely, accurate, and useful information about Sierra Leone, promote wider coverage and dissemination of national statistics, and become an authoritative source of data.

(v) Collaborate with the DSTI and other institutions to make data easily accessible online.

(vi) Elevate Sierra Leone as a leader among low-and middle-income countries in ensuring that data are transparent and high-quality, and that efforts to achieve the SDG targets are data-driven.

(vii) Strengthen capacity at SSL and expand technical expertise to support the collection of essential routine data about Sierra Leone and evidence-based policy decision-making.

(viii) Work with the Fund and other development partners on migrating to GFSM2014, which will allow clear fiscal classifications and facilitate better-targeted and informed policy making.

PROGRAM MONITORING

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

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2018-2020

(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. IT				Dec. PC	Mar IT.	Jun. PC	Sept. IT	Dec. PC
	Stock	Prog.	Adj. Prog.	Act.	Status 6/	Prog.	Adj. Prog.	Act.	Status	Prog. 5/	Adj. Prog.	Act.	Status	CR No. 19/217	Adj. Prog.	Est.	Status 4/	CR No. 19/217				
Performance criteria																						
Net domestic bank credit to the central government (ceiling) 1/	5171	823	431	557	Not Met	407	495	327	Met	812	949	230	Met	791	523	612	Not met	1085	369	556	1008	1209
Unadjusted target (ceiling)			823				407				812				791							
Adjustment for the shortfall in external budget support			175				45				0				6							
Adjustment for the excess(shortfall) in unpaid checks and other outstanding payments			-91				-21				24				-304							
Adjustment for the excess(shortfall) in leone value of net issuance of government securities to non-bank private sector			-476				64				113				30							
Net domestic assets of the BSL (ceiling)	858	404	617	636	Not met	223	303	-129	Met	341	-59.9	-459	Met	522	548	-443	Met	634	427	25	223	205
Unadjusted target (ceiling)			404				223				341				522							
Adjustment for the shortfall (excess) in external budget support			175				45				-426				6							
Adjustment for exchange rate depreciation (appreciation)			38				35				25				21							
Gross international reserves of the BSL, US$ millions (floor)	474	7	-21	10	Met	-20	-21	-11	Met	-27	2	34	Met	-6	-3	30	Met	17	-19	45	47	64
Unadjusted target (floor)			7				-20				-27				-6							
Adjustment for the shortfall (excess) in external budget support			-40				-5				47				-1							
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement			0				0				-22				0							
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			13				4				4				3							
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		42	Met	100		122	Not met	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	Met	0		0	Met	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	Met	0		0	Met	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0		0	Met	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0
Indicative targets																						
Total domestic government revenue (floor)	...	2356		2430	Met	1224		1370	Met	2549		2775	Met	3797		4076	Met	5302	1435	2942	4635	6467
Poverty-related spending (floor) 3/	...	275		749	Met	293		196	Not met	634		767	Met	1016		1251	Met	1495	387	785	1207	1652
Domestic primary balance (floor)	...	-282		-45	Met	-98		224	Met	-208		117	Met	-171		-179	Not Met	-247	24	-33	17	117
Memorandum items:																						
External budgetary assistance (in $ million)	...	67		27		5		0		13		60		61		60		85	0	74	74	98
Exchange rate (Leones/US$)																						
Program	7741	8743				9040				8999				9280				9539	9908	10291	10674	11057
Actual	7741			8396				8676				8826				9444						

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.

6/ December 2018 performance for NCG has been revised in line with new information on securities issued to the non bank sector primarily for the purpose of clearing legacy arrears. Given the nature of the non-observance and the corrective actions taken by the authorities (MEFP ¶¶12 13, ¶49), staff supports their request for a waiver. A short, stand-alone report on misreporting will be issued to the Board in parallel.

Table 2. Sierra Leone: Structural Benchmarks

STRUCTURAL BENCHMARKS	TIMING	STATUS
Benchmarks for Second Review		
Adopt a remedial action plan to address the findings of the forensic audit report.	August 31, 2019	Not Met
Complete the stocktaking of payment arrears to domestic suppliers to determine a comprehensive arrears figure, drawing on IMF technical assistance recommendations.	August 31, 2019	Not met, completed with a delay
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	Met
Update the 2016 diagnostic study of the two state-owned banks, with support from the World Bank.	September 30, 2019	Met
Continue to use the automatic fuel price indexation mechanism to set fuel price determination.	Continuous	Met
Benchmarks for Third Review[1]		
Submit the revised NRA Act to the Parliament, based on Fund staff review and advice on the draft NRA Act.	April 30, 2020	
Finalize and publish an arrears clearance strategy, consistent with the resource envelope in the 2020 budget and the program; and refrain from issuing securities for arrears clearance until the strategy is finalized and published.	April 30, 2020	
Prepare a long-term business strategy for both state-owned banks, including a time-bound action plan on steps to put in place a new business model that would ensure they operate on a firm commercial footing and effectively contribute to financial intermediation.	May 31, 2020.	
Continue to use the automatic fuel price indexation mechanism to set fuel price determination and begin publishing the fuel price formula and the outcome of fuel price setting decision, regardless of whether fuel price are changed.	Continuous	

[1]To ensure effective integration between the program and Fund CD, SBs for the fourth review will draw upon the recommendations from the PIMA (late 2019) and upcoming FSSR (early 2020).

Attachment II. Technical Memorandum of Understanding[1]

INTRODUCTION

1. **This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) starting 2020**. It provides 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. The definitions and adjustors described below cover the PCs and ITs for March 2020 through December 2020. The program PCs and ITs through December 2019, and relevant adjustors, remain as defined in the Technical Memorandum of Understanding of June 10, 2019 (see CR No. 19/2170).

2. **Program exchange rates**.[2] For the purpose of the program, foreign currency denominated values for 2020 will be converted into Sierra Leonean currency (Leone) using a program exchange rate of Le 9,716.7/US$1 and cross rates as of end-December 2019.[3]

Sierra Leone Program Exchange Rate for ECF Arrangement
Cross Rates as of end-December 2019

Currency	Currency units per SDR	Leones per currency unit	US dollars per currency unit
US dollars	1.38	9,716.7	1.00
British Pound Sterling	1.05	12,749.9	1.31
Japanese Yen	150.89	89.0	0.01
Euro	1.24	10,872.1	1.12
SDR	1.00	13,436.6	1.38

QUANTITATIVE PROGRAM TARGETS

3. **Quantitative performance criteria are proposed for June 30, 2020 and December 31, 2020 with respect to**:

- Net domestic bank credit to the central government (NCG) (**ceiling**);

[1]This TMU will apply to test dates starting in March 2020. The TMU finalized at the time of the first review will continue to apply to December 2019 performance criteria.

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

[3]For calculating program targets for 2020, all end-December 2019 stock variables will be based on the program exchange rate of Le 9,716.7/US$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

- 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 (**continuous ceiling**);
- 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. Indicative targets are proposed for June 30, 2020 and December 31, 2020 with respect to:

- Total domestic government revenue (**floor**);
- Domestic primary balance (**floor**); and
- Poverty-related expenditure (**floor**).

QUANTITATIVE PERFORMANCE CRITERIA

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 the sum of 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; and

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/or to increase its capital; (b) ways and means; (c) any bonds issued in the conversion/securitization of ways and means into debt (government's overdraft at the central bank); and (d) any other type of direct credit from the BSL to the government, including the special lending arrangements relating to budget support;

- *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[4]—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 2019); (c) a downward (upward) adjustment by the excess (shortfall) in Leone value of net issues of government securities to the non-bank private sector,[5] and (d) an upward (downward) adjustment by the increase (decrease) in the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears.[6]

Treatment of Government Securities in Calculating Net Credit to Government

	Net issuance to banking sector	***Net issuance to non-bank sector***	
		Tradable	***Non-tradable***
For regularizing legacy arrears	Fully included in definition of NCG (¶5)	Adjustor revises NCG target down (¶6(c))	No net impact on NCG (¶6(c) and ¶6(d) offset each other)
Any other purpose	Fully included in definition of NCG (¶5)	Adjustor revises NCG target down (¶6(c))	Adjustor revises NCG target down (¶6(c) only)

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.

8. **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

9. **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

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

[5]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 a reduction through securitization would not.

[6]Taken together, clauses (c) and (d) imply that a change in securities issued to the non-bank sector for the purpose of regularizing the legacy stock of arrears will not impact NCG.

rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BSL and 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. **The 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; and
- the BSL's holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

b. **The 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.

c. **The 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;[6]
- 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; and
- balance on zero coupon bonds issued by the BSL to Securiport LLC on behalf of the government.

[6]The authorities have confirmed that this Bilateral Trade Agreement is no longer operational.

10. 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

11. 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.

12. 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).

D. Assumptions on External Budgetary Assistance

13. The programed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, from January 1, 2020 to:

End-March 2020	US$ 0 million
End-June 2020	US$ 74 million
End-September 2020	US$ 74 million
End-December 2020	US$ 98 million

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

14. 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.

15. 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.

16. 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

17. Non-concessional 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.

18. 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

19. 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

20. 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 TARGETS

A. Domestic Revenue of Central Government

21. 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

22. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments, foreign-financed capital spending, and cash paydown of arrears. Arrears refers to the stock of legacy (pre-April 2018) arrears determined for the purpose of the Sierra Leonean authorities’ arrears clearance strategy.

C. Poverty-Related Expenditure

23. Definition. For program monitoring purposes, poverty-related expenditures are defined as the total non-salary, non-interest 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

24. The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the MoF, 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
	GDP deflators by sectors	Annual	End of year + 9 months
	Mining production and exports	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 changes in stocks of arrears, stock of the float, treasury bills, and bonds.	Monthly	End of month + 6 weeks
	Government flow-of-funds table (Government Financial Operations Table)	Monthly	End of month + 6 weeks
	Structure of petroleum product prices by categories of petroleum products	Monthly	End of month + 6 weeks
	Import duty and GST exemptions by end-users 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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

March 24, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2020)

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

General Resources Account:	**SDR Million**	**% Quota**
Quota	207.40	100.00
Fund holdings of currency	207.39	99.99
Reserve position	0.02	0.01

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	99.51	100.00
Holdings	103.34	103.85

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	262.52	126.58

Latest Financial Arrangements :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 30, 2018	Jun 29, 2022	124.44	31.11
ECF	Jun 05, 2017	Nov 29, 2018	161.77	39.17
ECF[1]	Oct 21, 2013	Dec 14, 2016	186.66	186.66

Projected Payments to Fund[2]

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

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	19.51	30.22	42.14	44.28	46.5
Charges/Interest	0	0	0	0	0
Total	**19.51**	**30.22**	**42.14**	**44.28**	**46.5**

Implementation of HIPC Initiative:

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

[1]Formerly PRGF.

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

Assistance committed (NPV terms)	
By all creditors (US$ million)[3]	675.20
Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

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

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 02, 2015	20.74	20.74

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

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

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

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

Safeguards Assessment:

The 2017 safeguards assessment found that the safeguards framework at the Bank of Sierra Leone (BSL) had deteriorated and that concerted efforts were needed to mitigate safeguards risks. Continuous capacity constraints and lack of coordination among departments had negatively impacted the control environment. The risks were further exacerbated by weak oversight and audit mechanisms. While financial statements continued to be prepared and audited in accordance with international standards, audits were not completed within the statutory deadline. A subsequent safeguard monitoring visit in 2018 found that while the BSL was taking steps to implement safeguards recommendations, greater efforts were needed to address control weaknesses. A forensic audit of foreign currency transactions between the BSL and government agencies was recommended to establish the magnitude of past misappropriations. A remedial action plan to address findings has been completed, but implementation of the plan has been slow.

Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of end-December 2019, the BSL mid-rate was Le 9,716.7=US$1, which is also the new Program exchange rate.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. The *de facto* exchange rate arrangement is reclassified as 'other managed'.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on July 1, 2016.

Technical Assistance:

Sierra Leone—Technical Assistance, FY 2019-20		
Fiscal		
FAD	Improving Risk Processes, Compliance Management (1 of 2)	June 4–15, 2018
	Policy Advice and Revenue Modeling	June 13–23, 2018
	Strengthen Management: Organizational Structure	August 8–21, 2018
	Strengthening Reform Strategy; Reforming Governance	September 5–18, 2018
	Strengthen Core Tax Administration Procedures and Processes	October 18–31, 2018
	Reform Strategy and Implementation update	October 18–31, 2018
	Risk Identification, Compliance etc.	December 3–14, 2018
	Central Bank Revenue Modelling and Forecasting	December 3–7, 2018
	Central Bank Revenue Modelling and Forecasting	February 18–26, 2019
	Fiscal Risks and Arrears Management	March 20–April 1, 2019
	EI Risk Based Compliance Strategy	May 6–17, 2019
	Improving Risk Processes, Compliance Management etc. (2 of 2)	June 3–12, 2019
	Core Process Re-engineering	June 20–July 3, 2019
	Modernization Strategy	July 25–26, 2019
	Modelling and Support to Petroleum Licensing Round	September 26–30, 2019
	EI Risk Based Compliance Strategy 1 of 2	Sept. 23-Oct.4, 2019
	Dispute Resolution	November 4-15, 2019
	Joint STX mission under MNRW	November 4-15, 2019
	EI Risk Based Compliance Strategy 2 of 2	January 20-31, 2020
	Filing and Payment, Process re-engineering	January 22-31, 2020
	Filing and Payment, Process re-engineering	February 3-7, 2020
	Modelling and Support to Petroleum Licensing Round	February 26- March 6, 2020
	Follow-up on natural resource regime mission	March 2-11, 2020
AFRITACW2	Building excise duties compliance management system	January 7–18, 2019
	Development of Controls for ECOWAS Customs Integrity Framework—Phase 1	July 15–19, 2019
	Design of Risk Management Strategy and Supporting Framework	September 16–27, 2019
	Sierra Leone Training on PPP Fiscal Risk Management Tool	September 9–13, 2019
	Training on Excel Based Modelling Techniques	November 11-22, 2019
	Review of the Sierra Leone Integrated Macroeconomic Model (SLIMM)	November 11-22, 2019
	Strengthen excise duites management capacity	November 18-29, 2019
	Development of Stakeholder Engagement Strategy	November 25-29, 2019

	Development of Stakeholder Engagement Strategy	November 26-December 6, 2019
	GST Compliance and Data Matching	January 22-24, 2020
	GST Compliance and data matching	February 17-28, 2020
	Strengthen capacity to audit telecom sector	February 24-March 6, 2020
	Delivery of Training on Stakeholder Engagement Strategy	March 2-13, 2020
	Professional Attachment for NRA Risk Management Unit to Mauritius Customs	March 16-27, 2020
	Follow-up Mission to Support Authorities Implement Commitment Control Measures	April 6-17, 2020
	Development of Customs Integrity Framework (ECOWAS)	April 20-24, 2020
	PIMA	December 4-17, 2019
Monetary/Foreign Exchange/Financial		
MCM	Resident Advisor: Central Bank Modernization Extension	April 30, 2018–May 31, 2018
	Central Bank Modernization Advisor (Extension)	June 1, 2018–March 31, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Bank Supervision and Regulation (Extension)	January 26–31, 2019
	Bank Supervision and Regulation (Extension)	February 1–March 8, 2019
	Central Bank Modernization Advisor (Extension)	April 1–30, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Central Bank Modernization Advisor (Extension)	May 1–28, 2019
	FSSR Scoping Mission	December 2-6, 2019
	Project Assessment	November 11-15, 2019
LEG	Review Banking Law	August 23–28, 2018
AFRITACW2	Credit Risk Analysis	April 9–20, 2018
	Improving Monetary Policy Analysis and Foreign Exchange Operations	May 21–June1, 2018
	Debt Management and central Bank Balance Sheet	April 23–May 3, 2019
	RBS: Developing RBS Manual	October 14-25, 2019
	WAH-Supporting MPC Preparations and Monetary Policy Report Issuance	September 6-13, 2019
	Improving Monetary Policy Analysis and Follow-Up on Monetary Operations	May 20-24, 2019
Statistics		
STA	Balance of Payments Statistics and International Investment Position (EDDI2)	November 11–16, 2018
	Balance of Payments Statistics and International Investment Position (EDDI2)	October 14–25, 2019

	Government Finance Statistics	February 2–15, 2019
	FSI: Financial Soundness Indicators (FSSF)	March 1–15, 2019
	National Accounts (EDDI2)	April 15–19, 2019
	Consumer Prices/Producer Price (EDDI2)	April 29–May 10, 2019
	External Sector Statistics (EDDI2)	October 14-25, 2019
	Consumer Price Index (EDDI2)	September 9-13, 2019
	Consumer Price Index (EDDI2)	February 24-28, 2020
AFRITACW2	Completion of TNA for Valuation and Classification Training and Preparation of Training Module	April 1–12, 2019
	Supporting the Upgrade of Chart of Accounts Complying GFSM 2014, and their Implementation	July 8–22, 2019

Source: IMF TAIMS

Resident Representative:

Ms. Monique Newiak assumed responsibility for the Fund office in Freetown on September 3, 2019.

JOINT WORLD BANK-IMF WORK PROGRAM, 2019–21

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank Work Program			
National	Third Productivity and Transparency Support Credit (PTSC-III)	Jan 6-17, 2020	May 2020
	SL Economic Update 2020	Jan 6-17, 2020	May 2020
	SL Programmatic Public Expenditure Review, 2019-21	Jan 6-17, 2020	May 2021
	SL Economic Diversification Study	TBD	January 2020
	Sierra Leone Boost initiative	TBD	January 2020
	Agro-Processing Competitiveness	TBD	December 2023
	Financial Inclusion	TBD	June 2025
	PFM Improvement and Consolidation	TBD	March 2020
	Revitalizing Ed Development (FY14)	TBD	December 2019
	Skills Development	TBD	October 2023
	Health Service Delivery & System Supp	TBD	June 2021
	Safety Nets Project	TBD	June 2023
	Energy Sector Utility Reform	TBD	December 2022
	Integrated Resilient Urban Mobility Project	TBD	June 2024
	Extractive Industries Technical Assistance Project Phase 2	TBD	December 2022
	Agribusiness Development Support	TBD	November 2021
	Freetown Emergency Recovery Project	TBD	February 2021
Regional	West Africa Power Pool for Cote D'Ivoire, Liberia, Sierra Leone and Guinea -AF	TBD	December 2020
	Ebola Emergency Response Project	TBD	December 2020
	Disease Surveillance & Response in West Africa	TBD	January 2023
IMF work program			
	Third Review of the ECF Arrangement	April-May 2020	June 2020
	Fourth Review of the ECF Arrangement	September-October 2020	December 2020

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
B. Coordinated or Joint Work and Missions			
	Debt Sustainability Analysis		Ongoing
	World Bank support for diagnostic study of state-owned banks	July-September 2019	September 2019
	Coordinated activity on the Fund's Financial Sector Stability Review (FSSR) and the Bank's FSAP development module	Fund: December 2019 and March/April 2020 Bank: TBD	Fund: May 2020 Bank: Ongoing
	Coordinated TA activities on PFM and arrears prevention	Various	Ongoing
	Coordinated TA activities on improving statistics, including on national accounts	Various	Ongoing
C. Requests for Work Program Inputs			
1.Fund Requests to Bank	Updates on macro-relevant work		Continuous
	Updates on work related to the energy sector and other key infrastructure projects		Continuous
2.Bank Requests to Fund	Regular updates of performance under the Fund-supported program, macroeconomic developments and projections (including following each IMF mission)		Continuous
	IMF Assessment Letter		As needed

STATISTICAL ISSUES

(As of March 13, 2020)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, with some key data shortcomings in most sector statistics. A major and sustained improvements in the coverage and timeliness of economic data will require greater interagency coordination and restructuring the institutional framework, with continued and well-coordinated capacity building support from development partners.
National Accounts: Statistics Sierra Leone (Stats SL) produces and disseminates GDP estimates by activity in current price and constant prices of 2006, according to the 1993 SNA. With STA technical assistance annual GDP estimates have been improved, especially regarding the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Assistance has also been provided to develop and maintain the business register and select the sample for the economic survey. Remaining issues concern developing better data sources for agricultural and mineral production, and generally continuing the improvement of informal sector measurement. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by SSL. The economic survey, for which the resources were recently released by the government, started in December 2019.
Price Statistics: Prior to March 2017, SSL compiled and released on a monthly basis two different measures of inflation—a national consumer price index (CPI) and a Freetown index. This caused confusion as users were unsure which index determined the official rate of inflation for Sierra Leone. Also the national CPI did not aggregate consistently from regional sub-indices. Missing price data were imputed according to the CPI Manual 2004. In March 2017, SLL recompiled and published the national CPI with STA technical assistance. Sierra Leone temporarily suspended publishing the CPI in March 2019 to correct the treatment of several items in the CPI basket, including the abolition of public secondary school fees, revisions of midwifery services and mobile phone charges. Publication of the CPI resumed in October 2019, with some of the changes benefiting from STA technical assistance. Work to further improve the CPI is ongoing with STA support, including refining some of the recent changes, as well as a broader update of expenditure weights and items in the CPI basket using the 2018 Integrated Household Survey to ensure the CPI is representative of current expenditure patterns. The producer price index (PPI) covers the manufacturing, mining, quarrying and utilities sectors but is based on the structure of the economy in 2011 and should be updated.
Government Finance Statistics: The budget reporting system was established with support from a Fund/ UNDP technical assistance project. Monthly cash flow data on central government revenue, current expenditure, and financing are disseminated, following the national presentation broadly aligned with the GFSM 1986. The transaction coverage of the central government budgetary cash flow is incomplete. Data on foreign-financed development projects are published as an appendix in the budget statement document, but they are not consolidated in central government operations. In 2004, as part of the GDDS regional project for Anglophone African countries, work was undertaken to reconcile fiscal and monetary data, and to improve the coverage and classification of the two data sets. The 2019 GFS mission trained government official and assisted with the gradual implementation of the GFSM 2014 framework. With the current drive towards decentralization and the growing role of local government and the social security fund, there is an urgent need to compile and monitor their operations (and financial balance sheet data) for the consolidated general government. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects, in particular.

The quality of fiscal statistics can be further improved for fiscal analysis and policymaking by: (i) reporting and disseminating arrears data for sub-sectors of general government on a quarterly basis, and (ii) properly recording the settlement of arrears with a relevant counterpart entry under expenditure, net acquisition of nonfinancial assets, or net incurrence of liabilities.
Financial Sector Surveillance: Sierra Leone does not participate in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). Provisional Financial Soundness Indicators (FSIs) have been compiled for two quarters and are expected to be finalized pending further methodological improvements.
Monetary and Financial Statistics: The main components of the central bank balance sheet are available daily and weekly under the early warning system on key financial targets. The Bank of Sierra Leone (BSL) compiles the full monetary survey, with a lag of about six weeks; it has comprehensive coverage of commercial banks. The BSL has made progress in the compilation of monetary data. The BSL, with assistance from STA, has completed the migration to standardized report forms (SRFs) for the central bank and other depository corporations (ODCs). However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial corporations (OFCs). Sierra Leone has not reported data to the Financial Access Survey (FAS) since 2012. Until 2012, Sierra Leone reported some data and indicators of the FAS, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External Sector Statistics (ESS): The BSL is responsible for compiling balance of payments and international investment position (IIP) statistics, currently prepared on an annual basis. Primary data sources are administrative-based data (BSL own records, line ministries, Customs and Excise Department (Customs) records), partner-country and international organizations data, and the annual survey of major companies for estimates on services, income, and financial flows relating to direct, portfolio, and other investments. Data weakness in cross-border surveys, low response rates due to limited follow-up and validation, low quality of data reported to the BSL, and use of rough estimates adversely affect the quality of compiled ESS data. This could be addressed through closer follow-up with data providers. These shortcomings reflect the the weak legal environment and institutional cooperation related to the ESS compilation, as well as, resource constrains. A Balance of Payments Committee comprised of key stakeholders to support work on improving ESS data sources is essential to advance the work in the ESS compilation.

II. Data Standards and Quality	
Sierra Leone is participant in the General Data Dissemination System (GDDS) since 2003.	No data ROSC is available.

III. Reporting to STA
Data are not reported regularly for publication in the *Government Finance Statistics Yearbook (GFSY)*, which is expected to be restored after the 2019 GFS mission. The most recent data refer to 2014, and no sub-annual data are reported for inclusion in the *International Financial Statistics*.

Sierra Leone: Table of Common Indicators Required for Surveillance End-February 2020					
	Date of Latest Observation	**Date Received**	**Frequency of Data[1]**	**Frequency of Reporting[1]**	**Frequency of Publication[1]**
Exchange Rates	February 2020	February 2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	December 2019	February 2020	M	M	M
Reserve/Base Money	December 2019	February 2020	M	M	M
Broad Money	December 2019	February 2020	M	M	M
Central Bank Balance Sheet	December 2019	February 2020	M	M	M
Consolidated Balance Sheet of the Banking System	December 2019	February 2020	M	M	M
Interest Rates[3]	December 2019	February 2019	M	M	M
Consumer Price Index	January 2020	February 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing—General Government	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing—Central Government	September 2019	November 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	June 2019	October 2019	Q	Q	Q
External Current Account Balance	2018	October 201	A	A	A
Exports and Imports of Goods and Services	2018	October 2019	A	A	A
GDP/GNP	2018	October 2019	A	A	A
Gross External Debt	June 2019	October 2019	A	A	A
International Investment Position[4]	2018	October 2019	A	A	A

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

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

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

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

INTERNATIONAL MONETARY FUND

SIERRA LEONE

March 24, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Dominique Desruelle and Kevin Fletcher (IMF) and Marcello Estaevão (IDA)

Prepared by staff of the International Monetary Fund and International Development Association.

Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Sierra Leone's risk of external debt distress and overall risk of debt distress are both assessed as "high", unchanged from the 2018 DSA. Under the baseline scenario, the external debt service-to-revenue ratio breaches the threshold by a small margin during 2022-23. The probability approach shows that both the PV of the external debt-to-GDP ratio breaches the threshold throughout the period of the IMF-supported program, and the external debt service-to-revenue ratio substantially breaches the threshold through 2029. The public debt service-to-revenue ratio will rise to above 47 percent by 2022, before it starts to gradually fall. The recently verified large stock of domestic expenditure arrears also weighs on public finances in the medium term. The economy remains vulnerable to adverse shocks, while uncertainty in the mining sector clouds export and growth prospects. Nonetheless, Sierra Leone's debt is assessed to be sustainable under the program's policy settings. Reducing Sierra Leone's debt requires a comprehensive arrears clearance strategy, consistent with continued budget deficit reduction, and supported by strengthened public financial management, expenditure prioritization, and continued efforts to mobilize revenue. External borrowing should continue to be anchored by the objective of reducing the risk of debt distress. Staff recommendation is that the government should continue to rely heavily on concessional financing.

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (February 2018). Sierra Leone's capacity to monitor debt is adequate. The Composite Indicator (CI) score is 2.69, indicates a medium debt-carrying capacity. The corresponding external debt indicative thresholds are: 40 percent for the present value (PV) of debt-to-GDP ratio; 180 percent for the PV of debt-to-exports ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio.

RECENT DEBT DEVELOPMENTS

1. Total public and publicly guaranteed (PPG) external debt stood at 40.8 percent of GDP in 2018,[2] and is estimated to have increased slightly to 42.6 percent of GDP in 2019. External debt is predominantly owed to multilateral creditors (about 75 percent), in large part due to debt contracted for post-Ebola recovery and infrastructure construction needs. Sierra Leone has pre-HIPC debt (arrears) to commercial creditors—estimated at US$195 million (12.4 percent of total external debt) in 2018.

2. The updated estimate of domestic payment arrears reflects the findings of the Government's recent stocktaking exercise. The 2018 DSA estimated the stock of arrears at 4.7 percent of GDP, which reflected unpaid checks at the Ministry of Finance. However, in September 2019 the authorities completed an arrears stocktaking exercise that revealed a substantially large stock of arrears. Most of these arrears—Le 3.3 trillion or 8¾ percent of 2019 non-iron ore GDP—accumulated before April 2018, of which 90 percent accrued during 2016–17. These arrears principally reflect unpaid bills (general expenditure arrears) by ministries, departments and agencies in the road, security and energy sectors, and pre-April 2018 unpaid checks at the Ministry of Finance. A further ¾ percent of GDP of unpaid checks is estimated to have accrued since April 2018. As of end-2019, the updated domestic public debt stock is estimated to stand at approximately 25 percent of GDP (lower than the revised stock of 2018), largely reflecting lower fiscal deficit and higher nominal GDP.

3. The Government is finalizing its arrears clearance strategy. As noted in the staff report, and discussed in further detail in the selected issues paper on "Managing and Preventing Expenditure Arrears in Sierra Leone", clearing the arrears will require haircuts, repayment terms and phasing that would substantially reduce the NPV of future payments, while mobilizing additional highly concessional external resources. The baseline scenario assumes that the authorities will seek to resolve these arrears along these lines. Even with this updated arears stock, domestic debt remains smaller than external debt, with the latter driving public debt dynamics.

PUBLIC SECTOR DEBT COVERAGE

4. The DSA covers known sources of public debt (Text Table 1). As in the previous DSA, the debt stock includes central government public and publicly guaranteed debts. Sierra Leone's non-financial state-owned enterprises (SOEs) sector is smaller than regional peers, and key financial ratios of the sector appear to be at comparable levels. The public debt stock includes loans contracted on behalf of SOEs by the government. As reported above, the DSA also includes the updated estimate of the consolidated stock of domestic payment arrears, based on the Government's recent stocktaking exercise. The Government is working on improving its financial

[2] In 2018 and 2019, percentages in terms of GDP and non-iron ore GDP are broadly comparable.

management information systems, as well as enhancing the accounting and timely reporting of public debt, including those occurred by SOEs and self-accounting bodies.

Text Table 1. Sierra Leone: Public Sector Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

5. **The contingent liability stress test accounts for vulnerabilities associated with state-owned enterprises (SOEs) and financial market risks** (Text Table 2). The contingent liability for SOE debt is set to 7 percent of GDP, higher than the default 2 percent of GDP, reflecting the authorities' estimate of total external indebtedness of SOEs and self-accounting bodies. Contingent liabilities from financial markets are set at the standard minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in LICs since 1980. The contingent liability of other elements of the general government is set at 0 percent of GDP, since the estimated domestic arrears have been included in the baseline. Overall, Sierra Leone's total contingent liabilities are estimated at 12 percent of GDP.

Text Table 2. Sierra Leone: Coverage of the Contingent Liabilities' Stress Test

1. The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	**Used for the Analysis**	**Reasons for deviations from the default setting**
2. Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3. SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	7.0	Reflect the authorities' estimate of total external indebtedness of SOEs.
4. PPP	35 percent of PPP stock	0.0	
5. Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		12.0	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included I the government debt (1) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

6. The macroeconomic assumptions reflect developments through end-2019 and are consistent with the macroeconomic framework in the staff report (Text Table 3). The key assumptions are:

- Growth is estimated to rebound in 2019 to 5.1 percent, following the resumption of iron ore production and migration to high-grade mines in early 2019. However, the suspension of Sierra Leone's only iron ore producer's export license, and recent care and maintenance status, dent both growth and exports in the near term. The outlook assumes that production will resume by the second half of 2020, effectively a year's lag in growth prospects relative to that assumed in the 2018 DSA. However, the outlook is prone to significant risks (including potential disruptions from a wider global spread of the Coronavirus) but also some upside potential. For example, slower than expected progress on reforms could undermine growth prospects, and less-than-expected donor financing may further constrain fiscal spending, harming efforts to rebuild productive capacity and growth.

- Inflation is projected to average around 10 percent over the medium term, declining somewhat more slowly than in the 2018 DSA as arrears clearance could initially add to inflationary pressure. Over the medium term, inflation is still expected to reach single digits with the improved fiscal situation and a strengthened monetary policy framework.

- The overall fiscal deficit is preliminarily estimated at 2.9 percent of GDP in 2019, compared with a deficit of 5.6 percent in 2018. The medium-term fiscal stance envisages gradual tightening of the structural fiscal deficit (measured by the domestic primary balance), anchored by stabilizing and reducing public debt, and keeping domestic financing at sustainable levels. The current baseline assumes the authorities will achieve domestic primary balance somewhat sooner in 2020.

- The current account deficit is estimated to be around 14 percent of GDP in 2019 and decline over the medium term, averaging over 11 percent of GDP. Although the REER is assessed to be overvalued, medium-term export growth is sustained by mineral exports (including the gradual production resumption of iron ore and the increasing production capacity of the rutile, diamond, and bauxite mines), and agricultural goods. However, the export outlook is subject to uncertainty, as discussed in the staff report. The current account deficit will continue to be largely financed by FDI.

Text Table 3. Sierra Leone: Key Macroeconomic Assumptions Underlying the DSA
(Percent of GDP, unless otherwise specified)

	Baseline		Baseline in 2018 DSA	
	2019-24	2025-39	2018-23	2024-38
Real GDP growth (in percent)	4.6	4.6	5.0	5.0
Inflation (GDP deflator; percent change)	10.0	5.3	10.7	5.3
Overall fiscal balance	-2.8	-2.2	-5.0	-1.2
Current account deficit	-11.4	-5.4	-10.7	-3.3
Net FDI inflow	7.8	3.2	7.4	1.3

Source: IMF staff calculations.

7. Arrears clearance and domestic financing. Arrears clearance will have implications for the budget and budget financing. Given the large stock of arrears and very limited fiscal space, the Government plans to seek large upfront discounts to ensure a sustainable arrears clearance plan. Absent a large discount and larger than typical external budget support expected in 2020, it may have been necessary to clear the arrears in two waves. The baseline assumes that the authorities could use available resources in 2020, including from development partners, to make upfront cash payment that could facilitate agreement on haircuts and repayment terms, with NPV ratios in the order of 40-45 percent (Text Table 4). The fiscal financing need would average around 0.4 percent of non-iron GDP per year over the medium term, and could be met through adjusting spending (mostly domestic capital) and very limited recourse to additional domestic financing (in line with the original program). Overall, the program continues to target gradually reducing domestic bank financing of the budget to around 2 percent of GDP by the end of the program. Domestic debt is projected to decline from about 25 percent of GDP in 2019 to around 10 percent of GDP in the long run, a level consistent with the long-run fiscal deficit target.

Text Table 4. Sierra Leone: Arrears Clearance Scenario Assumptions

Stock of Legacy Arrears	Leone 3,288 billion
Haircuts	30-70 percent
Maturity	5-10 years
Interest Rate on Securitized Arrears	CPI + 2pp
Interest Rate on Payment Term/Cash Payment[1]	0
Average NPV ratio	42 percent

[1] Interest rate applied for selected non-securitized arrears where repayment terms are agreed to suppliers.

8. External Financing. With the emphasis on seeking highly concessional external support, external loan disbursements are expected to be around 3 percent of GDP over the medium term. Whereas official grants are expected to remain high in 2019 and 2020 (3.3 percent of GDP and 3.9 percent of GDP, respectively) before gradually declining to 2½ percent of GDP by 2024. External debt is projected to slightly increase from 40.8 percent of GDP in 2018 to 42.6 percent in 2019 and stabilize around 30 percent in the long run.

9. The "realism tool" flags potential optimism in the projected fiscal adjustment. While the revenue mobilization path underlying the projected adjustment path is ambitious, it is still more cautious than the authorities' stated 20 percent of GDP goal and more gradual than at the time the program was approved. Moreover, the authorities have adjusted expenditure faster than envisioned in 2018 and 2019H1, demonstrating their commitment to ensuring fiscal adjustment. Preliminary data through 2019 suggest that the overall fiscal deficit (excluding grants) narrowed to 6.3 percent of non-iron ore GDP (annualized) compared to 7.7 percent in 2018. Domestic revenues continued to improve, exceeding the program target. With the additional pressures from arrears clearance, fiscal adjustment will need to be underpinned by efforts to increase efficiency, and rebalance spending to support growth and poverty reduction. The optimism between fiscal adjustment and growth reflects fiscal adjustment that is driven in large part by revenue mobilization efforts with moderate multipliers and progress on resolving domestic payment arrears could help assuage pressures on growth. Differences between past and projected debt creating flows reflect the projected narrowing current account deficit and fiscal deficit. Other drivers of growth in the investment-growth "realism tool" include productivity gains in agricultural sector and pickup in the mining sector.

COUNTRY CLASSIFICATION: DEBT CARRYING CAPACITY

10. Sierra Leone is classified as having a medium debt-carrying capacity. The latest Composite Indicator (CI) score[4] for Sierra Leone is 2.693 in the current Debt Sustainability Framework, based on the IMF's October 2019 World Economic Outlook (WEO) vintage and the World Bank's 2018 CPIA. (Text Table 5). The CI score indicates a medium debt-carrying capacity—the same as the 2018 DSA. However, the current score is close to the threshold (2.69) and falling below this threshold for two consecutive WEO cycles would result in "weak" debt-carrying capacity classification (Text Table 6).

[4] The CI score captures the impact of several factors through a weighted average of the World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth.

Text Table 5. Applicable Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.197	1.23	46%
Real growth rate (in percent)	2.719	3.559	0.10	4%
Import coverage of reserves (in percent)	4.052	30.687	1.24	46%
Import coverage of reserves^2 (in percent)	-3.990	9.417	-0.38	-14%
Remittances (in percent)	2.022	1.230	0.02	1%
World economic growth (in percent)	13.520	3.499	0.47	18%
CI Score			2.693	100%
CI rating			Medium	

Text Table 6. PPG External Debt Thresholds and Total Public Debt Benchmarks

PV of debt in percent of	
Exports	180
GDP	40
Debt service in percent of	
Exports	15
Revenue	18
PV of total public debt in percent of GDP	55

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

11. External Debt Sustainability Analysis. In the baseline scenario, debt service-to-revenue registers a small breach in the threshold during 2022-23 because of the amortization schedule of currently contracted loans. This includes scheduled repayments to the Fund, rising from 0.3 percent of GDP in 2019 to peak at 1.4 percent of GDP per year during 2023-24. Other external PPG debt indicators remain below the policy relevant thresholds. Sensitivity analyses show that external debt remains sensitive to both export and growth shocks. A large export shock leads to significant increases and breaches in the threshold in the PV of debt-to-GDP, the PV of debt to exports, debt service to exports, and debt services to revenue (Figure 1). Using the probability approach—i.e., focusing on the evolution of the probability of debt distress rather than the evolution of debt burden indicators—the PV of the external debt-to-GDP ratio remains above the benchmark throughout the period of the IMF-supported program, and the external debt service to revenue ratio substantially breaches the threshold in the period through 2029 (Figure 5).

12. Overall risk of public debt distress. The PV of public debt is expected to gradually fall in the medium term. This reflects the incorporation of a higher estimate of the government arrears stock, and the impact of arrears clearance, where most of the arrears stock is expected to be amortized over the next 10 years. The debt service-to-revenue ratio will rise by 24 percentage points to around 47 percent in 2022-23, largely reflecting the peak in repayments of Ebola-related loans, before it starts to gradually fall. Sensitivity analysis reveals that public debt sustainability remains vulnerable to shocks, particularly to growth. In the most extreme shock scenario, the PV of debt to GDP ratio will reach around 80 percent in the medium term, while the PV of the debt to revenue ratio will rise to around 420 percent and the debt-service-to-revenue ratio to close to 100 percent in the medium term (Figure 2).

STAFF ASSESSMENT

13. Sierra Leone continues to face a "high" risk of debt distress. The designated risk of external debt and overall debt distress both remain "high" in the current DSA, as in the 2018 DSA. Under the baseline scenario, all but one indicator for PPG external debt remain below their thresholds. After breaching the threshold in 2018, the PV of total public debt is projected to fall. However, the forecast is subject to substantial risks, particularly given uncertainty about how arrears clearance will proceed. Public debt and external debt have been assessed as sustainable since debt is projected to decline gradually under the program's policy settings. The analysis confirms that public debt sustainability faces important risks and is vulnerable to shocks, particularly growth and exports shocks.

14. The analysis confirms the importance of budget deficit reduction and successful arrears clearance in reducing Sierra Leone's debt.

- Sustained fiscal adjustment will depend on strengthening public financial management, improving expenditure prioritization and efficiency, and continued efforts to mobilize revenue. While faster than anticipated adjustment under the ECF arrangement has so far reflected underspending and steady revenue progress, sustained revenue efforts will be critical to help keep debt service-to-revenue within the threshold and ensuring that adjustment is not unduly detrimental to growth-enhancing spending.

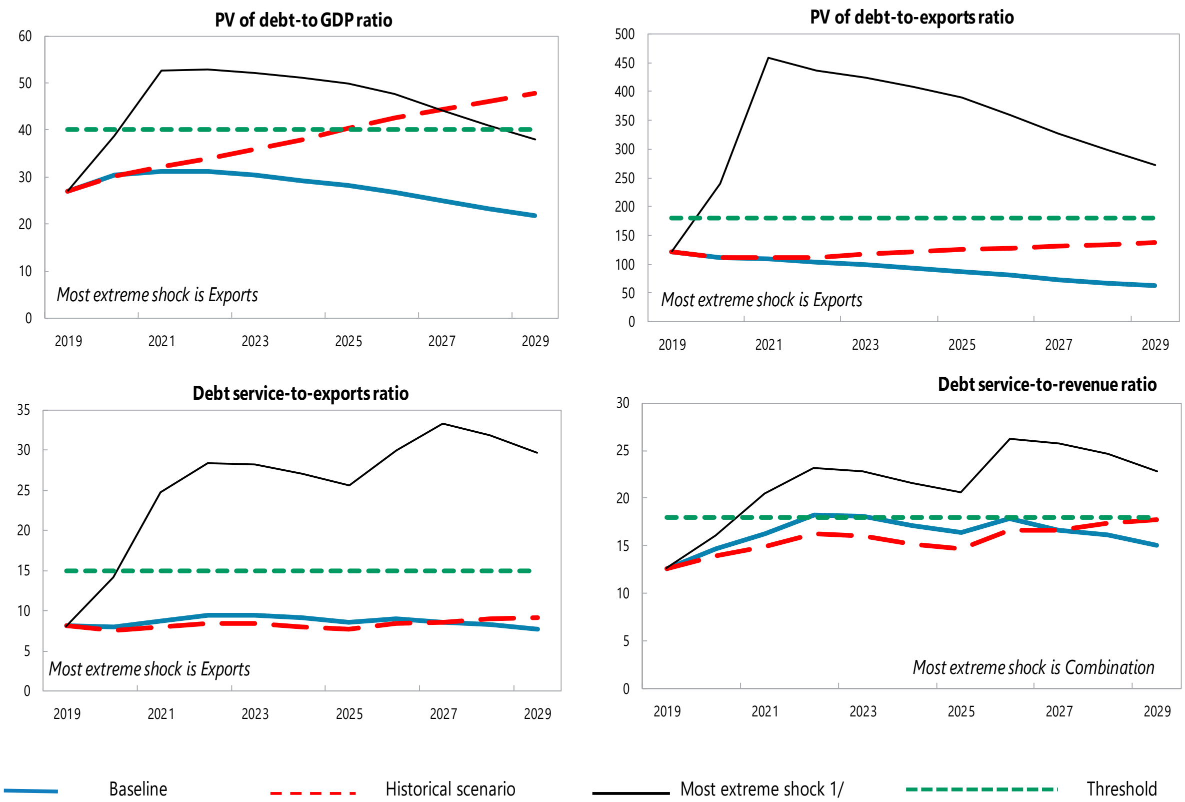
- The results also underscore the need to address the stock of arrears both expeditiously and on favorable terms. The baseline assumes deep discounts—average NPV ratios in the order of 40-45 percent—and the expected larger than usually external (grant) budget support. Thus, difficulties in securing either the terms envisaged in the authorities' forthcoming arrears clearance strategy or risks to concessional support could negatively impact, for instance, debt service ratios. This underscores the need for a systematic and transparent process for negotiating with suppliers, and securing external grant resources.

- Both domestic and external borrowing should continue to be anchored by the objective of reducing the risk of debt distress.

Authorities' Views

15. The authorities broadly agreed with staff's assessment. They are committed to implementing key reforms that aim to put debt on a sustainable path, principally through sustained fiscal adjustment that underpins the ECF-supported program, implementing their forthcoming arrears clearance strategy, and complementary debt management reforms. In that regard, they will continue improve debt management capacity, and prepare a medium-term debt management strategy that address key issues in both domestic, external and implicit debt, as well as the interlinkages with BSL balance sheet vulnerabilities. They also emphasized their recent efforts to prepare an arrears clearance strategy (including actions to prevent the reemergence of new arrears), which they expect to finalize and publish in early 2020. The authorities have also requested technical assistance from the IMF to improve the recording of arrears-related securitization and debt stocks. More broadly, they acknowledge the importance of maintaining prudent borrowing policy and using limited borrowing space cautiously. To this end, they will prioritize grants and highly concessional loans to finance the budget and especially infrastructure projects, particularly given the high cost of domestic debt, and avoid contracting debt that worsens the country's risk of debt distress.

Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019–28



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	5	5

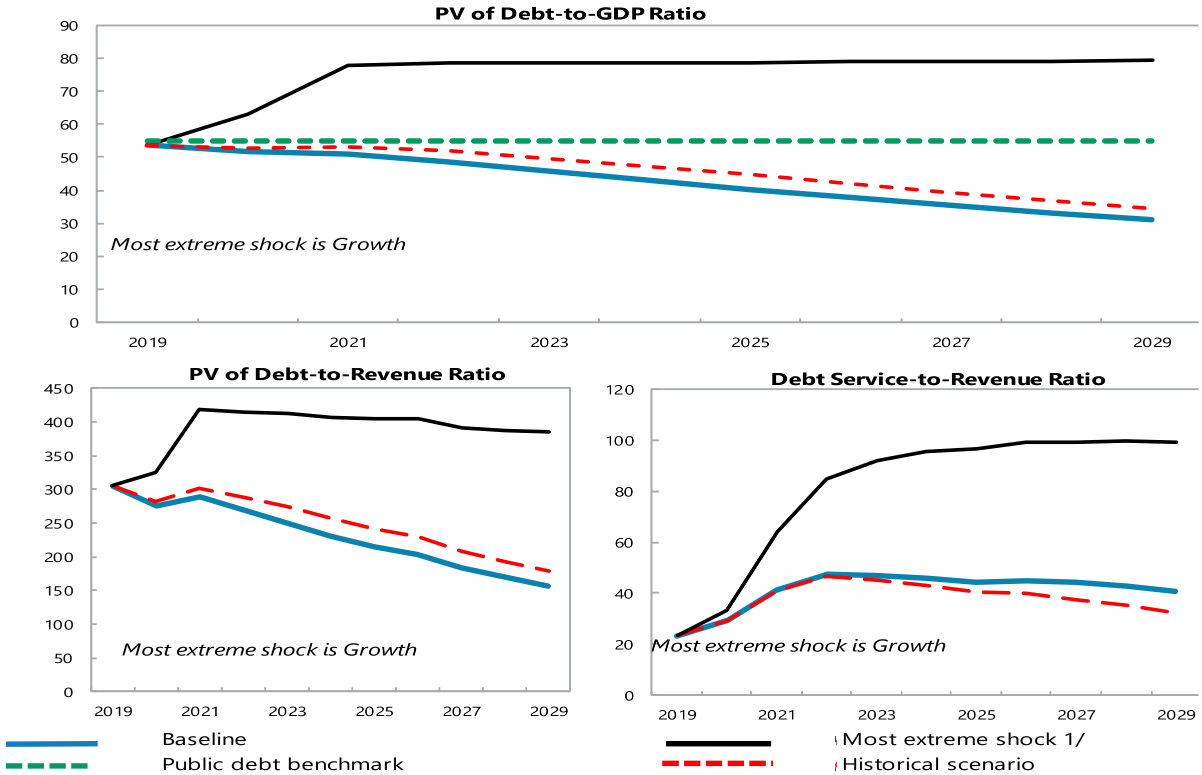
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (in any), while these are one-breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2019–28



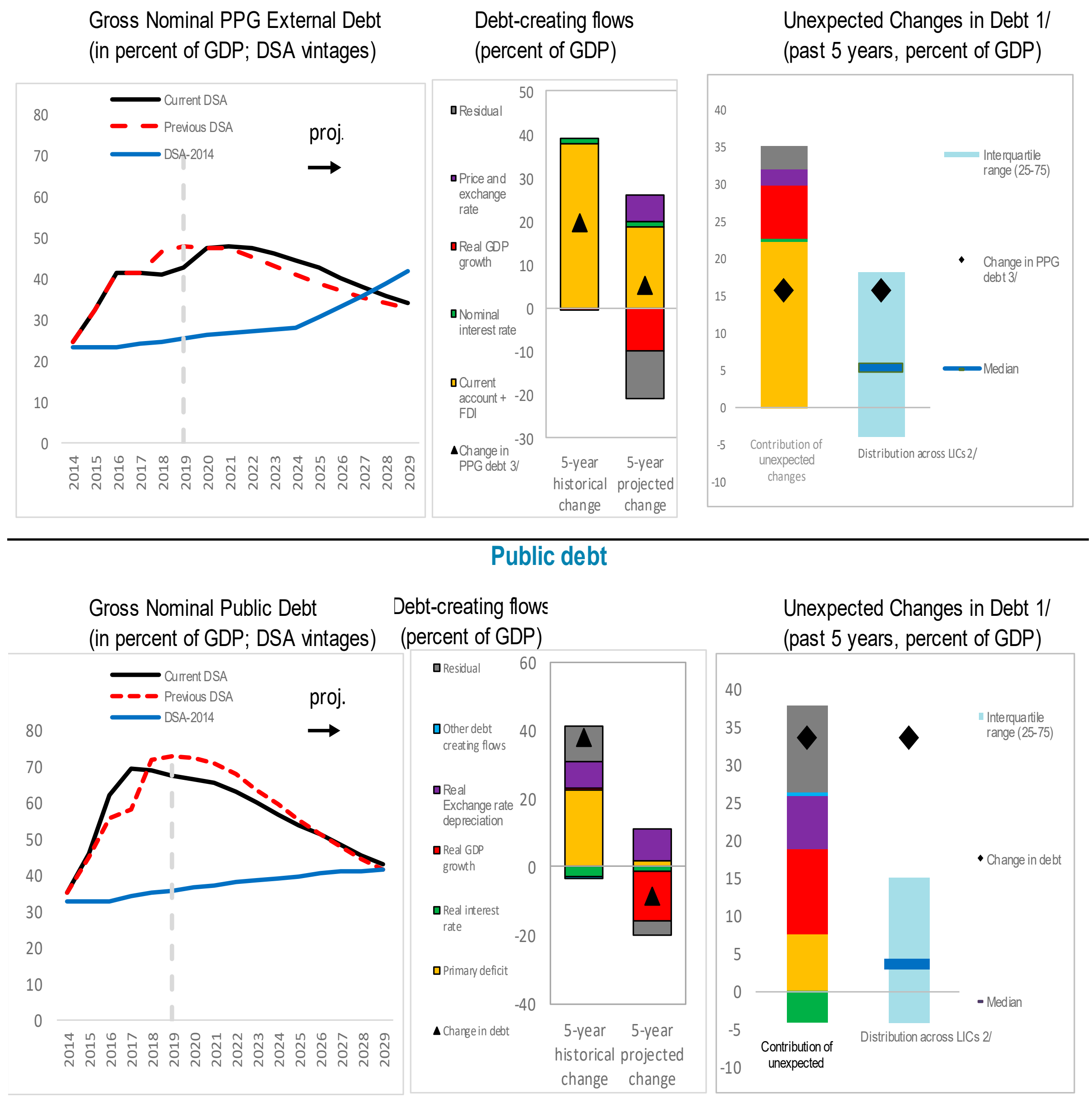
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	47%	47%
Domestic medium and long-term	0%	0%
Domestic short-term	53%	53%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	6%	6%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (in any), while the one-breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Sierra Leone: Drivers of Debt Dynamics, Baseline Scenario, 2014–28

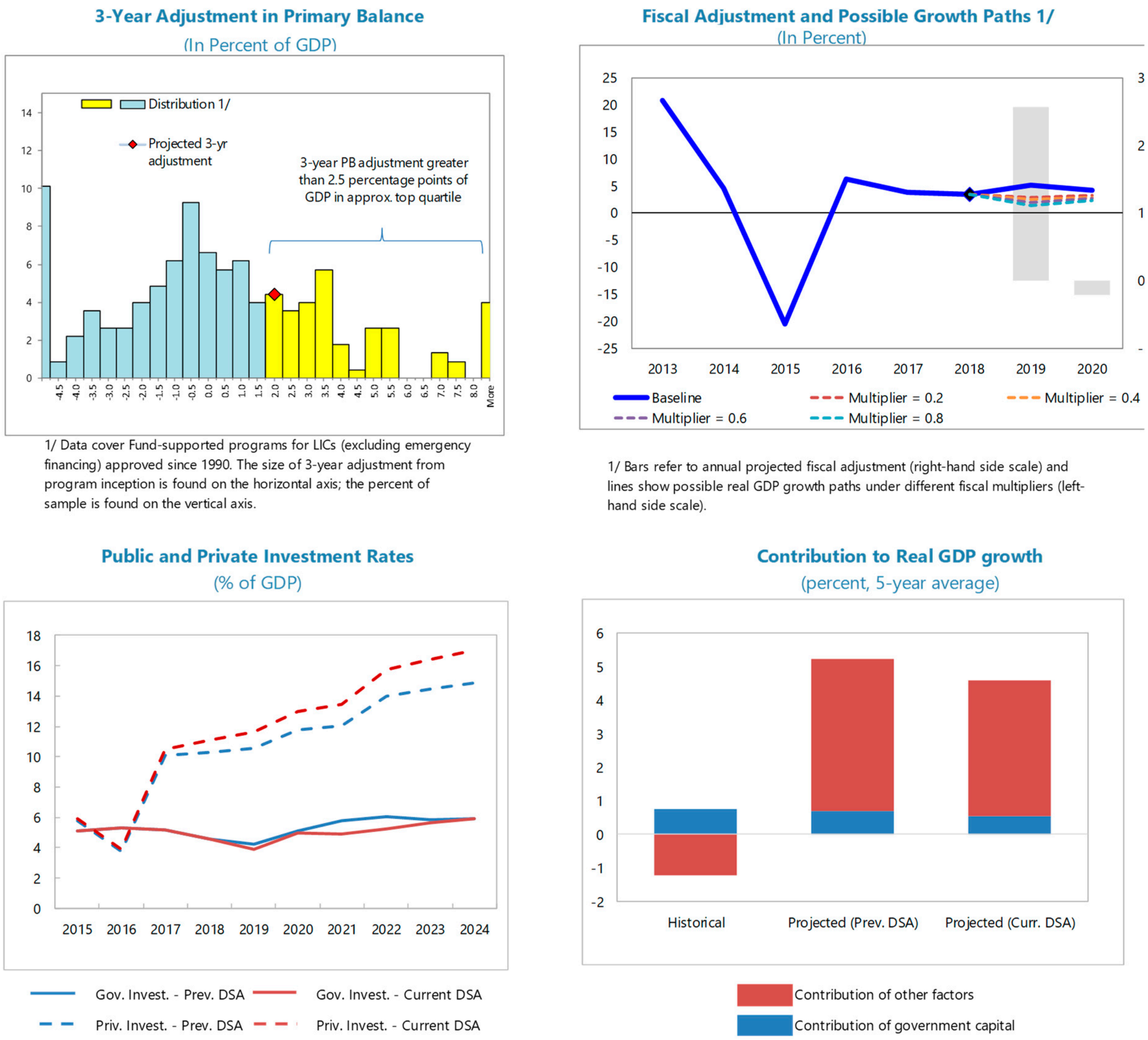


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

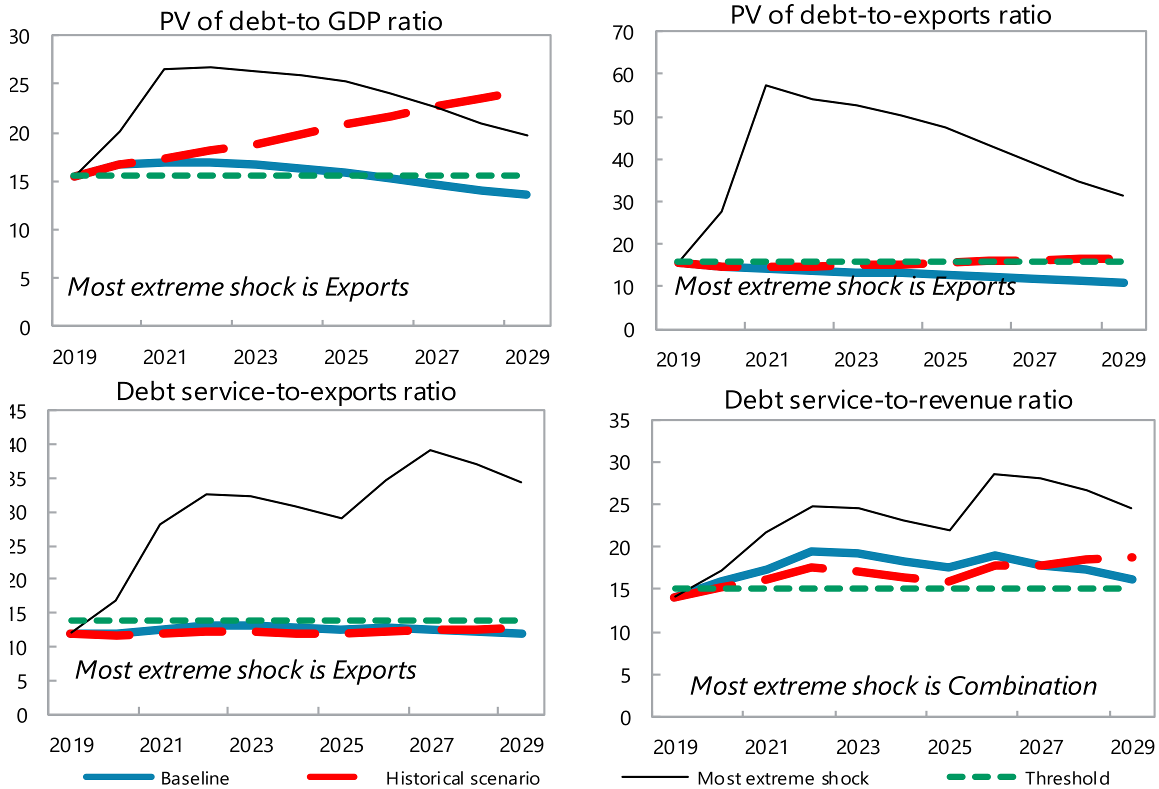
Figure 4. Sierra Leone: Realism Tools



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 5. Sierra Leone: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios[1/]



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

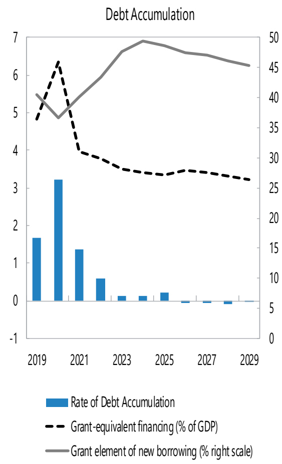
1/ The probability approach focuses on the evolution of the probability of debt distress over time, rather than on the evolution of debt burden indicators.

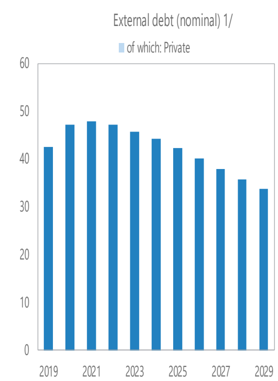
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**41.1**	**41.4**	**40.8**	**42.6**	**47.2**	**47.8**	**47.2**	**45.8**	**44.2**	**33.9**	**30.5**	**32.5**	**42.3**
of which: public and publicly guaranteed (PPG)	**41.1**	**41.4**	**40.8**	**42.6**	**47.2**	**47.8**	**47.2**	**45.8**	**44.2**	**33.9**	**30.5**	**32.5**	**42.3**
Change in external debt	8.8	0.3	-0.6	1.9	4.6	0.6	-0.6	-1.4	-1.6	-1.9	-0.1		
Identified net debt-creating flows	**...**	**...**	**...**	**3.1**	**3.8**	**2.0**	**1.0**	**-0.1**	**-0.2**	**0.0**	**1.2**	**...**	**0.7**
Non-interest current account deficit	**9.0**	**20.7**	**18.4**	**13.8**	**11.0**	**11.1**	**10.6**	**10.4**	**10.0**	**5.6**	**2.3**	**19.2**	**9.4**
Deficit in balance of goods and services	17.9	22.5	21.0	19.1	17.3	16.4	15.9	15.4	14.9	10.2	6.0	**24.6**	**14.4**
Exports	19.7	20.3	18.1	22.1	26.9	28.6	30.2	30.7	31.3	34.6	31.0		
Imports	37.6	42.8	39.0	41.3	44.2	45.0	46.1	46.1	46.2	44.8	36.9		
Net current transfers (negative = inflow)	-11.2	-4.2	-4.0	-7.1	-7.7	-6.6	-6.6	-6.4	-6.3	-5.8	-4.5	**-9.0**	**-6.5**
of which: official	-8.2	-1.4	-1.1	-3.3	-3.9	-2.8	-2.8	-2.7	-2.5	-2.3	-1.4		
Other current account flows (negative = net inflow)	2.3	2.4	1.5	1.7	1.4	1.3	1.3	1.5	1.4	1.3	0.8	**3.6**	**1.4**
Net FDI (negative = inflow)	**-3.7**	**-11.1**	**-6.1**	**-8.8**	**-5.6**	**-7.2**	**-7.7**	**-8.8**	**-8.5**	**-4.3**	**-0.1**	**-11.2**	**-7.0**
Endogenous debt dynamics 2/	**...**	**...**	**...**	**-1.9**	**-1.6**	**-1.9**	**-1.9**	**-1.8**	**-1.8**	**-1.4**	**-1.0**		
Contribution from nominal interest rate	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3		
Contribution from real GDP growth	-2.3	-1.6	-1.3	-2.0	-1.8	-2.1	-2.1	-2.0	-2.0	-1.6	-1.3		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**...**	**...**	**...**	**-1.2**	**0.8**	**-1.4**	**-1.6**	**-1.3**	**-1.4**	**-1.9**	**-1.3**	**...**	**-1.4**
of which: exceptional financing	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**26.0**	**27.1**	**30.3**	**31.2**	**31.1**	**30.3**	**29.3**	**21.7**	**20.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**144.0**	**122.3**	**112.5**	**109.1**	**102.9**	**98.7**	**93.6**	**62.7**	**67.0**		
PPG debt service-to-exports ratio	**1.4**	**1.3**	**9.9**	**8.1**	**8.1**	**8.7**	**9.5**	**9.5**	**9.1**	**7.8**	**4.6**		
PPG debt service-to-revenue ratio	**2.2**	**2.2**	**13.1**	**12.6**	**14.7**	**16.3**	**18.3**	**18.1**	**17.1**	**15.0**	**7.4**		
Gross external financing need (Million of U.S. dollars)	210.8	367.8	574.4	281.9	314.4	272.2	248.1	206.0	205.3	253.6	446.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	3.8	3.5	5.1	4.2	4.6	4.5	4.5	4.5	4.8	4.6	**4.8**	**4.7**
GDP deflator in US dollar terms (change in percent)	-16.3	-5.1	5.8	-2.7	-4.1	-2.8	-2.3	-1.4	-0.6	2.1	3.0	**1.0**	**-0.7**
Effective interest rate (percent) 4/	0.7	0.6	0.7	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.9	**0.7**	**0.6**
Growth of exports of G&S (US dollar terms, in percent)	-1.7	1.7	-2.6	25.4	21.6	7.8	8.0	4.8	5.9	8.2	6.1	**15.8**	**10.5**
Growth of imports of G&S (US dollar terms, in percent)	-23.6	12.0	0.0	8.1	7.1	3.5	4.6	3.0	4.1	5.9	4.9	**16.8**	**5.3**
Grant element of new public sector borrowing (in percent)	...	...	...	40.5	36.6	40.1	43.5	47.6	49.4	45.3	33.2	**...**	**44.8**
Government revenues (excluding grants, in percent of GDP)	11.9	12.2	13.7	14.2	14.8	15.2	15.7	16.2	16.7	17.9	19.2	**11.1**	**16.3**
Aid flows (in Million of US dollars) 5/	113.2	92.7	84.7	200.0	215.9	165.0	178.5	188.2	198.6	229.0	242.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.8	6.4	4.0	3.8	3.5	3.4	3.2	2.5	**...**	**3.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	69.3	61.1	62.8	66.3	69.4	69.1	66.9	56.6	**...**	**67.1**
Nominal GDP (Million of US dollars)	3,786	3,729	4,082	4,177	4,175	4,244	4,335	4,466	4,639	6,252	12,229		
Nominal dollar GDP growth	-11.0	-1.5	9.5	2.3	0.0	1.6	2.1	3.0	3.9	7.0	7.7	**5.9**	**4.0**
Memorandum items:													
PV of external debt 7/	...	...	26.0	27.1	30.3	31.2	31.1	30.3	29.3	21.7	20.8		
In percent of exports	...	...	144.0	122.3	112.5	109.1	102.9	98.7	93.6	62.7	67.0		
Total external debt service-to-exports ratio	1.4	1.3	9.9	8.1	8.1	8.7	9.5	9.5	9.1	7.8	4.6		
PV of PPG external debt (in Million of US dollars)			1062.8	1130.8	1265.5	1323.2	1348.0	1354.0	1359.9	1358.8	2538.0		
(PVt-PVt-1)/GDPt-1 (in percent)				1.7	3.2	1.4	0.6	0.1	0.1	0.0	1.6		
Non-interest current account deficit that stabilizes debt ratio	0.2	20.4	19.0	11.9	6.4	10.5	11.2	11.8	11.6	7.5	2.4		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

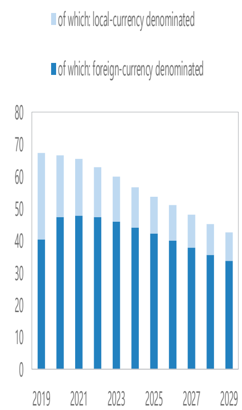
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

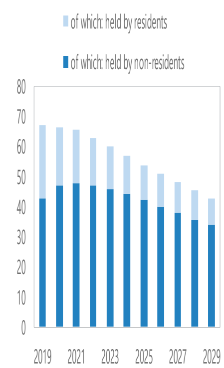
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	68.7	67.2	66.5	65.5	63.0	59.9	56.7	42.8	37.7	48.8	56.3
of which: external debt	40.8	42.6	47.2	47.8	47.2	45.8	44.2	33.9	30.5	32.5	42.3
Change in public sector debt	-0.5	-1.5	-0.7	-1.0	-2.5	-3.1	-3.2	-2.5	0.0		
Identified debt-creating flows	-0.9	-1.6	-0.3	-0.6	-1.2	-1.3	-1.4	-1.5	0.0	1.4	-1.3
Primary deficit	2.8	0.2	0.5	0.7	0.2	0.3	0.4	0.2	1.3	3.3	0.4
Revenue and grants	15.7	17.6	18.8	17.6	18.0	18.3	18.6	19.9	20.7	15.1	18.6
of which: grants	2.1	3.4	4.0	2.4	2.3	2.1	1.9	1.9	1.6		
Primary (noninterest) expenditure	18.6	17.8	19.2	18.4	18.3	18.6	18.9	20.1	22.1	18.5	19.0
Automatic debt dynamics	-3.8	-1.8	-0.8	-1.3	-1.4	-1.6	-1.8	-1.7	-1.3		
Contribution from interest rate/growth differential	-3.8	-4.2	-2.9	-3.1	-3.0	-2.9	-2.6	-1.7	-1.4		
of which: contribution from average real interest rate	-1.5	-0.9	-0.2	-0.2	-0.1	-0.2	0.0	0.4	0.3		
of which: contribution from real GDP growth	-2.3	-3.3	-2.7	-2.9	-2.8	-2.7	-2.6	-2.1	-1.7		
Contribution from real exchange rate depreciation	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.4	2.4	1.8	1.4	0.2	-0.6	-0.9	-1.0	0.1	1.3	-0.1
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	55.4	53.6	51.7	50.8	48.5	45.8	43.0	31.0	28.4		
PV of public debt-to-revenue and grants ratio	352.2	305.3	275.5	288.1	268.9	250.7	231.1	156.0	136.9		
Debt service-to-revenue and grants ratio 3/	27.3	23.4	29.4	41.4	47.3	46.9	45.9	40.8	33.8		
Gross financing need 4/	7.1	4.4	6.0	8.0	8.7	8.9	8.9	8.3	8.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.5	5.1	4.2	4.6	4.5	4.5	4.5	4.8	4.6	4.8	4.7
Average nominal interest rate on external debt (in percent)	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.7	1.0	0.7	0.6
Average real interest rate on domestic debt (in percent)	-3.0	-1.4	1.0	2.4	3.1	3.1	4.6	8.9	9.0	-0.3	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	0.1	...	...	...	...	...	...	...	...	1.4	...
Inflation rate (GDP deflator, in percent)	14.0	11.3	11.0	11.0	9.6	8.8	8.1	5.2	5.0	11.2	8.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-9.2	0.9	12.5	-0.1	3.9	6.4	6.5	5.8	4.5	7.7	5.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.3	1.8	1.1	1.7	2.7	3.4	3.5	2.7	1.3	-2.2	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-2029

		Projections 1/									
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
PV of debt-to GDP ratio											
Baseline	27.1	30.3	31.2	31.1	30.3	29.3	28.1	26.7	25.0	23.3	21.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	27.1	30.2	32.1	33.9	35.8	37.9	**40.3**	**42.4**	**44.4**	**46.1**	**47.8**
B. Bound Tests											
B1. Real GDP growth	27.1	36.1	**44.3**	**44.2**	**43.0**	**41.6**	39.9	37.9	35.5	33.0	30.9
B2. Primary balance	27.1	31.6	34.4	35.5	35.3	34.6	33.5	32.0	30.2	28.2	26.4
B3. Exports	27.1	38.8	**52.5**	**52.8**	**52.2**	**51.2**	**49.7**	**47.5**	**44.2**	**40.9**	37.9
B4. Other flows 3/	27.1	39.4	**49.7**	**50.0**	**49.4**	**48.5**	**47.2**	**45.0**	**41.9**	38.7	35.8
B5. One-time 30 percent nominal depreciation	27.1	38.8	36.5	36.3	35.3	34.0	32.5	30.7	28.8	26.8	25.2
B6. Combination of B1-B5	27.1	**42.4**	**51.4**	**51.6**	**50.8**	**49.7**	**48.2**	**45.7**	**42.6**	39.4	36.6
C. Tailored Tests											
C1. Combined contingent liabilities	27.1	33.4	36.0	36.9	36.7	36.0	34.9	33.4	31.7	29.8	28.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	27.1	32.9	36.2	36.3	35.5	34.4	33.0	31.1	28.8	26.6	24.5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	122.3	112.5	109.1	102.9	98.7	93.6	88.1	80.7	74.0	67.9	62.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	122.3	112.1	112.4	112.0	116.6	121.0	126.4	128.4	131.3	134.7	138.1
B. Bound Tests											
B1. Real GDP growth	122.3	112.5	109.1	102.9	98.7	93.6	88.1	80.7	74.0	67.9	62.7
B2. Primary balance	122.3	117.3	120.5	117.3	114.8	110.4	105.1	96.9	89.3	82.3	76.3
B3. Exports	122.3	**239.8**	**458.6**	**436.2**	**424.0**	**407.8**	**389.3**	**359.0**	**327.0**	**298.1**	**273.0**
B4. Other flows 3/	122.3	146.4	173.7	165.3	160.9	154.8	147.9	136.1	123.9	112.9	103.3
B5. One-time 30 percent nominal depreciation	122.3	112.5	99.8	93.9	89.7	84.8	79.6	72.4	66.5	61.2	56.7
B6. Combination of B1-B5	122.3	**188.8**	150.7	**219.3**	**212.6**	**203.9**	**194.1**	177.6	162.0	147.9	135.7
C. Tailored Tests											
C1. Combined contingent liabilities	122.3	124.1	126.1	122.2	119.4	114.8	109.3	101.1	93.7	87.0	81.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	122.3	145.0	144.6	132.5	124.2	115.1	105.8	96.2	87.3	79.3	72.4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	8.1	8.1	8.7	9.5	9.5	9.1	8.6	9.0	8.6	8.3	7.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	8.1	7.6	8.0	8.5	8.4	8.1	7.7	8.4	8.6	9.0	9.2
B. Bound Tests											
B1. Real GDP growth	8.1	8.1	8.7	9.5	9.5	9.1	8.6	9.0	8.6	8.3	7.8
B2. Primary balance	8.1	8.1	8.7	9.7	9.7	9.3	8.9	9.5	9.3	9.2	8.7
B3. Exports	8.1	14.2	**24.7**	**28.4**	**28.3**	**27.1**	**25.6**	**29.9**	**33.3**	**31.8**	**29.7**
B4. Other flows 3/	8.1	8.1	9.2	10.4	10.4	10.0	9.4	11.5	12.5	12.0	11.1
B5. One-time 30 percent nominal depreciation	8.1	8.1	8.7	9.4	9.4	9.0	8.5	8.9	8.0	7.8	7.3
B6. Combination of B1-B5	8.1	10.6	14.0	**15.5**	**15.4**	14.8	14.0	**17.0**	**17.0**	**16.3**	**15.2**
C. Tailored Tests											
C1. Combined contingent liabilities	8.1	8.1	8.8	9.7	9.8	9.4	8.9	9.3	8.8	8.5	8.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8.1	9.6	10.2	10.9	10.7	10.0	9.3	10.1	10.0	9.6	8.9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	12.6	14.7	16.3	**18.3**	**18.1**	17.1	16.3	17.8	16.7	16.1	15.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	12.6	13.9	14.9	16.3	16.0	15.2	14.7	16.6	16.7	17.4	17.7
B. Bound Tests											
B1. Real GDP growth	12.6	17.6	**23.1**	**25.9**	**25.7**	**24.3**	**23.2**	**25.3**	**23.6**	**22.9**	**21.3**
B2. Primary balance	12.6	14.7	16.4	**18.6**	**18.5**	17.5	16.8	**18.8**	**18.2**	17.9	16.8
B3. Exports	12.6	15.5	**18.6**	**21.8**	**21.5**	**20.4**	**19.5**	**23.7**	**25.9**	**24.7**	**22.9**
B4. Other flows 3/	12.6	14.7	17.2	**20.0**	**19.8**	**18.7**	17.9	**22.8**	**24.4**	**23.2**	**21.5**
B5. One-time 30 percent nominal depreciation	12.6	**18.9**	**20.8**	**23.0**	**22.8**	**21.6**	**20.6**	**22.5**	**19.9**	**19.3**	18.0
B6. Combination of B1-B5	12.6	16.1	**20.4**	**23.1**	**22.9**	**21.6**	**20.7**	**26.2**	**25.7**	**24.6**	**22.8**
C. Tailored Tests											
C1. Combined contingent liabilities	12.6	14.7	16.6	**18.7**	**18.6**	17.7	16.9	**18.4**	17.1	16.6	15.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12.6	16.1	**18.1**	**20.6**	**20.0**	**18.6**	17.5	**19.6**	**19.0**	**18.2**	16.9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt, 2019-2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					PV of Debt-to-GDP Ratio						
Baseline	53.6	51.7	50.8	48.5	45.8	43.0	40.2	38.0	35.6	33.2	31.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	54	53	53	52	50	47	45	42	39	37	35
B. Bound Tests											
B1. Real GDP growth	54	**63**	**78**	**79**	**79**	**79**	**79**	**79**	**79**	**79**	**79**
B2. Primary balance	54	**56**	**58**	55	52	49	46	44	41	38	36
B3. Exports	54	**59**	**68**	**66**	**64**	**61**	**58**	**55**	51	47	44
B4. Other flows 3/	54	**61**	**70**	**68**	**66**	**63**	**60**	**57**	53	49	45
B5. One-time 30 percent nominal depreciation	54	54	52	49	45	42	38	35	32	29	26
B6. Combination of B1-B5	54	**56**	**58**	52	50	47	45	43	40	38	35
C. Tailored Tests											
C1. Combined contingent liabilities	54	**61**	**59**	**56**	53	50	47	45	42	40	37
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	54	55	**61**	**65**	**67**	**70**	**71**	**73**	**74**	**75**	**76**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	305.3	275.5	288.1	268.9	250.7	231.1	215.3	203.1	183.6	169.1	156.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	305	282	302	288	274	256	242	229	207	192	179
B. Bound Tests											
B1. Real GDP growth	305	324	418	414	412	406	404	404	391	387	384
B2. Primary balance	305	297	328	304	284	262	246	232	211	195	181
B3. Exports	305	312	389	368	349	328	310	294	264	242	221
B4. Other flows 3/	305	328	399	379	360	338	321	303	272	249	228
B5. One-time 30 percent nominal depreciation	305	290	296	273	251	227	206	190	166	148	132
B6. Combination of B1-B5	305	300	324	288	272	254	238	225	205	190	176
C. Tailored Tests											
C1. Combined contingent liabilities	305	325	334	311	290	269	252	239	218	202	188
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	305	310	369	382	386	384	384	385	378	379	381
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	23.4	29.4	41.4	47.3	46.9	45.9	44.3	45.0	44.2	42.9	40.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	23	29	41	46	45	43	40	40	38	35	32
B. Bound Tests											
B1. Real GDP growth	23	33	64	85	92	95	96	99	99	100	99
B2. Primary balance	23	29	57	70	59	53	48	48	47	46	44
B3. Exports	23	29	42	49	48	47	46	48	50	49	46
B4. Other flows 3/	23	29	42	49	48	47	46	49	51	49	47
B5. One-time 30 percent nominal depreciation	23	29	42	46	47	46	44	45	44	43	40
B6. Combination of B1-B5	23	30	44	50	53	53	53	54	53	52	50
C. Tailored Tests											
C1. Combined contingent liabilities	23	29	78	67	58	52	48	47	46	44	42
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	23	32	46	79	92	95	95	97	96	96	96
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

SIERRA LEONE

March 31, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Approved By
Dominique Desruelle (AFR) and Kevin Fletcher (SPR)

Prepared by the African Department in consultation with other departments.

1. **Since finalizing the Staff Report, the global COVID-19 pandemic has intensified.** In addition to the global escalation, Sierra Leone's immediate neighbors are among the sub-Saharan African countries directly affected. Sierra Leone reported its first confirmed case of COVID-19 on March 31. This supplement reports on recent developments, but does not change the thrust of the staff appraisal.

2. **The authorities have acted decisively to combat the global COVID-19 crisis by implementing a range of prevention and containment measures.** On March 24, the President declared a national state of emergency, set to last for 12 months. This builds on a range of actions implemented since mid-March, including mandatory quarantine for anyone arriving from a country with 50 or more cases (monitoring if less than 50); enhanced border controls; discouraging gatherings of more than 100 people; banning international travel for public employees; and suspending for three months all incoming and outgoing regular passenger flights. Effective March 27, the Government closed borders with Guinea and Liberia for a period of 30 days, while allowing for transportation of essential commodities into Sierra Leone under strict supervision. All educational institutions are scheduled to close on March 31.

3. **Macroeconomic policy measures to mitigate the impact of the global health crisis are also in train.**

- At an emergency Monetary Policy Committee meeting on March 18, the Bank of Sierra Leone (BSL) decided to: (i) reduce the monetary policy rate by 150 bps from 16.5 percent to 15 percent, effective March 19; (ii) create a Le 500 billion special credit facility to support production, procurement and distribution of essential goods, and (iii) extend the reserve requirement maintenance period from 14 to 28 days. The BSL also intends to provide foreign exchange resources to ensure the importation of essential goods (qualifying goods yet to be published). The exchange rate has, so far, been allowed to adjust.

- The Government is moving swiftly to develop an economic response plan—the *Quick Action Economic Response Programme*—as well as its *Covid-19 Preparedness and Response Plan* for the health sector. Both are being prepared in close consultation with development partners, the latter in particular with the World Health Organization. A health sector support operation by the World Bank, including US$7.5 million support for COVID-19 spending, is on track for approval in early April 2020. Estimates of the potential fiscal costs are not yet available at this early stage. The authorities have been collaborating closely with IMF staff on measures to cushion the economic spillovers.

4. **While the global pandemic will negatively impact Sierra Leone's near-term economic outlook, the magnitude is subject to considerable uncertainty.** The growth path for the remainder of 2020 will depend heavily on the rapid evolution of crucial prevention and containment measures—nationally, in the region and globally. While not yet reflected in the baseline scenario, staff fully supports the authorities' quick efforts to develop both a health and economic response plan. Staff will also support adjusting the program targets to accommodate vital COVID-19 policy responses.

5. **In view of sustained program performance and reform efforts, staff supports the completion of the second review under the ECF arrangement.** The associated disbursement will provide much needed financing support to Sierra Leone at this critical time. As global and local conditions evolve, staff will maintain a close dialogue with the authorities to quantify the implications of the global crisis, identify appropriate policy responses, and re-assess financing needs. With dramatic daily changes in COVID-19 cases globally, the spillovers from associated health and economic effects could well outpace the ECF review schedule. Should an urgent balance of payments need arise, the authorities could consider support via the Catastrophe Containment and Relief Trust and the Rapid Credit Facility.

Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Sierra Leone and Mr. Willie Nakunyada, Advisor to the Executive Director
April 3, 2020

Sierra Leone recorded its first case of COVID-19 on March 31, 2020. As a small open economy that is dependent on commodity exports, the country is likely to be impacted through declining tourism activity, deterioration in terms of trade, and reduced donor inflows. To mitigate the impact of the COVID-19 and cushion household and corporates' vulnerabilities, the authorities recently implemented several policy responses including preventive emergency health measures. The Monetary Policy Committee (MPC) of the Bank of Sierra Leone lowered the monetary policy rate by 150 basis points from 16.5 percent to 15 percent, at its March 18, 2020 meeting. In addition, the MPC created a Le500 billion special credit facility to finance the production, procurement, and distribution of essential goods and services. To ease liquidity conditions in financial markets, the MPC extended the reserve requirement maintenance period for commercial banks from 14 days to 28 days. In addition, government is working with the World Health Organization and other development partners to develop an economic response plan—the Quick Action Economic Response Program—as well as the COVID-19 Preparedness and Response Plan for the health sector. Against this background, the authorities look forward to continued Fund engagement to monitor the wider implications of COVID-19 and explore ways to minimize economic spillovers.

Introduction

1. Our Sierra Leonean authorities appreciate the constructive engagement with staff during the recent Article IV Consultations and second review under the Extended Credit Facility (ECF) arrangement. They broadly concur with staff's assessment of key policy challenges and priorities.

2. Sierra Leone has continued to make positive strides in restoring macroeconomic stability, despite the recurrence of climate-related natural disasters and tight financial conditions. Concerted reform efforts by the current administration which assumed power in 2018, have provided strong economic growth impetus through implementation of long- standing reform measures that helped to stabilize macroeconomic conditions. Within this context, the authorities are implementing bold measures under the National Development Plan (NDP 2019-023) aimed at promoting human and physical capital development, while strengthening the governance and accountability framework. To support these broad objectives and entrench macroeconomic stability, the authorities are implementing comprehensive reforms under a three-year Fund-supported ECF arrangement approved in November 2018.

3. To further enhance macroeconomic stability and build a more inclusive and resilient economy, the authorities request Executive Directors' support towards completion of the second review under the ECF arrangement and waivers for non-observance of performance criteria.

Program Performance

4. All end-June 2019 quantitative performance criteria and indicative targets (IT) were met, while the targets on net credit to government (NCG) and net domestic assets of the Bank of Sierra Leone (BSL) were met with comfortable margins. At the same time, progress was made on structural reforms with four out of five structural benchmarks (SBs) completed; one with a slight delay, while the fifth is close to completion. The continuous quantitative performance criterion (QPC) on concessional borrowing was marginally breached in August 2019, but the authorities took remedial measures and refrained from contracting new external debt in the remainder of 2019. Further, they are taking necessary steps to strengthen debt management, and contain concessional loans within program limits.

5. Preliminary data suggests that the end-September indicative target (IT) on NCG was missed owing to securities issued to the non-banking sector to clear legacy arrears. The authorities have worked under Fund guidance to undertake a comprehensive reconciliation exercise to rectify the recording of these securities. They have also requested urgent Fund TA to further improve the recording of arrears-related securitization. Meanwhile, they have suspended issuance of securities to clear legacy arrears, pending finalization of the domestic Arrears Clearance Strategy and an agreed path for managing such transactions.

Recent Economic Developments and Outlook

6. Economic growth picked up from 3.5 percent in 2018 to 5.1 percent in 2019, underpinned by expanded production in agriculture, diamonds, bauxite, and rutile, as well as improved activity in the construction and services sectors. Looking ahead, medium-term growth is expected to average 4.5 percent buoyed by increased investments in agriculture, fisheries and tourism, as well as resumption of iron ore production. That said, growth prospects remain subject to the negative impact of COVID-19 on planned execution of public investment projects and subdued tourism and remittances receipts.

7. Inflation declined from a peak of 18.2 percent in August 2018 to 13.9 percent in December 2019, on account of a tight monetary and fiscal policy stance. Going forward, improved food supplies, and declining international oil prices are expected to exert downward pressure on inflation. Meanwhile, the external current account deficit narrowed from 18.7 percent of GDP in 2018 to 14.1 percent of GDP in 2019, benefitting from increased secondary income inflows catalyzed by the ECF program.

Fiscal Policy and Debt Management

8. The authorities remain committed to sustained fiscal consolidation efforts aimed to place public debt on a downward trajectory and create fiscal space for priority social and investment spending. To this end, the National Revenue Authority (NRA) has implemented aggressive measures to deliver strong revenue performance, which supported improved budget execution in 2019. Specific revenue measures implemented so far include digitalization of tax collection, extensive taxpayer education, and enhanced trade facilitation. Importantly, the authorities continue to advance legislative reforms to streamline duty waivers and tax exemptions and reduce tax rates to improve compliance.

9. The authorities are pressing ahead with efforts to promote spending efficiency through prudent public expenditure management and control measures. This has helped contain expenditure within the budget in 2019. Presently, the authorities are implementing measures to automate the government payroll and introduce a nationwide biometric verification of all public sector employees. Further, government is taking steps to enhance the quality of domestic and foreign-funded capital projects and leverage the recommendations of the Public Investment Management Assessment (PIMA), recently conducted by the Fund. The authorities have also made progress in strengthening the internal audit function across government departments, and tightened procurement management. To avoid the recurrence of public expenditure arrears, including those incurred outside the IFMIS system, they are tightening commitment controls and plan to introduce Public Expenditure Tracking (PET) forms. In addition, they plan to broaden the coverage of the Treasury Single Account (TSA).

10. The authorities are determined to pursue prudent debt management policies in line with their Medium-Term Debt Strategy (MTDS). Towards this end, they will continue to prioritize concessional financing and grant resources to finance critical projects, while exploring the viability of non-debt creating financing models, supported by robust feasibility studies to minimize fiscal risks. Further, they have developed a plan to reduce domestic expenditure arrears, using grant resources from the World Bank. The arrears strategy also involves a combination of outright cash payments at appropriate discounts and a credible medium-term repayment plan agreed with the creditors, backed by the issuance of promissory notes or zero-coupon instruments. Securitization will be considered as the last option.

Monetary, Exchange Rate and Financial Sector Policies

The monetary policy stance remains geared towards bringing inflation down to single digits within the program period. Despite the accommodative monetary policy measures recently adopted in response to COVID-19, the authorities remain committed to their inflation objective and are closely working with staff to balance the key objectives of stimulating growth and maintaining price stability. In this regard, the Bank of Sierra Leone (BSL) will continue to pursue reserve money targeting alongside the interest rate policy corridor system. At the same time, the authorities are engaging staff to explore more practical ways to strengthen the monetary policy toolkit, deepen financial markets, and enhance the effectiveness of the monetary policy transmission mechanism. In addition, they will seek to strengthen the role of indirect policy instruments to allow for effective price-based monetary policy.

11. The authorities remain committed to maintaining exchange rate flexibility to absorb external shocks, while confining interventions to smoothening excessive volatility in market conditions. Moreover, they have already moved to the Reuters foreign exchange platform which is expected to improve transparency in the quoting of exchange rates, given that most banks are expected to participate. That said, the BSL recently issued temporary foreign exchange directives to promote use of the formal banking system and mitigate money laundering risks.

12. The banking sector remains profitable, with an expanding deposit base, and adequate capital buffers. Relatedly, the central bank has directed commercial banks to increase minimum capital requirements on a phased basis until 2023. The authorities have also made progress in improving the governance and soundness of the two state-owned banks. The boards of the two banks have been reconstituted, and the BSL is maintaining the enhanced supervision regime to minimize fiscal risks and restore profitability. Following completion of the World Bank diagnostic study of the two banks in September 2019, the authorities are now focusing on strengthening internal controls, governance, and credit processes. In addition, government is working with consultants to prepare by end-May 2020, a long-term business strategy required to place the two banks on a firm commercial footing.

Structural Reforms

13. Consistent with the objectives of the NDP, the authorities attach priority on governance and anti-corruption, to improve the effectiveness of macroeconomic policies. In this vein, they have established the key institutional foundations to foster good governance practices and fight corruption. The authorities are now focusing on enhancing coordination among key institutions comprising the Anti-Corruption Commission (ACC), Audit Service Sierra Leone (ASSL), National Public Procurement Authority, Financial Intelligence Authority, Parliamentary Committees, various law enforcement agencies, and the Ombudsman. They are also taking steps to address governance issues in key areas, including improving public financial management, and enhancing internal audit. Importantly, Fund technical support is expected to help strengthen the legislative and institutional architecture for policy making.

14. Concurrent efforts to intensify the fight against corruption and strengthen the ACC, have resulted in notable progress in the pursuit of both high and low-level corruption cases. In this vein, the ACC has advanced work to identify governance irregularities, including in the education sector. Going forward, sustained efforts in this direction are expected to foster transparency and yield better education outcomes.

15. The authorities are re-doubling efforts to improve the business climate by enacting investor-friendly regulatory reforms and ramping up investment in critical infrastructure to enhance productivity and competitiveness. At the same time, they have embarked on a flagship Free Quality Education Program (FQEP) to enhance human capital development efforts. In this regard, they are working to revive technical, vocational, and apprenticeship programs aimed to reduce youth unemployment. In addition, the authorities have

strengthened the fiduciary oversight of state-owned enterprises (SOEs). This will be achieved through close monitoring of performance in line with approved strategic plans, managing fiscal risks, and enhancing transparency and accountability.

Conclusion

16. Our authorities remain firmly committed to sustaining reform efforts to unleash the country's growth potential, create jobs, uplift living standards, and attract private investment to accelerate progress towards the Sustainable Development Goals (SDGs). They view implementation of reforms under the ECF program as key in laying a solid foundation for delivering sustainable growth through its support to the objectives of the NDP and thus look forward to completion of the second review. More importantly, they look forward to continued Fund engagement and technical support to help strengthen macroeconomic management and attain more inclusive and durable growth.