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SIERRA LEONE

July 2022

2022 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS, OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCE REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SIERRA LEONE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the [Consultation Year] Article IV consultation with [COUNTRY], the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2022, following discussions that ended on April 13, 2022, with the officials of Sierra Leone on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 13, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Sierra Leone.

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

Selected Issues
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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes Fifth Review Under the Extended Credit Facility Arrangement and Concludes the 2022 Article IV Consultation for Sierra Leone

FOR IMMEDIATE RELEASE

- The economic recovery from the pandemic has been set back by the impact of the war in Ukraine and the medium-term outlook remains challenging.
- Successive external shocks have contributed towards mixed performance under the Extended Credit Facility (ECF) arrangement. The authorities have committed to strong corrective actions to bring the fiscal situation under control.
- The IMF Executive Board decision allows for an immediate disbursement of about US$20.8 million to Sierra Leone to help meet its budgetary financing needs, including supporting social spending.

Washington, DC – On June 27, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] and completed the fifth review of the Extended Credit Facility (ECF) arrangement with Sierra Leone. The Board's decision enables the immediate disbursement of SDR 15.555 million (about US$20.8 million). This brings Sierra Leone's total disbursements under the arrangement to SDR 93.33 million (about US$124.8 million).

In completing the fifth review, the Executive Board also approved the authorities' request for waivers for nonobservance of performance criteria pertaining to net credit to government at end-December 2021 and for the introduction of a multiple currency practice and exchange restriction, based on corrective actions taken by the authorities.

Sierra Leone's 43-month ECF arrangement was approved on November 30, 2018 for SDR 124.44 million (about US$172.1 million at that time or around 60 percent of the country's quota), and extended by 12 months on July 27, 2021. The program aims to reduce inflation, mobilize revenue to allow for necessary spending consistent with debt sustainability, safeguard financial stability, and maintain external resilience to shocks.

Sierra Leone continues to pursue its development path amidst continued vulnerability to shocks and capacity needs. Growth is estimated to have recovered moderately in 2021 (about 3 percent) following the COVID shock and is projected to increase to 3½ percent in 2022, reflecting higher iron ore production. However, this is a downward revision relative to the 3rd/4th review, reflecting a deterioration of the terms of trade and increased uncertainty about global economic prospects. Inflation has been on a rising trend since mid-2021 due to higher international fuel and food prices, and is expected to average about 22 percent this year, exacerbating already-high levels of food insecurity. The drawdown on reserves to service debt and facilitate food and fuel imports will exert additional pressure on the external position. Fiscal space is extremely tight. Exogenous shocks, much-needed additional priority spending in response to social pressures and stability concerns, and challenges in commitment controls undermined fiscal performance in 2021, requiring a revised 2022 budget and strengthened public financial management. Sierra Leone remains at high risk of debt distress.

Over the medium term, the war in Ukraine, and concerns about global growth pose renewed challenges for the outlook. Further increases in already-high fuel, food and fertilizer prices could deteriorate budget and external balances, put debt sustainability at risk, increase costs for businesses, prolong fuel subsidies, and stoke social tensions. A sharper-than-expected slowdown in China's growth would negatively impact the iron ore price. Future strains of the COVID-19 virus, other health and climate shocks could reduce global growth prospects, exacerbate supply bottlenecks, and increase inflation, while further waves of COVID cases or other health challenges could increase pressures on the health system and spending. Expenditure pressures could also arise due to general elections in 2023.

At the conclusion of the Executive Board's discussion, Mr. Okamura, Deputy Managing Director and Acting Chair state made the following statement:

"Sierra Leone has taken decisive steps to respond to the COVID-19 crisis and remains committed to pursuing development objectives. The nascent recovery has been severely impacted by spillovers from the war in Ukraine and higher inflation, which has exacerbated the already-limited fiscal space, increased debt, and reduced external buffers. Strong efforts to support macroeconomic stability, together with growth-enhancing reforms, would help to ease fiscal and external pressures and facilitate the achievement of the authorities' development objectives.

"The authorities' revised 2022 budget appropriately balances supporting the recovery, addressing development needs and reducing debt vulnerabilities. Revenue mobilization measures, including development of a Medium-Term Revenue Strategy, and measures to contain expenditure are important elements of the consolidation plan. Steps to strengthen expenditure controls, improve budgeting processes, and the adoption of a debt anchor would facilitate debt reduction. Continued reliance on concessional and grant financing and measures to develop domestic debt markets would help to reduce the risk of debt distress.

"Further monetary tightening may be needed, given rising inflation. Efforts to enhance the monetary policy framework and improving communication would help to strengthen policy transmission. Sierra Leone's external position remains weak and exchange rate flexibility and foreign exchange market reforms would be important elements of the response to the terms of trade shock.

"Ensuring financial sector stability will require addressing rising NPLs, improving bank supervision and regulation, and strengthening the corporate governance of the two state-owned banks. Measures to reduce rising rollover risks and mitigate the sovereign-bank nexus are also important. The authorities are focused on enhancing AML/CFT implementation.

"Sustained efforts to strengthen governance will be essential, to reduce vulnerabilities to corruption, foster private sector development and growth, and ensure more effective delivery of public services. Ensuring the financial and operational independence of the supreme audit institution is a priority. Continued progress on human capital development, climate adaptation, and expansion of social-safety nets would be welcome."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Sierra Leone's decisive response to the COVID-19 crisis and continued commitment to pursuing development objectives. They noted that spillovers from the war in Ukraine have severely impacted the nascent recovery and exacerbated fiscal and external pressures. Risks remain elevated, including from future variants of COVID, food insecurity and higher fuel and food prices. Noting that program performance was mixed, Directors welcomed the corrective actions taken by the authorities. They stressed the need to maintain macroeconomic stability, ensure adequate external buffers, and advance reforms to achieve inclusive and resilient growth.

Directors agreed that Sierra Leone's revised 2022 budget appropriately balances supporting the recovery, addressing development needs, and reducing debt vulnerabilities. They encouraged further efforts to mobilize domestic revenue and strengthen expenditure management and commitment controls to create space for priority spending. Noting that the risk of debt distress remains high, Directors called for continued reliance on concessional and grant financing and emphasized the importance of developing domestic debt markets. They saw merit in the adoption of a debt anchor as part of a medium-term debt reduction strategy.

Directors highlighted that further monetary tightening may be necessary, given rising inflation, and recommended enhancing the monetary policy framework and improving communication to strengthen policy transmission. Noting the relatively weak external position, Directors emphasized that exchange rate flexibility and foreign exchange market reforms remain crucial elements of the response to the terms of trade shock.

Directors called for close monitoring of growing financial stability risks, including from the sovereign-bank nexus and rising NPLs. They underscored the need to further strengthen bank supervision and regulation and the corporate governance of state-owned banks. Directors encouraged continued progress on strengthening AML/CFT implementation.

"Directors highlighted the importance of continued efforts on governance and growth reforms, supported by Fund TA. They stressed the need for timely action to ensure the independence of the supreme audit institution to safeguard confidence in the management of public resources. Directors welcomed the authorities' plans to invest in human capital development and expand social-safety nets. Noting that climate change is macro-critical for Sierra Leone, Directors encouraged efforts to mainstream adaptation into development plans.

It is expected that the next Article IV consultation with Sierra Leone will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

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[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 Chairman 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

Sierra Leone: Selected Economic Indicators				
	2020 Est.	**2021 Est.**	**2022 Proj.**	**2023 Proj.**
National account and prices				
Nominal GDP (Le billions)	39,938	45,775	54,926	66,987
Nominal GDP, excl. iron ore (Le billions)	39,938	44,618	52,857	64,361
GDP at constant prices (percent change)	-2.0	3.2	3.6	3.4
GDP excl. iron ore (percent change)	-1.8	2.3	2.4	3.2
Consumer prices (percent change, end-of-period)	10.4	17.9	22.1	19.6
Government operations (percent of non-iron ore GDP)				
Domestic primary balance	-4.2	-5.0	-2.5	0.3
Overall balance	-5.8	-7.3	-4.1	-2.8
Revenue (excl. grants)	13.8	15.5	14.7	15.0
Grants	5.3	4.6	5.8	4.5
Total expenditure and net lending	25.7	28.1	25.1	22.3
Public debt	76.3	78.8	80.8	80.4
of which: external	49.7	50.5	57.9	58.2
External sector				
Exports of goods (percent change)	-34.2	30.7	30.6	6.8
Imports of goods (percent change)	-12.0	27.8	9.6	-4.1
Current account (incl. grants, percent of non-iron ore GDP))	-6.8	-14.6	-13.6	-10.9
Gross international reserves (excl. swaps, months of next year's imports)	4.2	5.3	4.0	3.5
Gross international reserves (excl. swaps, US$ millions)	677	932	689	600
Net international reserves (excl. swaps, US$ millions)	96	355	120	71
Money and credit				
Domestic credit to the private sector (percent change)	4.9	32.9	22.8	30.4
Domestic credit to the private sector (percent of non-iron GDP)	6.0	7.1	7.3	7.9
Base money (percent change)	54.8	8.7	1.3	20.4
Broad money (percent change)	38.2	22.1	10.1	16.8

INTERNATIONAL MONETARY FUND

SIERRA LEONE

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Sierra Leone continues to pursue its development path amidst continued vulnerability to shocks and still fragile institutions. Despite a decisive health and economic response to the COVID-19 pandemic, less than one in five Sierra Leoneans is vaccinated, and urgent challenges, such as food insecurity, persist. The authorities' ambitious National Development Plan is showing first results in the education sector, but human development outcomes remain among the weakest worldwide. The COVID-19 crisis and the war in Ukraine has stoked inflation and exacerbated an exceptionally tight fiscal situation in the context of high risk of debt distress, severely limiting the authorities' room to maneuver.

Program performance has been mixed. The authorities observed the quantitative performance criteria (PC) on gross international reserves and central bank net domestic assets, and the continuous PCs on external arrears and debt. Based on strong corrective actions, they are requesting waivers for (i) the significant breach in net credit to government at end-December that reflected expenditure overruns financed by large issuances of T-Bills and a significant accumulation of unpaid checks, and (ii) the continuous PCs on new multiple currency practices (MCPs) and exchange restrictions. The authorities met most structural benchmarks for the 5th Review.

The medium-term outlook remains difficult and downside risks are rising. COVID-19 severely impacted Sierra Leone's economy. Fiscal slippages, the war in Ukraine, and concerns about global growth are now posing renewed challenges. The surge in international fuel and food prices has set back a nascent recovery, with a downward revision of growth to 3.6 percent and upward revision of average inflation to just below 22 percent in 2022. Further increases in fuel, food and fertilizer prices or health shocks could exacerbate the severe burden on the population, deteriorate budget and external balances, put debt sustainability at risk, increase costs for businesses, prolong fuel subsidies, and provoke social discontent.

Main Policy Recommendations.

- **Fiscal.** Fiscal space is extremely tight. Exogenous shocks and weaknesses in budget controls have led to large fiscal overruns in 2021, requiring corrective actions, including a revised 2022 budget and strengthened public financial management. The agreed medium-term fiscal framework strikes a balance between reducing debt vulnerabilities and supporting the post-crisis recovery. Domestic revenue mobilization, securing more budget support grants, and improving expenditure controls and efficiency are essential to create space for priority spending. Timber should be sustainably managed to achieve both revenue mobilization and environmental protection. The SDR allocation will support priority spending, including school feeding, policies to keep girls in school, and health projects. Given the high risk of debt distress, continued reliance on concessional financing and grants is crucial for maintaining debt sustainability.

- **Monetary and external.** Given rising inflation, money growth should remain tight, and the policy rate may need to increase further. The Central Bank's facilities for food and fuel are necessary measures to alleviate pressures in the short term but should remain temporary given still vulnerable levels of international reserves.

- **Macro financial.** The strong sovereign-bank nexus from heavy dependence on short-term government paper suggests rollover risks be monitored regularly and domestic debt maturities lengthened. Addressing rising NPLs, weaknesses in the supervision and regulation of the non-bank sector, and strengthening corporate governance of the state-owned banks are also priorities. International experience suggests the Bank of Sierra Leone (BSL) should lengthen its preparatory phase for redenomination of the Leone.

- **Governance.** While efforts to improve governance in Sierra Leone have generally continued, additional reforms are required to strengthen the institutional and financial independence of the Audit Service Sierra Leone (ASSL). Implementation of corrective actions and recommendations of existing audits, work towards strengthening the audit process, and considering legal amendments to strengthen ASSL's financial independence are critical.

Approved By
Montfort Mlachila and Anna Ilyina

An IMF team consisting of Mr. Singh (head), Ms. Jain, Ms. Mowatt, Mr. Wankuru (all AFR), Mr. Kato (SPR), Mr. Zhou (FAD), Mr. Zhang (MCM), Ms. Newiak (Resident Representative) and Mr. Saffa (Economist, Freetown office) held discussions with the authorities in Freetown during March 31-April 13, 2022. Virtual discussions took place subsequently from April 18-May 18, 2022. Ms. Manning and Mr. Magno provided editorial support.

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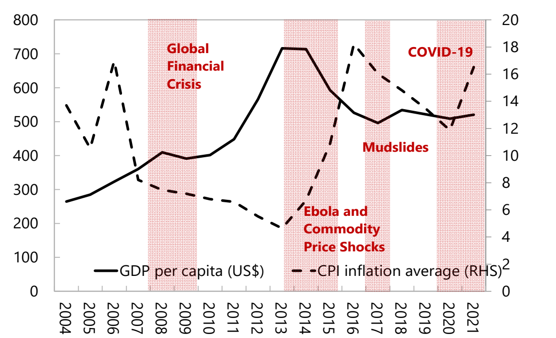
ANNEXES

APPENDIX

CONTEXT

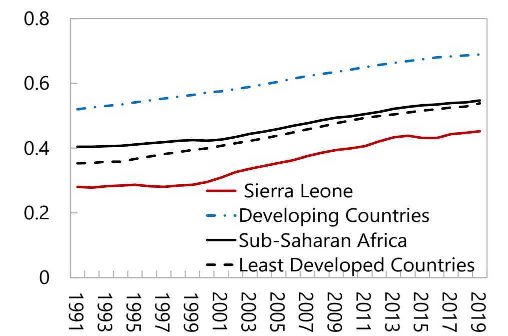
1. **Sierra Leone continues to pursue its development path amidst continued vulnerability to shocks and still fragile institutions.** The Government's National Development Plan (NDP) aims at developing human capital while strengthening governance. However, Sierra Leone remains vulnerable to natural disasters (Selected Issues Paper (SIP): Climate Change and Financing Climate Actions in Sierra Leone), health shocks and commodity price drops (Text Figure 1). Recent coup d'états in the region throw a shadow on a comparatively stable national situation. Despite progress, human development indicators remain weak (Text Figure 2, SIP: Reaping the Demographic Dividend in Sierra Leone). Engagement within the IMF's new *Strategy on Fragile and Conflict-affected States* is appropriate given institutional weaknesses.

Text Figure 1. Multiple Shocks



Source: Sierra Leonean authorities; IMF staff estimates.

Text Figure 2. Human Development Index
(Higher number, higher development)



Source: UNDP.

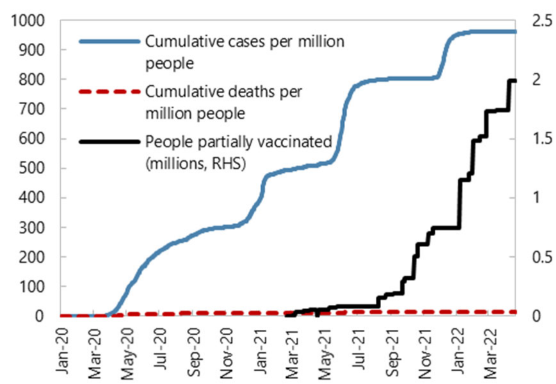
2. **The authorities have responded decisively to the COVID-19 crisis, but major challenges remain.** Reported caseloads have been low, in part reflecting low testing capacity (Text Figure 3). Around 17¼ percent of the population have received two vaccination doses as of mid-May. Vaccine hesitancy and logistical challenges persist. Despite the government's Quick Action Economic Recovery Program, the COVID-19 shock reduced household incomes (World Bank 2021; SIP: The Longer-term Impact of the COVID-19 Crisis and Mitigating Policies for Sierra Leone, Annex I), and poverty has likely risen above the 57 percent rate pre-crisis. Almost every fourth Sierra Leonean is facing chronic hunger (Text Figure 4).[1] High climate vulnerability and lack of coping capacity increases poverty and weakens food security while posing challenges to long-term sustainable growth (Text Figure 5).

3. **The COVID-19 crisis and the war in Ukraine have exacerbated the "fiscal trilemma", further straining the sustainability of Sierra Leone's economy, while the risk of contested 2023 elections may add pressures.** Sierra Leone is facing three conflicting policy goals - high development spending needs, managing a high debt burden, and increasing a low revenue base (the "fiscal trilemma"). High public debt substantially constrains development spending. Revenue collection is still recovering from the 2020 shock. External financial support, exceptional in 2020, is moderating. Borrowing

[1] World Bank Sierra Leone 2021 economic update.

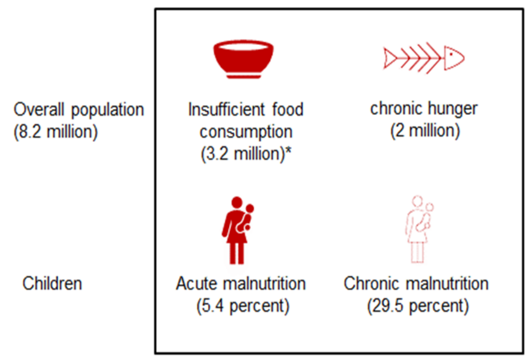
needs remain significant and weigh on banks' balance sheets. Placating a population reeling from substantial income losses during COVID could result in significant expenditure pressures before the general elections. The spillovers from the war in Ukraine have hit Sierra Leone particularly severely (fuel price, fertilizer and wheat/cereal imports) and further tightened fiscal space, with risks to social stability. More generally, the tight fiscal position, rising inflation and a still overvalued exchange rate leave little policy space to absorb further shocks, putting strains on overall macroeconomic sustainability and elevating program risks. In this context, contingency planning is necessary.

Text Figure 3. Key Covid-19 Statistics



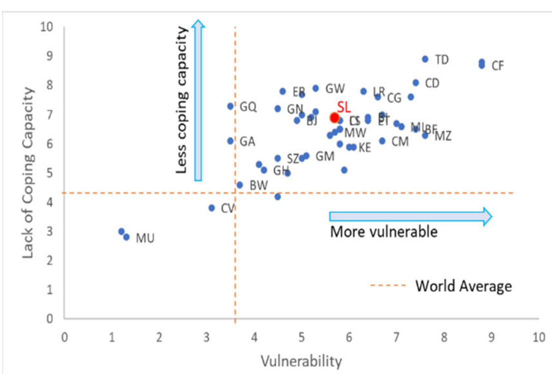
Source: Johns Hopkins Coronavirus Resource Center.

Text Figure 4. Food Insecurity



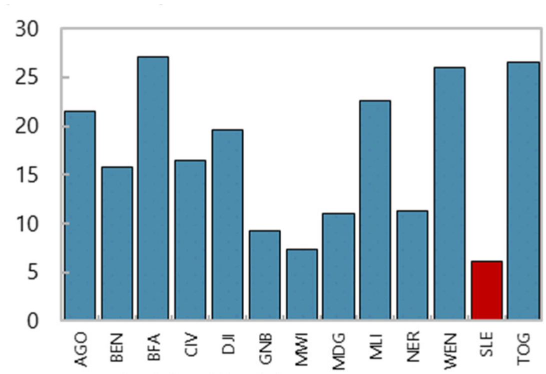
Source: World Food Programme Hunger Monitor, December 17, 2021.
*WFP HungerMap Live, May 6, 2022.

Text Figure 5. Climate Profile.



Source: INFORM Risk; IMF staff calculations

Text Figure 6. Private Sector Credit as Percent of GDP, Latest Year Available



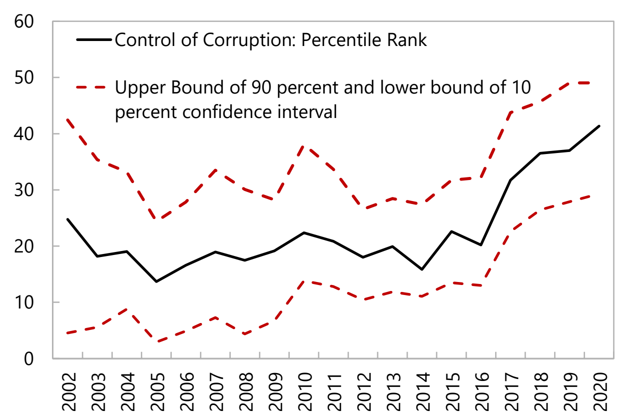
Source: International Financial Statistics, 2012-2016

4. **Improvements in governance and fighting corruption are essential to safeguard scarce resources**. Sierra Leone has made progress according to a number of third-party indicators (e.g., Text Figure 7). Continued efforts to improve governance of key economic institutions and reduce vulnerabilities to corruption will be critical to foster private sector development in Sierra Leone and ensure efficient and effective delivery of public services. Priorities include addressing macro-critical weaknesses on the fiscal front, further strengthening the implementation of AML/CFT measures, and the financial oversight of state-owned banks. To continue safeguarding public resources,

strengthening the financial and operational independence of the Audit Service of Sierra Leone (ASSL), including follow up on audit, is essential.

5. The authorities have made some progress on past Article IV recommendations (Annex II). They have focused on reducing fiscal deficits and debt vulnerabilities through broadening the tax base, strengthening expenditure controls, and assessing fiscal risks. The publication of COVID-related spending and procurement and real-time audits earlier in the COVID-19 crisis have been welcome but efforts are needed to follow up on the findings through the institutional and legal accountability frameworks. Financial sector reforms have been progressing gradually and the 2021 Financial Sector Stability Review (FSSR) provides a roadmap for work in priority areas (strengthening the regulatory and supervisory regime for banks; addressing vulnerabilities from state-owned banks (SOBs)).

Text Figure 7. Control of Corruption, 2002-20



Source: Worldwide Governance Indicators.
Note: This index is based on perceptions and should therefore be interpreted with caution.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

6. Preliminary estimates for 2021 and early data for 2022 suggest that…

- ***…external demand has been driving the recovery from the COVID shock.*** Real GDP growth is estimated at 3.2 percent for 2021, as the mining sector recovered from the negative impact of the pandemic. Iron ore production grew strongly in early 2022 (Text Figure 8). However, sales tax and import duty collections fell in real terms in 2022Q1. This, together with other high frequency indicators, suggests a slowdown in private consumption relative to 2021.

- ***…inflation has picked up strongly*** (22.1 percent y-o-y in March) reflecting exchange rate depreciation (23.3 percent y-o-y in April against the US dollar) and higher global prices for fuel and other commodities. Food and transport-related items have accounted for the bulk of recent inflation in 2022Q1.[2]

[2] Given the importance of fostering food security, the IMF and WFP Sierra Leone teams are participating in a first wave of pilots to foster collaboration between the institutions.

- ***…the fiscal position remains extremely tight,*** due to successive shocks, emerging spending pressures, and weak public financial management (PFM) controls. In 2021, notwithstanding revenues being on target, the overall fiscal deficit was about 3.5 percentage points higher than the target of 3.8 percent of non-iron ore GDP, reflecting expenditure pressures (containing a third wave of COVID-19, wages and salaries, goods and services due to inflationary pressures, domestic financed capital spending, including Free Quality School Education (FQSE)) and higher-than-anticipated energy subsidies. Slippages also resulted from new expenses on a mid-term population and household census; equipment for the security sector given rising regional insecurity; and an integrated civil registration system. The preliminary 2022Q1 out-turn shows that non-COVID pressures persisted.

- ***…the current account balance deteriorated, and international reserves initially rose.*** Imports increased due to higher global prices for fuel and other commodities combined with lower official transfers. The 2021 Special Drawing Rights (SDR) allocation boosted reserves, but rising debt service obligations and foreign exchange (FX) provided through the Bank of Sierra Leone's (BSL's) Special Credit Facility (SCF) have seen them declining since 2021Q3. The parallel market spread temporarily widened in August 2021, following announcement of currency redenomination, and again in March 2022 due to increased uncertainty in the FX market, but has narrowed more recently (Text Figure 8).

- ***…the BSL has kept reserve money growth tight and has begun to raise interest rates.*** Pressure on net foreign assets (NFA) in 2021 constrained reserve money growth.[3] The BSL raised the monetary policy rate by 25 basis points in December 2021 and by a further 75 basis points in March 2022, in response to inflationary pressures. After declining in real terms in 2020, private sector credit growth has rebounded (29 percent y-o-y in January 2022). Non-performing loans (NPLs) rose from 12.7 to 15.2 percent of gross loans between 2020Q4 and 2021Q4.

7. Program performance (MEFP Tables 1 and 2) has been mixed:

- **Quantitative performance criteria (PCs) and indicative targets (ITs)** on gross international reserves (GIR) and central bank net domestic assets (NDA) were observed at end-September and end-December 2021. The net credit to government (NCG) breach from the banking system at end-December was significant (4 percent of non-iron ore GDP) and reflected expenditure pressures (including containing a third wave of COVID-19, wages and salaries, goods and services due to rising inflation, domestically financed capital spending, Free Quality School Education (FQSE)). These were financed by large issuance of T-Bills to both bank and non-bank sectors and a large accumulation of unpaid checks. Preliminary data suggest breaches in the end-March ITs for GIR, NDA and NCG. Continuous PCs on external debt ceilings were met, with no external arrears accumulation. The continuous PCs on new multiple currency practices (MCPs) and exchange restrictions were missed (¶32).

- **ITs** on domestic revenue and poverty-related spending for September and December 2021 were

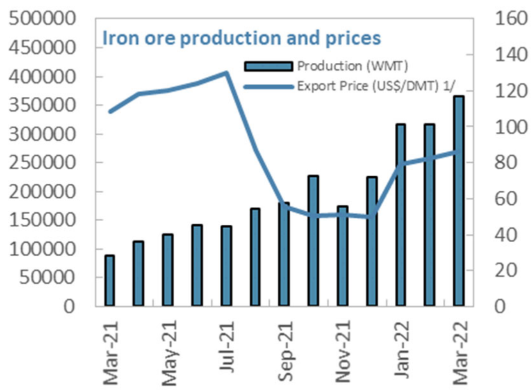
[3] This is notwithstanding the boost to NFA from the SDR allocation (as recorded in Sierra Leone's monetary accounts), which was offset on the balance sheet by a liability.

met but that on the domestic primary balance missed by 1.5 percent of non-iron ore GDP in December 2021.

- **Structural Benchmarks (SBs, MEFP Table 2)**: The authorities met most structural benchmarks for the 5th Review (study of High Net Worth Individuals, stocktaking of income tax exemptions, development of an infrastructure appraisal template, thematic review of NPLs in SOBs). Work is progressing on the update of the prudential guidelines in line with the 2019 Banking Act. Publication of the 2021 audited financial statements of the BSL has been delayed, but an auditor has been appointed and the audit has commenced. The authorities suspended the application of the fuel pricing mechanism to ease the burden on citizens (continuous SB) but took bold actions to increase prices by 50 percent in March and a further increase of 20 percent in June 2022.

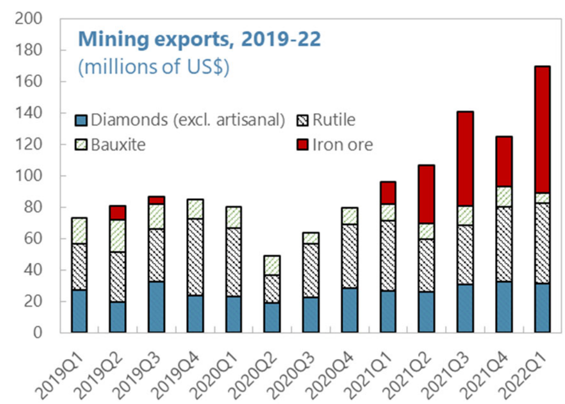
Text Figure 8. Recent Economic Developments

Iron ore production resumed in 2021 but export prices have been volatile.



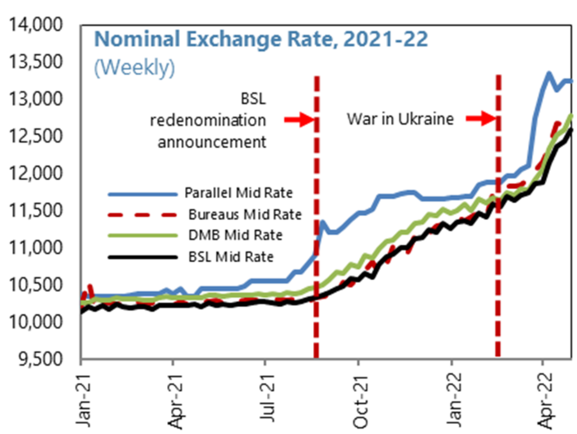
Sources: National Minerals Agency and IMF staff calculations
1/ Average export price weighted by volume

Iron ore and rutile exports have picked up while bauxite exports shrunk in 2022Q1.



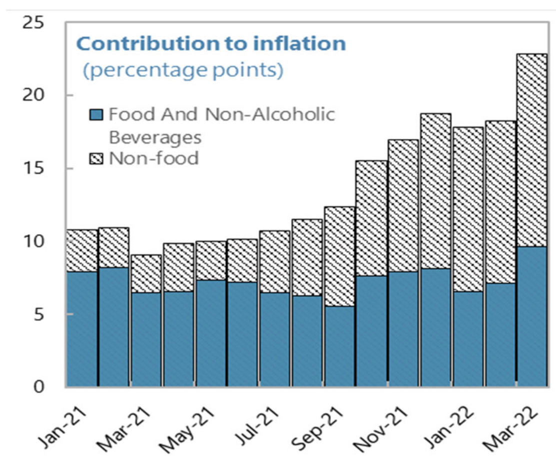
Source: National Minerals Agency

After months of stability, starting in 2021H2, the exchange rate depreciated and the parallel market spread widened.



Source: BSL and IMF Staff.

Inflation was driven mostly by food prices in 2021H1 but has become more broad-based since.



Sources: Statistics Sierra Leone and IMF staff.

MACROECONOMIC OUTLOOK AND RISKS

8. **The medium-term outlook remains challenging.** Compared to the 3rd/4th review (Text Table 1), projected GDP growth has been lowered from 5.9 to 3.6 percent in 2022 (less favorable prospects in the iron ore sector, deterioration in the terms-of-trade, more uncertain global prospects). Inflation projections increased given recent trends, inflation persistence (SIP: Drivers of Inflation) and significantly higher import prices, notably for fuel, which could be sustained. The external position is expected to remain weak (¶30). The current account deficit in 2022 is expected to remain unchanged from 2021 while official reserves decrease (increased government FX payments due to fuel payments and the BSL's policy response to rising fuel and food prices).

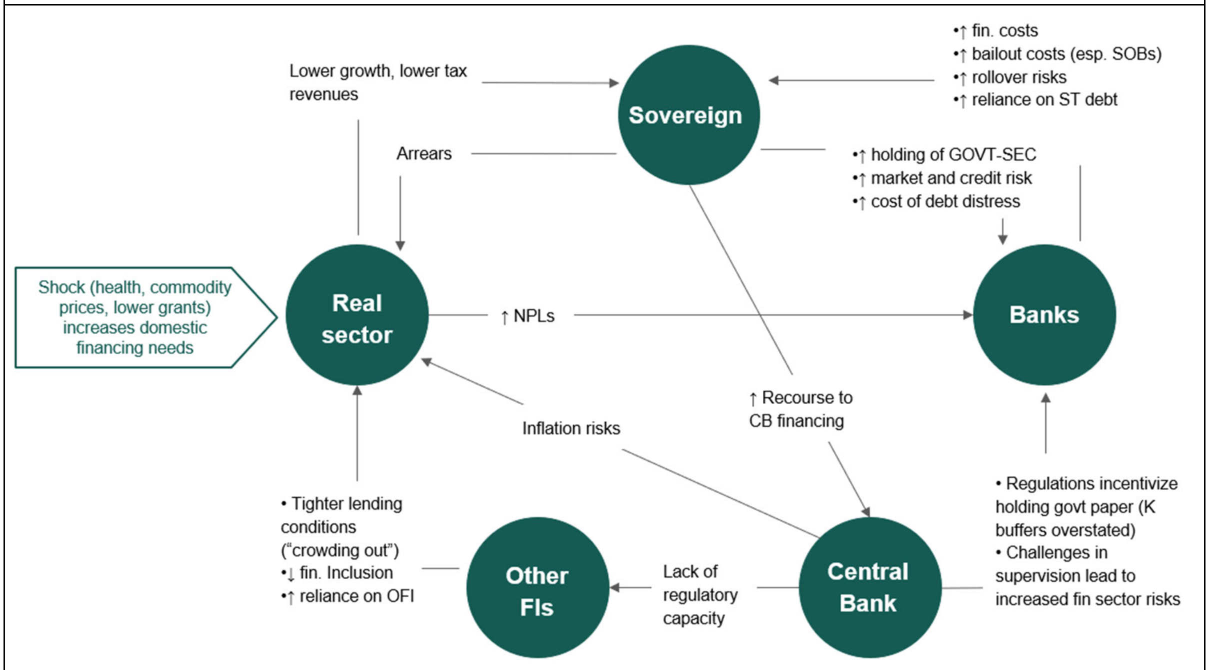
Text Table 1. Medium Term Macroeconomic Framework

	2020	2021	2021	2022	2022	2023	2024	2025
	Est.	3/4 Rev	Est.	3/4 Rev	Proj.	Proj.	Proj.	Proj.
(In percent of non-iron ore GDP unless otherwise indicated)								
GDP at constant prices (percent change)	-2.0	3.2	3.2	5.9	3.6	3.4	5.0	5.1
Excluding iron ore	-1.8	2.6	2.3	3.1	2.4	3.2	4.8	4.9
Consumer prices (end-of-period)	10.4	13.9	17.9	12.0	22.1	19.6	16.4	13.2
Gross international reserves (excluding swaps, months of next year's imports)	4.2	4.3	5.3	3.4	4.0	3.5	3.3	3.0
Current account balance (incl. grants)	-6.8	-15.6	-14.6	-15.9	-13.6	-10.9	-8.8	-6.4
Excl. grants	-11.3	-19.0	-17.8	-18.4	-16.9	-13.6	-12.1	-9.6
External public debt	49.7	51.1	50.5	51.6	57.9	58.2	56.4	53.5
Revenue (excl. grants)	13.8	14.1	15.5	14.2	14.7	15.0	15.5	15.9
Domestic primary balance	-4.2	-2.1	-5.0	0.3	-2.5	0.3	1.7	1.6
Overall Balance	-5.8	-3.8	-7.3	-2.8	-4.1	-2.8	-2.4	-1.9

9. **The outlook is subject to downside risks which are rising, and little policy space remains to absorb further shocks** (Annex III). Sierra Leone is already suffering significant adverse spillovers from lower global growth and higher inflation resulting from the war in Ukraine. Further increases in already-high fuel, food and fertilizer prices could deteriorate budget and external balances, put debt sustainability at risk, increase costs for businesses, prolong fuel subsidies, and provoke social discontent. A sharper-than-expected slowdown in China's growth would negatively impact the iron ore price. Future strains of the COVID-19 virus (or other health shocks, such as a spread of the recent outbreak of anthrax) could reduce global growth prospects, exacerbate supply bottlenecks, and increase inflation, while further waves of COVID cases could increase pressures on the health system and spending. Elections are also on the horizon.

10. Macro-financial risks. Contracting economic activity or new government arrears might negatively impact banks' asset quality (Text Figure 9). Higher international fuel and commodity prices increase the costs of doing business for firms in Sierra Leone, potentially leading to higher NPLs. More government borrowing from the banking sector would further aggravate the sovereign-bank nexus,[4] crowd out private sector credit, and raise interest rates and rollover risks on government securities. This could trigger central bank financing, thus further fueling inflation. Heightened risks from the deterioration in asset quality has also discouraged bank lending to the private sector. While banks' liquidity ratios remain high, impediments in the primary auction market and absence of an active secondary market give rise to liquidity risks from uncertainty over banks' ability to liquidate these assets under stress. The government is exposed to fiscal risks via ownership of the two largest banks.[5] Weaknesses in supervision and regulation could leave financial sector risks undetected including in the growing non-bank sector.

Text Figure 9. Macro-Financial Linkages: Impact of a Shock which Increases Domestic Financing Needs



[4] "Sovereign-bank nexus" refers to the relationship between banks and their sovereigns, which stems from a complex set of relationships, mainly including three channels: the sovereign exposure channel, the safety net channel and the macroeconomic channel. See details in Managing the Sovereign-Bank Nexus (imf.org). There is a high concentration of short-term government paper (largely 364-days T-Bills) on bank balance sheets. With a rising interest service ratio, there is pressure to contain interest costs that may risk financial repression.

[5] Rokel Commercial Bank is 65 percent owned by government, while Sierra Leone Commercial Bank is 100 percent state owned.

POLICY DISCUSSIONS

A. Achieving an Inclusive and Resilient Recovery

12. Despite progress in many areas, inclusive growth remains constrained by many factors. Access to electricity doubled according to the authorities' own mid-term review of the NDP but remains low at less than one third of the population. The maternal mortality-to-live births ratio has declined but remains worrisome at 0.7 percent in 2019. Education outcomes have improved supported by the *Free Quality School Education Programme* and increased budget for education, supporting the productivity of future labor market entrants (SIP: Reaping the Demographic Dividend in Sierra Leone, Annex IV). Despite initiatives in the agriculture and social sectors, food insecurity remains high and social transfers are fragmented and dependent on external financing, with often limited domestic resources for key programs such as school feeding.

13. Accelerating digitalization offers scope to improve PFM and public service delivery. Digitalization holds great potential for better PFM and inclusive growth. Sierra Leone has made good progress, including doubling internet access, extending IT systems to support budget execution, targeting of subsidies, and adoption of digital financial services (DFS). On targeting of subsidies, the government is using electronic vouchers (e-vouchers) to provide agricultural input subsidies to rice farmers. Nonetheless, progress is constrained by signal coverage limitations (15 percent of the population having no mobile phone signal), lack of connectivity, affordability, and low service quality. Addressing these will help Sierra Leone benefit from emerging digitalization opportunities (SIP: Digitalization).

14. Enhancing financial inclusion is key for long-term growth and achievement of the Sustainable Development Goals. Access to credit continues to be the main constraint to business. Private sector credit (as a percent of GDP) is amongst the lowest in SSA (Text Figure 6), with banks preferring to invest in government securities. A recent World Bank assessment found multiple challenges to financial sector development, including widespread informality and the narrow economic base. A large proportion of the population is unbanked, including due to lack of formal identification and a verifiable credit history. However, the use of mobile money has expanded significantly—in 2020, there were over two million mobile money account users, five times those in 2017—although services are still limited, and the number and value of transactions are still low relative to similar countries in sub-Saharan Africa. To address access to finance, the BSL has upgraded the collateral registry and is also working on automating the Credit Reference Bureau (MEFP ¶76). A wider adoption of DFS, in tandem with regulatory improvements, offers potential for greater financial access. The implementation of the National Switch this year, which allows for interoperability of payment platforms (including mobile money), would increase the ease and speed of payments and enhance financial inclusion (SIP: Digitalization).

15. Climate change is macro-critical for Sierra Leone; well-calibrated fiscal policies and external grants are key to mainstreaming adaptation into development plans.[6] Changes in precipitation and temperature, increase in risks of drought, floods, and a rising sea level affect agricultural production, food security, infrastructure, energy, water supply, and coastal areas. High dependence on agriculture, lower level of development, environmental degradation, and elevated poverty amplify the impact of climate shocks on the most vulnerable. The strong link between development and climate vulnerability suggests that Sierra Leone would benefit from mainstreaming adaptation into development plans (Text Figure 5). The updated Nationally Determined Contributions estimates climate-related spending at US$2.8 billion before 2030, which implies an ambitious annual fiscal cost of 6.6 percent of GDP. Given tight fiscal space and high debt, the authorities should i) integrate climate risks into debt sustainability analysis, ii) calibrate climate costs and adaptation benefits and mainstream adaptation into fiscal policies, iii) tap into international (grant) funding and explore the possibility of issuing carbon credits to finance priority projects (including in Forestry, Annex V), and iv) adapt the existing PFM framework to integrate climate targets and prioritize investment projects that meet both development and adaptation purposes (SIP: Climate).

B. Fiscal Consolidation, Debt Sustainability, and Fiscal Governance

16. Successive shocks and emerging spending pressures, including from lack of spending control, have led to an extremely tight fiscal situation. The approved 2022 budget is no longer viable given overruns in 2021 (even after removing one off expenditures), new domestic arrears (especially to Karpowership—an Independent Power Provider, IPP), and more challenging macroeconomic conditions resulting from the war in Ukraine. Revenue mobilization in 2022Q1 was below target by about 0.6 percent of GDP due to shortfalls from excise, GST, and mining royalties. Expenditure pressures have intensified, including from the rapid increases in domestic prices raising administrative and operational costs and from implementation of past wage policies in the education, health and security sectors. Additional spending is also needed to scale up cash transfers to cushion the poor from higher commodity prices, and on energy subsidies (Annex VI).

17. A supplementary budget for FY2022 was agreed to ensure that the authorities' fiscal targets remain on course (MEFP ¶22). The revised 2022 budget is calibrated to begin the consolidation while taking into account the difficult economic context. It reflects additional expenditure needs, financed by new revenue measures, and additional budget support grants from the World Bank (Text Table 2). Both the domestic primary balance and the overall balance (including grants) have widened relative to the budget. The deficit is fully financed and broadly consistent with the program objective of keeping bank domestic financing at around 2 percent of non-iron ore GDP.

[6] IMF (2019) *Building Resilience in Developing Countries Vulnerable to Large Natural Disasters* lists Sierra Leone as one of the countries most vulnerable to natural disasters. The Notre-Dame-Global Adaptation Initiative ranks Sierra Leone as the 17th most vulnerable and 49th least ready country in the world, with vulnerability to climate change well above the regional average.

To facilitate parliamentary approval of the supplementary budget, the government has expedited its submission by mid-June 2022 (**Prior Action**).

Text Table 2. Summary of Fiscal Changes in FY2022 (Le. billions)

	2021	2022			
	Prel	3rd/4th ECF Review 1/	FY2022 Budget 2/	5th ECF Review Proj.	Difference (D-C)
	A	B	C	D	E
Revenue and grants	**9,288**	**10,067**	**9,943**	**11,078**	**1,134**
of which: Domestic revenue	6,917	7,637	7,643	7,787	145
:Grants	2,044	2,217	2,100	3,069	969
Total expenditure and net lending	**12,533**	**11,577**	**11,933**	**13,257**	**1,324**
Primary Expenditure	11,265	10,011	10,494	11,693	1,199
of which:					
Wages and salaries			3,898	4,314	416
Subsidies and transfers			1,516	2,067	551
o/w Energy subsidies (IPP)			122	538	416
Domestically financed			*122*	*368*	246
WB emergency energy support grant			--	*170*	--
Goods and services			1,317	1,417	100
Interest payments			1,439	1,564	125
Development spending			3,643	3,874	231
Domestic primary balance	-2,213	-965	-299	-1,153	-853
(in percent of non iron ore GDP)	*-5.0*	*-1.8*	*-0.6*	*-2.2*	*-1.6*
Overall balance (inc.grants)	-3,245	-1,510	-1,990	-2,179	-190
(in percent of non iron ore GDP)	*-7.3*	*-2.9*	*-3.9*	*-4.1*	*-0.4*

Sources: MoF and Fund staff estimates and projections.
1/ 3rd & 4th review of the Extended Credit Facility (CR/21/183), August 2021.
2/ Authorities' FY2022 budget as agreed in October 2021.

18. Expenditure overruns in 2021 were driven by both changes in domestic prices and other factors (Text Table 3). Changes in inflation relative to the 3rd/4th review account for about 0.9 percentage points of overruns. Other factors (including one-off unanticipated expenditures) account for up to 2.8 percentage points of the overruns. Excess outlays on wages and salaries resulted from a higher than anticipated depreciation rate, additional COVID-19 risk allowances, and under budgeted leave allowances for the tertiary sector. Slippages in goods and services included unanticipated legal fees

Text Table 3. Budget Overruns in 2021

	Total variation (out-turn-3rd/4th rev)	Change in domestic prices	Other factors (incl. discretionary)	Total variation (out-turn-3rd/4th rev)	Change in domestic prices	Other factors (incl. discretionary)
	1/	2/	3/	1/	2/	3/
	(in Le. billions)			(in % of non-iron ore GDP)		
Expenditures and net lending	**1,664.8**	**422.1**	**1,242.7**	**3.7**	**0.9**	**2.8**
o/w Recurrent	1,153.7	398.7	755.0	2.6	0.9	1.7
Wages and salaries	262.3	82.2	180.1	0.6	0.2	0.4
Goods and services	542.3	444.8	97.5	1.2	1.0	0.2
Subsidies and transfers	167.2	(102.5)	269.8	0.4	(0.2)	0.6
o/w Development	511.1	23.4	487.6	1.1	0.1	1.1

1/:Total variation-difference between 2021 out-turn and the 3rd/4th review
2/: Variation due to changes in domestic prices relative to the 3rd/4th review
3/: Variation due to other factors beyond domestic prices

on resolving a key mining dispute, hosting an extra-ordinary session of the ECOWAS parliament, purchase of specialized vehicles (fire engines following a catastrophic accident in Freetown), establishment of two new foreign missions, and participation in the AfCON games. This was compounded by a surge in energy subsidies to Karpower, including due to higher fuel costs. Finally, domestic financed capital spending overruns included COVID-delayed roads projects, higher spending on learning materials and examination fees, agriculture inputs subsidy, electricity to six rural districts, the integrated civil registration ID management system, and a mid-term population and household census.

19. To address slippages and the significantly updated macroeconomic assumptions, the revised budget for 2022 includes additional revenue and expenditure measures. Relative to the authorities' FY2022 budget, both revenues and expenditures have increased. The bulk of the additional spending is financed by additional budget support grants. Additional revenue measures include PAYE, GST, other non-tax items (timber, TSA, digital IDs) yielding about 0.4 percent of non-iron ore GDP (Text Table 1 in the MEFP¶13). Expenditure savings of about 0.4 percent of non-iron ore GDP are expected from containment of recurrent spending (unwinding of general COVID-19 risk allowances and delayed hiring, and a cut in the administrative costs budget). Limited fiscal space severely constrains contingency planning. Nevertheless, contingency plans include delaying some domestic financed capital spending, and cutting administrative costs. The cautious approach to use of the SDR allocation provides some buffer should priority spending pressures arise.

20. The authorities are using a portion of the 2021 IMF SDR allocation for fiscal purposes by retrocession. This approach is consistent with Sierra Leone's laws and a Memorandum of Agreement between the BSL and Ministry of Finance (MoF) has been prepared. The expected total use of the SDR allocation for budget financing has been increased from 0.9 to 1.6 percent of non-iron ore GDP in the revised budget (23 percent of US$282 million, Text Table 4). External stability considerations limit the use of significantly more SDR financing for the budget.[7] This is appropriated towards social priority spending in Sierra

Text Table 4. Programmed SDR Allocations Use for the Budget (Le. billions)

Priority Spending (Revised 2022 Budget, Le. billions)	FY2022 Budget A	FY2022 Rev.budget B	Diff.1/ (B-A)
Transfers to NaCOVERC	174.0	174.0	0.0
Arrears clearance	100.0	100.0	0.0
Other priority expenditures	178.7	582.9	404.2
o/w Health	11.9	36.2	24.3
National Emergency Medical Services (NEMS)	2.1	26.4	24.3
Support to Ambulances services	4.9	4.9	0.0
Construction of Cancer and diagnostic medical center	4.9	4.9	0.0
o/w Education	80.0	145.0	65.0
Welfare and hygiene for school going girls	9.5	14.5	5.0
School feeding program	68.8	128.8	60.0
Rehabilitation/expansion of boarding facilities	1.7	1.7	0.0
o/w Water	48.8	158.8	110.0
Water supply services in six district capitals	45.0	155.0	110.0
45 industrial boreholes(urban wash supply)	3.8	3.8	0.0
o/w Agriculture	18.6	18.6	0.0
o/w Energy (Rehabilitation of Goma-Dodo Hydro dam)	5.0	5.0	0.0
o/w Energy (subsidies)	0.0	156.9	156.9
o/w Fisheries(Support to Artisanal fisheries, including women)	5.2	5.2	0.0
o/w Environment (Support Tree Planting and carbon financing)	9.2	37.2	28.0
o/w Sierra Leone Social Safety Net (Cash Transfers)	--	20.0	20.0
Total (Le.billions)	**452.7**	**856.9**	**404.2**
in percent of non-iron ore GDP	*0.9*	*1.6*	*0.8*

1/ Diff. reflect the social and priority spending expanded using SDRs allocation in FY2022 revised budget. Allocations for arrears clearance was used to offset in-year payables to WFP, Plan International and essential medicine suppliers.

[7] The use for fiscal vs. external purposes balances the need to protect a vulnerable external position—with the two special facilities by the BSL (totaling US$100 million, ¶31) highlighting the high demand for FX—and the urgency of

(continued)

Leone, including Sierra Leone's social safety net (cash transfers) managed by the National Commission for Social Action and complements larger World Bank supported cash transfers to scale-up beneficiary households. The authorities committed to transparent accounting and use of SDR resources (**Structural Benchmark**).

21. The medium-term fiscal framework continues to strike a balance between containing debt vulnerabilities and supporting post crisis recovery. This is anchored around shoring up domestic revenue mobilization, securing more budget support grants, and strengthening expenditure management and commitment controls. Under the baseline scenario, the domestic primary balance shifts into surplus in 2023 and to 1.7 percent of non-iron ore GDP by 2024, as domestic revenues improve (15.5 percent of non-iron ore GDP by 2024 - Text Table 5) and containment of recurrent spending.

Text Table 5. Summary of Fiscal Operations of the Central Government
(Percent of non-iron ore GDP)

	2021		2022			2023	2024
	ECF 3/4 Rev 1/	Prel.	ECF 3/4 Rev 1/	FY2022 Budget	Proj.	Proj.	
Total revenue and grants	**19.3**	**20.8**	**18.7**	**19.6**	**21.0**	**19.5**	**20.7**
Domestic revenue	14.1	15.5	14.2	15.1	14.7	15.0	15.5
Tax revenue	11.8	12.5	11.9	12.6	12.1	12.5	13.0
CCRT debt relief	0.7	0.7	0.4	0.4	0.4	0.0	0.0
Grants	4.5	4.6	4.1	4.1	5.8	4.5	5.2
Expenditures and net lending	**23.1**	**28.1**	**21.5**	**23.6**	**25.1**	**22.3**	**23.1**
Current expenditures	16.3	19.3	14.7	16.1	17.7	15.0	15.3
Wages and salaries 2/	7.8	8.8	6.9	7.7	8.2	7.2	7.1
Subsidies and transfers	3.3	3.9	2.6	3.0	3.9	2.6	2.4
Capital Expenditure	6.4	7.9	6.7	7.2	7.3	7.0	7.4
Domestic primary balance 3/	**-2.1**	**-5.0**	**0.3**	**-0.5**	**-2.5**	**0.3**	**1.7**
Overall balance including grants	**-3.8**	**-7.3**	**-2.8**	**-3.9**	**-4.1**	**-2.8**	**-2.4**
Financing	**3.8**	**7.3**	**2.8**	**3.9**	**4.1**	**2.8**	**2.4**
External financing (net)	0.5	0.8	0.7	0.8	0.5	0.4	0.9
Domestic financing (net)	2.9	6.2	2.2	3.2	2.1	2.1	1.6
O/w Banks, net of onlending 4/	1.9	3.2	2.2	2.3	2.2	2.0	2.2
SDR onlending, Net	1.9	1.9	0.3	0.4	0.4	-0.4	-1.1
Other, Use of SDR allocations	0.0	0.0	0.0	0.9	1.6	0.3	0.0
G20 DSSI (net)	0.4	0.3	-0.1	-0.1	-0.1	-0.1	-0.1
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum item:							
Non-iron ore GDP (Le billions)	47,055	44,618	53,823	50,662	52,857	64,361	77,846

Sources: MoF and Fund staff estimates and projections.

1/ 3rd & 4th review of the Extended Credit Facility (CR/21/183), August 2021.

2/ Starting in 2019, tertiary education wages are classified in the wage bill and not under subsidies and transfers.

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed capex, elections spending, SDR allocation use, and arrears paydown.

4/ ECF program de facto anchor (adjusted for on lending).

22. A range of fiscal reforms on revenue, expenditure, and PFM fronts are expected to support priority spending while reducing debt vulnerabilities.

filling a fiscal gap, while allowing some buffer for contingency planning. In 2023, some US$12.2 million are allocated for fiscal financing purposes.

- **Revenues.** On tax policy, the authorities have resumed implementation of the automatic pricing formula for fuel products (**continuous SB**), reversed the floor pricing instruction to telecoms, and reviewed electricity tariffs (MEFP ¶26). A price smoothing mechanism is not in place to reduce the volatility of domestic price changes at the expense of increasing fluctuations in revenues. Additional revenue measures may be necessary in the event of prolonged large increases in international oil prices. The development of a Medium-Term Revenue Strategy (MTRS) is ongoing (MEFP ¶28, **Structural Benchmark**) with Fund TA and aims at reducing distortions and revenue leakages, and increasing progressivity. Automation of tax filing and payment processes, installation of Electronic Cash Register (ECR) machines, and computer aided audits for large taxpayers are expected to improve tax administration and compliance (MEFP ¶26 -¶27). The authorities plan to implement excise stamps and a fuel marking technology for tracking and monitoring compliance (beverages, petroleum products) and to review the timber tax regime (Annex V, Forestry).

- **Expenditure rationalization and reprioritization**. The authorities plan to continue prioritizing resources towards human capital development (MEFP ¶19). They are investing in food security systems through expanded rice production, with inputs subsidy, and targeted transfers need to be scaled up to protect the most vulnerable. Given limited fiscal resources, these priority areas call for more expenditure control, seeking efficiencies in spending and budget support grants. Some of the priority areas include:

    - *Wage bill management*. The government will continue to undertake regular cleaning and audit of the payroll, minimize manual voucher payments, finalize a new payroll policy with TA from FCDO, develop a medium-term wage bill management strategy (with Fund TA) that seeks to align remuneration to staff productivity and rationalize establishment sizes, and establish a Wages and Salaries Compensation Commission (MEFP ¶39-¶40).

    - *Energy subsidies*: The authorities are strengthening the revenue model for the Electricity Distribution and Supply Authority (EDSA), installing pre-paid meters in all government buildings, reducing illegal power connections, among other measures to reduce dependence on budget transfers (MEFP ¶31).

    - *Domestic capital spending*: The latest Public Investment Management Assessment identified gains from better project appraisal and selection, and improved planning and execution. With Fund/EU TA, the authorities have developed an infrastructure project appraisal template and guidelines to streamline the pipeline of projects and improve the efficiency in spending (MEFP ¶41).

23. Sustained improvements in expenditure controls and budget execution systems are crucial to limit risks to the budget. The accumulation of unpaid checks in the Integrated Financial Management Information System (IFMIS), delayed disbursement of funds, and carry over of previous years' commitments should be stopped.[8] Quarterly budget allotment at the execution stage is often delayed, resulting in payables queued up in the IFMIS and the Treasury. The Expanded Cash and Debt Management Committee (ECDMC) has not met regularly since the start of the COVID-19 pandemic and is not producing key outputs for cash and debt management, nor has there been systematic briefing of the MoF representatives of the Economic Management Team. To remedy these shortcomings, the authorities are advancing PFM reforms to improve the efficiency of spending and minimize risks to the budget. Priority areas include:

- To improve the monitoring of budget execution and reduce accumulation of arrears paydown (starting with a report for 2021to transparently report on 2021 overruns and 2022Q2), MOF is committed to regularly publish budget reports on actual budget performance against actual budget allotment (PA#1) for monitoring of budget execution and new arrears accumulation.

- Leveraging the IFMIS, which has been upgraded to the web-based version in early 2022 and has the capability of integrating the electronic Public Expenditure Tracking Survey (ePETS) to strengthen in-year expenditure monitoring and commitment controls (MEFP ¶34).

- The newly launched ECRs will help monitor transactions of small business and predict tax revenues in real time, but there are transition challenges (MEFP ¶26).

- Update the legacy arrears clearance strategy to ensure consistency with both debt sustainability and acceptance by creditors. The authorities have paid a large amount of the pre-April 2018 legacy arrears (or Le. 457 billion over 2020-21) without the large discounts envisaged under the approved arrears clearance strategy. The authorities have committed to halt arrears clearance in 2022 until a new arrears clearance strategy is in place, with a complete list of creditors and a repayment schedule over the medium term, and with proposed discounts, based on the criteria set in the strategy (**Structural Benchmark**).

- The authorities also reinvigorated the expanded cash and debt management committee (PA#3) and identified areas to improve its functioning (MEFP ¶35), which is relevant and effective to prevent arrears accumulation.

- Adoption of strategic top-down budgeting. The authorities have requested technical assistance from the IMF to explore the possibility of adopting a strategic top-down approach to budgeting that reconciles the availability of resources with commitments, and which could improve budget credibility (MEFP ¶33).

24. Adoption of a debt anchor could credibly guide fiscal policy to reduce debt ratios. The authorities plan to transition to a medium-term debt anchor after the current ECF. The Fund's

[8] IMF AFRITAC West 2 technical report on "Strengthening Budget Execution Systems", July 2021.

debt anchor tool for low-income countries[9] was tailored to Sierra Leone's context to calibrate fiscal policy to reduce debt to 51 percent of non-iron ore GDP between 2021-33, implying a safety buffer of around 19 percent of non-iron ore GDP below the authorities' own maximum debt limit of 70 percent of non-iron ore GDP (Box 1, SIP: Medium-Term Fiscal Framework and Debt Anchor for Sierra Leone).

Authorities' Views

25. The authorities agree broadly with staff's assessment. They underscored that the impact of COVID-19 on Sierra Leoneans was largely felt economically and in the deterioration of government's fiscal position. The war in Ukraine has exacerbated this with raised energy, food, and fuel prices pushing operational costs even higher. The subsidies budget has expanded driven by the energy crisis and human capital development agenda. On the latter, the FQSE has attracted a large number of new learners, raising the bill on school fees and necessitating recruitment of more teachers. Further the cost of learning materials and payments of examination fees have increased beyond the budget. These explain most expenditure overruns in 2021 and partly 2022Q1. They hold the view that deterioration of the fiscal position and associated debt indicators is in fact driven by unanticipated macro and fiscal shocks arising from the COVID-19 pandemic and now the war in Ukraine.

Public Debt Sustainability

26. Sierra Leone's overall and external public debts are sustainable, but remain at high risk of debt distress. Fiscal slippages and external factors have increased risks around the baseline, as a larger and more frontloaded fiscal adjustment is now required to achieve the program objectives. An effective debt management and borrowing strategy is required for debt sustainability, while creating space for priority spending. All debt burden indicators remain on a declining trend over the medium to long term, provided the authorities' implement ambitious fiscal adjustment and continue to rely on concessional financing and grants (Text Table 6). While the Catastrophe Containment and Relief Trust (CCRT) and Debt Service Suspension Initiative (DSSI) provided critical breathing space, the

Text Table 6. Summary Table of External Borrowing Plan for 2022

PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	PV of new debt, US million 1/
Sources of debt financing	**115**	**66-74**
Concessional debt 2/	115	66-74
Non-concessional debt 3/	0	0
Use of debt financing	**115**	**66-74**
Project financing	115	66-74
Budget financing	0	0
Memorandum items		
Indicative projections		
CY2023	100	<65

1/ Contracting and guaranteeing of new debt (defined in the TMU). The present value of debt is calculated using the terms of individual loans applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.
3/ Debt which does not meet the definition of concessional debt.

[9] See Baum et al. 2017.

external debt service-to-revenue ratio will continue breaching the threshold due to high debt repayments falling due in coming years (repayments to the IMF account for more than 40 percent of forthcoming total debt service (Table 6, ¶45)), and the public debt-to-GDP ratio is above its benchmark (see DSA). The high domestic interest bill is adding to fiscal pressures while the reliance on 364-day T-Bills creates refinancing risks. Building on the Medium-Term Debt Strategy (MTDS), TA is recommended on domestic market development to facilitate lengthening the maturity structure, which would reduce rollover risk and diversify financing. Reining in inflation will support this objective. More issuance at shorter maturities (3-month and 6-month) would help manage government liquidity and allow for development of a yield curve, thus facilitating the pricing of longer-term bonds. Bringing in more non-bank participants (long-term pension, insurance funds) and facilitating a more actively traded secondary market would help lengthen maturities. Specifically, reviewing regulatory and investment guidelines for pension funds and insurance companies, as well as clarification of the tax treatment on sovereign bonds, would help support bond market development.

Fiscal Governance

27. While efforts to improve governance in Sierra Leone have generally continued, additional reforms are required to strengthen the institutional and financial independence of the ASSL and to reduce corruption.

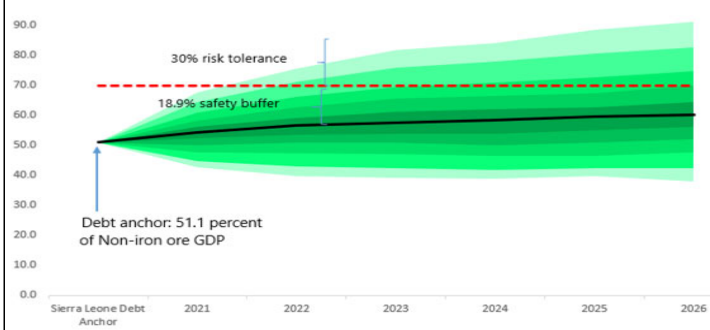
- After some lag in publications after June 2020, the unaudited financial statements of the National COVID-19 Emergency Response Center (NaCOVERC) and key details of its large procurement contracts have been published up to March 2022 (**Prior Action**), in line with RCF commitments. The authorities have tried to address irregularities uncovered in ASSL's real time audit of Covid-19 emergency spending, including by implementing standard operating procedures, training all District Covid-19 Emergency Response Centers on principles of financial management, and taking steps to improve HR processes. In line with RCF commitments, ASSL published the July-December 2020 financial audit of the NaCOVERC on ASSL's website (**Prior Action**). Going forward, it will be critical to implement the needed corrective actions and recommendations of existing audits.

- There is scope to strengthen the ASSL's independence. A broad spectrum of stakeholders have called for a timebound and transparent conclusion to the domestic legal process that is hearing the case of the suspended Auditor General and her Deputy, with a process that is consistent with the laws of Sierra Leone. To ensure an efficient and transparent functioning of future tribunals more generally, the authorities have developed and published procedural rules for tribunal proceedings (**Prior Action**). ASSL commits to pay all salaries and allowances (including any overdue, unpaid claims) that are legally due to the persons holding the positions listed in the "Management Profile" section of ASSL's website (as of May 31, 2022) in accordance with the Sierra Leone Constitution, the Audit Service Act 2014, and the ASSL Conditions of Service 2014, as amended in 2018—and in line with the goal of strengthening its institutional independence. They are working on strengthening preparation, follow-up, and implementation of audit recommendations, and have developed a set of standard operating procedures to guide an effective follow-up on audit recommendations. By September 2022, they commit to amend the 2014 ASSL Act to strengthen ASSL's powers to follow-up and enforce audit recommendations (**Structural Benchmark**), commit to jointly (ASSL, Attorney General's Office and MOF) publish a roadmap, in consultation with IMF staff, on enacting the statutory provisions on surcharges with an implementing regulation (MEFP ¶85), and develop a roadmap to enhance ASSL's budgetary autonomy (**Structural Benchmark**).

Box 1. Fiscal Anchor[1]

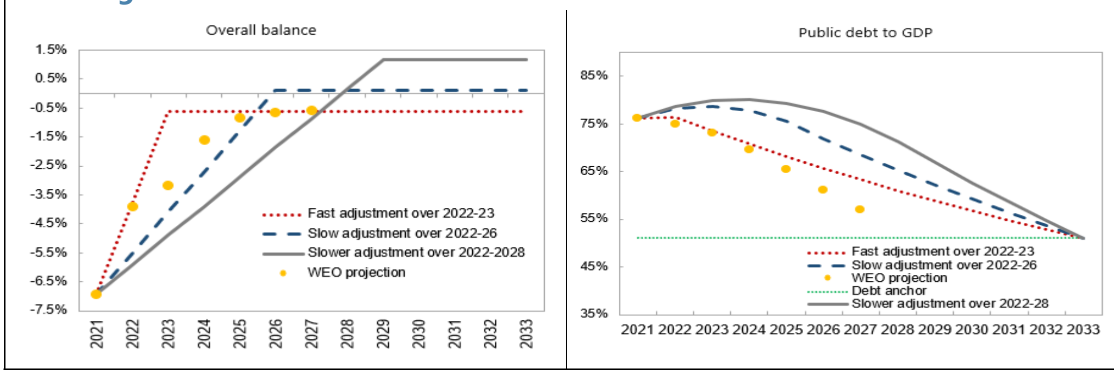
Sierra Leone's debt to GDP is estimated at about 76.3 percent of non-iron ore GDP at end-December 2020, above the 70 percent NDP ceiling, and debt vulnerabilities have been rising. The maximum debt limit of 70 percent of non-iron ore GDP appears appropriate and should not be exceeded in almost all circumstances, calling for a sufficient safety buffer around the limit (Figure 1).[2]

Figure 1. Debt Anchor and Safety Buffer



A standard debt dynamic equation derived the overall balance that allows public debt to converge to its debt anchor, given a set of macroeconomic baseline assumptions, the gap between the current debt level and the anchor, and desired pace of adjustment (fast, slow, and slower). Further, we assumed that it would take at least 12 years for debt to converge from the current level to the debt anchor (in 2033). Figure 2 shows three scenarios with different pace of adjustment to achieve a debt stabilizing overall balance.

Figure 2. Overall Balance and Public Debt Profile Under Three Scenarios



The scenario of reaching a debt stabilizing overall balance in five years appears the most realistic to guide medium term fiscal policy post-ECF. It strikes a balance between credibility and realism for higher development financing needs. The implied long term overall balance is about 0.1 percent of GDP between 2026-33 and debt converges to its anchor of about 51 percent of non-iron ore GDP by 2033. Nonetheless, the credibility of the proposed fiscal adjustment path depends on ongoing structural reforms to expand potential growth, enhanced revenue mobilization, and efficiency gains on spending.

1/ See Sierra Leone—Selected Issues (CR/22/xx)

2/ [How to Calibrate Fiscal Rules: A Primer (imf.org)](imf.org).

Authorities' Views

28. The authorities generally concurred with the assessment regarding the risk of debt distress. They explained the overall strategy of their debt policy is to maintain debt sustainability, including being mindful of the high rollover risks in the domestic portfolio and would issue medium-to-long-term bonds to reduce these risks, and the importance of prioritizing concessional external financing, especially grants, to finance various projects. While recognizing the near-term increase in debt service, the authorities noted that relief such as CCRT can be very helpful to countries with limited fiscal space like Sierra Leone, under the current crisis.

29. The authorities also emphasized their continuous commitment to good governance efforts, including as recognized by a range of development partners over the past years. They stressed that they are working towards strengthening the audit process and the enforcement of audit implementation. To that end, they have included in the 2022 Finance Act provisions to sanction lack of implementation of audit recommendations, and are working with the World Bank to strengthen the audit process.

C. Promoting External Stability and Diversification

30. Sierra Leone's external position remains weaker than the level implied by fundamentals and desirable policies; reducing real effective exchange rate (REER) overvaluation is critical to maintain external sustainability (Annex VII). FX market intervention should be limited to reducing excessive volatility. Reserve coverage is projected to decline over time with an annual US$40 million BOP financing gap after 2026. Although 3-month coverage of imports is deemed to be sufficient, the unfolding war in Ukraine, pandemic related uncertainty, and macroeconomic vulnerabilities call for higher buffers to avoid the risk of an even sharper depreciation. Seeking efficiencies in FX demands on the government's goods and services budget would also help alleviate pressure on reserves.

31. The BSL introduced two new facilities to provide FX to importers of essential commodities. Excess demand for foreign exchange and market imperfections impeding the FX market from clearing[10] contributed to acute challenges by importers to access FX from commercial banks when prices for fuel and other commodities increased in 2022Q1. To help alleviate some of these pressures in the short term, the BSL introduced two new temporary facilities (US$50 million each), the Special Facility for Food (SFF) for rice, sugar and flour and the Reserve Fuel Facility (RFF) respectively, in April 2022.[11] The facilities will provide FX to commercial banks for

[10] Sierra Leone's de facto exchange rate regime has been classified as "other managed arrangement", by the Fund since 2015 (reclassified from "floating"). The BSL does not target a specific level of the exchange rate and has not conducted FX auctions recently but maintains some administrative controls. The FX market is highly segmented. There is no interbank FX market, and the number of transactions between banks and their clients is low, which impedes the price discovery system. The BSL reports that banks prioritize longer-term relationships with preferred customers over higher bidding prices, while FX bureaus tend also to buy FX from the general public but do not sell to them. As a result, there is a large parallel market, and FX shortages are a recurring issue.

[11] The BSL had previously introduced a Special Credit Facility (SCF) for food imports in the amount of Le. 500 billion which has been fully disbursed and an Agricultural Credit Facility (ACF) for agricultural inputs in the amount of US$10 million.

selling on to importers of these commodities. Given that the BSL will not be able to meet the excess demand for FX on a sustained basis, staff stressed that these facilities should not be renewed once the US$100 million is disbursed.

32. The introduction of the facilities gives rise to new MCP and exchange restriction issues, for which the authorities request approval under Article VIII and waivers for the program PCs.[12] Given the FX shortages Sierra Leone is currently experiencing, the allocation of FX through the various BSL facilities constitute prioritization, giving rise to an exchange restriction. In addition, transactions under the BSL facilities will be based on the previous day's market rate, which gives rise to a MCP, as there is no mechanism in place to ensure that the rate used for such transactions does not deviate by more than two percent from the prevailing market rate. The authorities request approvals for these practices and measure under Article VIII, and staff supports the request, given that (a) the measures giving rise to the exchange restrictions are imposed for BOP reasons, necessary and temporary, and (b) the measure giving rise to the MCP is imposed for BOP reasons, temporary, and does not give the member an unfair competitive advantage over other members or is non-discriminatory. In conjunction with requesting approvals under Article VIII, the authorities will also be requesting waivers for the non-observance of the continuous performance criterion on the non-introduction of MCPs and exchange restrictions (¶44). Furthermore, the authorities will be taking corrective actions by capping the total amount of these facilities[13] and change the current BSL calculation methodology, which staff assessed could help mitigate FX shortages by more closely representing prevailing market exchange rates (MEFP ¶60, **Structural Benchmark**).

33. The authorities have temporarily allowed selected companies and international organizations to pay for certain imported goods in foreign currency and are considering other measures. Mining companies and other large commercial users account for over 50 percent of all fuel demand, so their direct sourcing of fuel or payment in FX will ease the pressure in the FX market. This measure should be temporary to avoid increasing dollarization in the system. Meanwhile, the BSL is considering providing a limited amount of FX through the post office (SALPOST) on a pilot basis to meet the FX needs of the wider public for travel purposes and to increase financial inclusion. Staff cautioned that licensed agents should be playing this retail role rather than the central

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[12] Sierra Leone currently has in place one MCP due to the BSL official exchange rate (the BSL rate) which is used for certain governmental transactions. This was previously assessed and discussed in the Staff Report of the 3rd/4th Review of the ECF (CR/21/183). The BSL Leone-USD rate is calculated weekly and computed as a weighted average of commercial banks and FX bureaus exchange rates over the previous five business days. As previously assessed, the BSL rate gives rise to an MCP as there is no mechanism in place to ensure that the spread between the BSL rate and the prevailing market rate does not deviate by more than 2 percent at any given time. Recent information has indicated that there have been cases of actual deviation of more than 2 percent between the BSL rate and the market rate in the last year. As mentioned in CR/21/183, the authorities are not requesting approval of this MCP arising from the BSL rate; however, the authorities are committed to improve the computation of the BSL rate to include the commercial banks' weighted average exchange rate from the previous day (MEFP ¶60). This will allow the BSL rate to better reflect the prevailing market rate and will be an improvement (although under current Fund policy, it will still constitute a MCP).

[13] The facilities are considered temporary as the total amount of these facilities are capped, and are likely to be exhausted before the end of this program (MEFP ¶61).

bank. The proposal could also result in potential MCPs and/or exchange restrictions, depending on how it is implemented. The supply of FX through this scheme should be limited given the level of reserves.

34. Going forward, diversifying the economy, strengthening export competitiveness, and seeking new sources of FX will be critical to maintain external stability. The authorities should undertake reforms (supported by Fund TA) to facilitate FX market clearing, including supporting sufficient exchange rate flexibility in the future to ensure the sustainability of the market-clearing mechanism. While FDI and external official loans are financing the current account deficit for now, these inflows cannot be relied on indefinitely. Supply side reforms should continue to strengthen competitiveness. Natural endowments—expanding agricultural, fisheries, mining production and increasing value added—provide a foundation for further boosting the economy if managed well. Sierra Leone's young population holds the potential for productivity growth and a more diversified economy. Looking further ahead, another under-tapped revenue stream from Sierra Leone's forests is climate finance, including carbon credits, Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD+) payments, and grants for forest conservation or reforestation. While Sierra Leone has already issued 1 million carbon credits, primarily through the GOLA Rainforest (the first REDD+ project in West Africa), the pace of projects has declined in recent years.

Authorities' Views

35. The authorities agreed with the general thrust of staff's assessment but there were some differences of views on solutions to deal with FX shortages. Given the weak external position, the authorities will pursue reforms to improve the competitiveness of the export sector to complement FDI and external official loans in financing the current account deficit, as well as retain an adequate reserve buffer to avoid the risk of an even sharper depreciation. They argued that the BSL maintains a flexible exchange rate regime, with the exchange rate of the Leone freely determined by market forces. While in agreement with the recommendation to move to a one-day calculation and daily publication of the official BSL rate, they noted that it could lead to more exchange rate volatility. On the proposal to sell FX through SALPOST, the BSL noted that FX bureaus are not currently catering to the retail market and so there was a need for government intervention. They stressed that the scheme would be implemented carefully on a pilot basis and that it would help to jump-start the provision of financial services by the post office.

D. Monetary and Financial Sector Policies: Tackling Inflation, Maintaining Stability and Expanding Financial Development

36. A multi-pronged approach is needed to tackle inflation. Although the central bank has responded appropriately by raising the monetary policy rate (MPR) in April from 14¼ to 15 percent, more aggressive tightening may be appropriate during the year if inflation persists, since the MPR is currently negative in real terms. A significant projected reduction of NFA in 2022 will offset the increase in reserve money from the SDR allocation use (Le. 857 billion via retrocession) and on-lending of ECF disbursements (about Le. 629 billion). The overvalued real exchange rate also contributes to a tighter monetary policy.[14] However, controlling money growth, steps to limit exchange rate depreciation, and raising interest rates will not be sufficient to bring inflation down in the short run (Box 2, Inflation). Likewise, the SFF and RFF should temporarily relieve inflationary pressures but are not sustainable policy instruments in the medium term. Fiscal consolidation and a reduction in the government's domestic borrowing requirement will help in the longer run. Increased real wages in the public sector could further stoke inflation, which emphasizes the need to look at the wage structure.

37. Over the medium term, the BSL could strengthen its monetary policy framework to improve transmission. The BSL maintains an asymmetric corridor around the MPR with the standing facilities, and the interbank rate has largely been maintained within this corridor in recent years. Going forward, the BSL should limit the use of secondary market purchases to support government issuance and consider introducing its own short-term liquidity management operation, ideally with a standardized tenor, along with strengthened coordination with the MOF on cash management. Over the medium term, removing structural impediments to the functioning of the FX market will help to strengthen monetary policy transmission. Monetary and exchange rate policy communication could also be improved to better anchor expectations, by, for example, publishing and clearly explaining the BSL's inflation goal, and via the timely publication of statistics, economic reviews, and monetary policy statements on the BSL's website.

38. The recent FSSR provides a comprehensive overview of the weaknesses in the financial sector, along with a roadmap for reform. The banking system appears well capitalized, profitable, and liquid, mainly due to high asset concentration in government securities. However, this increases the risks to banks in the event of government repayment difficulties. The simultaneous increase in NPLs and gross loans (with rising private sector credit) is a further vulnerability, despite significant variation among banks. Recent on-site examinations (of two SOBs) suggest NPLs may be underestimated. Despite recent growth, private sector credit remains low (18 percent of total bank assets in 2021Q4) as banks have struggled to identify bankable projects and lending is concentrated in commerce, finance, and construction activities. Fiscal consolidation could assist with private sector development as banks seek alternative assets, while lending would also be facilitated by an effective credit information infrastructure. For banks with high NPLs, and inadequate capital and provisioning, enhanced supervision should continue. The BSL should set out a systemwide strategy for bringing down NPLs to the 10 percent prudential limit (MEFP ¶67). Following IMF TA, the BSL should complete the draft of the prudential guidelines while ensuring proper consultation with the banking industry.

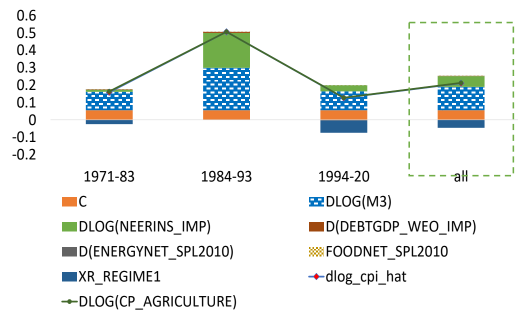
[14] Sierra Leone's monetary policy framework is de jure reserve money targeting. It also sets a policy rate and rates on standing facilities on a quarterly basis, but transmission to bank lending rates is weak. Assessing the monetary policy stance is difficult, given the hybrid framework, output gap uncertainty, and limited monetary policy effectiveness.

Box 2. Drivers of Inflation in Sierra Leone[1]

Inflation in Sierra Leone since the 1970s can be divided into two secular waves: a period of high inflation (mid-1980s to mid-1990s) and great disinflation (mid-1990s to present). While this has been a common pattern across sub-Saharan African and emerging market and developing economies, both Sierra Leone's inflation and disinflation experiences have been significantly more accentuated, and its long-term inflation higher and more volatile. Sierra Leone's structurally high inflation is strongly associated with persistently high monetary growth (Figure 1). Reactive and disruptive exchange rate adjustment frequently set inflation-depreciation spirals in motion, while monetary accommodation seems to have aggravated it—including by de-anchoring inflation expectations. Sierra Leone's laudable gains in disinflation can be explained by an improved policy framework, which minimized these inflation-depreciation spiral.

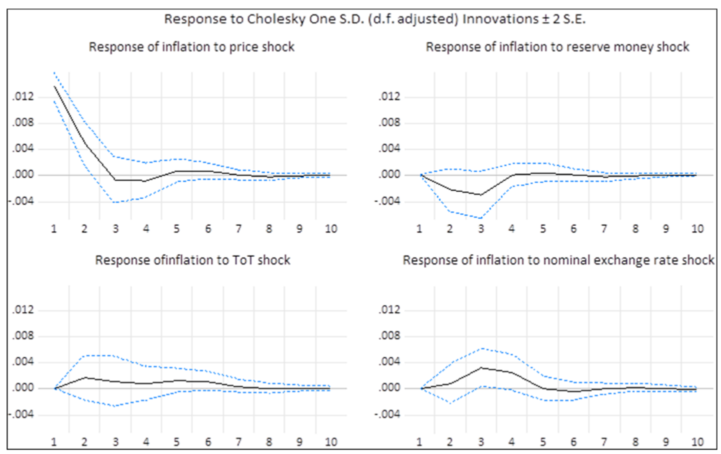
Figure 1. Decomposition of CPI Drivers 1971-2021

(Percent, period average)



An analysis of inflation since 2009 confirms the importance of exogenous shocks in driving inflation in the short run. Inflation is highly correlated with its own past values, suggesting a high level of persistence. Domestic supply shocks captured through own price shock (e.g., delayed harvests) tend to increase inflation instantly (Figure 2). Both exchange rate depreciation and terms of trade deterioration are associated with higher inflation, although their impacts are felt with a lag. Finally, inflation responds to the monetary policy shock with a lag of about two quarters, suggesting relatively weak transmission mechanism. This is a common finding in jurisdictions with underdeveloped financial markets.

Figure 2. Impulse Response Functions[1]



1/median inflation responses (in black); +/-standard errors (in blue) at 95 percent confidence intervals.

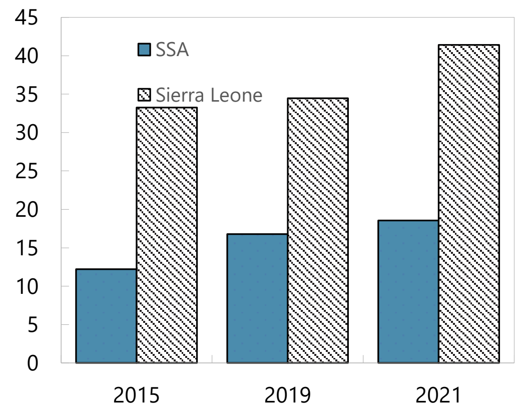
Nevertheless, the policy response plays an important role in maintaining price stability. Sharp exchange rate depreciations can destabilize inflation expectations. Overly accommodative monetary and fiscal policies can compound the impact of the shock, in particular by increasing the demand for foreign currency and putting pressure on the exchange rate. Moreover, the impact of monetary and monetary policy variables is relatively weak, suggesting a limited role for monetary policy in its current form. Improvements in central bank communication could help to mitigate pressures on the exchange rate and inflation. In responding to an exogenous shock (such as current high fuel prices and fuel shortages) the authorities need to ensure that their policy responses are well-communicated and temporary, given limited policy buffers.

1/ See Sierra Leone—Selected Issues

Text Figure 10. Sovereign-Bank Nexus

Banks' assets are heavily concentrated in government securities, even by already-high regional standards…

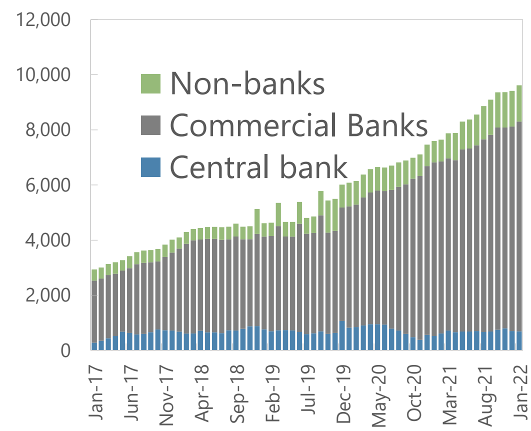
Banks' Holdings of Government Debt, 2015-21
(Percent of total assets)



Source: IMF, International Financial Statistics

…while non-banks account for only a small proportion of total holdings.

Government Securities by Holder, 2017-22
(Le billion)



Sources: BSL and IMF staff calculations

39. **Although the authorities are making progress on AML/CFT, effective implementation should be strengthened.** The 2020 mutual evaluation by the Inter-Governmental Action Group against Money Laundering (GIABA) identified legal and effectiveness deficiencies including: (i) making beneficial ownership (BO) of legal entities available; (ii) enhancing AML/CFT risk-based supervision of non-bank financial institutions and monitoring of Designated Non-Financial Businesses and Professions (DNFBPs); and (iii) strengthening enforcement against money laundering and financial crimes. The National Risk Assessment and related strategy should prioritize the monitoring, supervisory, and enforcement actions and provide for the necessary resources to achieve concrete outcomes (MEFP ¶70).

40. **The authorities are making progress on several fronts to strengthen governance of the financial system**. The BSL has appointed a second deputy governor in charge of financial stability. The 2019 BSL Act and Banking Act enhanced the legislative ability to regulate financial institutions, but several guidelines and regulations need to be either developed or strengthened to enable their practical application. A Financial Policy Committee at the BSL was slated for establishment in 2021 but still needs to be operationalized. Annual Financial Stability Reports are prepared but could be finalized and published on a timelier basis. Weaknesses in supervision and governance of the non-bank sector (including DFS) pose financial stability concerns.

41. **The two SOBs remain a major financial sector reform issue.** Both have been under enhanced BSL supervision since April 2019 although profits from government securities have shored up their capital adequacy ratios. A 2019 diagnostic identified material weaknesses in asset quality, credit processes, internal controls, and governance but follow-up TA to support reforms was delayed

due to COVID. The authorities note some improvements in governance and both banks have revised their business plans, although their viability and business models remain questionable. The World Bank is currently assessing the gaps in the corporate governance frameworks of these banks—a key input into an action plan to improve the corporate governance framework (MEFP ¶66, **Structural Benchmark**).

42. The BSL has announced plans to redenominate the Leone—a substantive undertaking that needs careful arrangements and coordination of stakeholders. Redenomination would involve removing three zeros from the currency and introducing a higher denomination Le. 20 note. International experience shows that redenomination involves extensive logistical and communications preparations, and thus requires an adequate planning horizon. With potential risks to revenue collection, the central bank's credibility, banking and commercial activity, and the FX market, staff urges the BSL to extend the preparation phase to ensure a smooth transition process. The responsibilities of all key stakeholders should be agreed along with accountability. An audit by a reputable independent firm would boost public confidence in the conversion process (equivalent to about 9 percent of GDP).[15]

Authorities' Views

43. The authorities agreed with staff's assessment in most areas. They emphasized the important role of the various special central bank facilities in containing inflation in recent years and that the interest rate channel for monetary policy transmission remains weak. They did not see any imminent risks to financial stability, including from the two state-owned banks. They acknowledged that NPLs are too high and that, with 364-day T-Bill rates at current levels, the banking sector has little incentive to lend to the private sector. While they agreed that the SOBs are not playing a strong financial intermediation role in the economy, they pointed to the structural constraints (beyond crowding out) which inhibit private sector credit growth. The BSL did not see a need to extend the preparation phase for the rollout of the redenominated currency; they noted that plans for the redenomination are proceeding well and are confident that all systems will be in place relatively soon.

PROGRAM ISSUES AND RISKS

44. Staff support the authorities' request for the following modifications and waivers to program conditionality:

- *A waiver for the non-observance of the end-December PC on NCG.* As corrective actions for the significant breach in the end-December 2021 NCG target, staff proposes three prior actions that provide assurances for future program performance. These prior actions include actions

[15] Measured as the value of currency in circulation and vault cash.

- to improve the monitoring of budget execution and arrears paydown, starting with a report for 2021 (to transparently report on 2021 overruns) and 2022Q1. As a structural benchmark the authorities would continue to produce such reports for the future. Regular monitoring and reporting on the outcomes will help guide expenditures based on the actual cash/liquidity situation.

- to strengthen cash management, by strengthening the functioning of the debt management committee which, due to capacity constraints, met only irregularly in the past year. Regular meetings by the committee, especially when its outcomes are communicated to MOF management, will help flag financing and arrears issues on a timely basis.

- and a revised 2022 budget (MEFP Table 2) that provides for a more realistic expenditure envelope given current shocks and spending needs; updated macroeconomic assumptions for the budget, and revenue measures (PAYE, GST, Timber taxation among others).

- An additional SB for the 6th review would ensure that quarterly budget allotment is aligned with recommendations from the cash and debt committee.

- *Waivers for the introduction of a new MCP and exchange restriction*. The authorities have requested approval of the new MCP and exchange restriction, which staff supports (¶32). In conjunction with this, the authorities are also seeking waivers for the nonobservance of the continuous PCs on MCPs and exchange restrictions. Furthermore, the BSL has committed to (i) non-renewal of the new fuel and food facilities (as well as the ACF) (MEFP ¶61), and (ii) a move to improve the computation and publication of the BSL rate and implement automated reporting/tracking mechanisms (MEFP ¶60, **Structural Benchmark**).

- *Modifications to QPCs to reflect changes in the economic environment and the agreed fiscal consolidation path.* Staff proposes to modify end-June and end-December 2022 PCs and modify end-June 2022, end-September 2022, and end-December 2022 ITs, and to raise the limit on concessional borrowing by adding the unimplemented portion of 2021 to 2022.

- *Future reviews will follow up on the aforementioned prior actions and structural benchmarks.*

45. Financing assurances are adequate. The program is fully financed with firm commitments for the next 12 months and good prospects to cover financing needs for the remainder of the program. The World Bank's Development Policy Operation (DPO) will provide US$100 million in budget support in 2022. The disbursement of SDR 15.55 million under the 5th review will be on-lent to the budget. As with previous on-lending under this ECF arrangement, the Government and the BSL have established a framework for on-lending in a Memorandum of Understanding. In the medium term, grant support is expected from development partners.[16] The authorities continue to

[16] The contribution of the Fund disbursement in the budget support declines modestly in 2022 and 2023 (31 percent in 2022 and 24 percent in 2023).

make good faith efforts to reach a collaborative agreement with external commercial creditors on long-standing pre-Heavily Indebted Poor Countries (HIPC) initiative arrears.

46. Capacity to repay the Fund is constrained and calls for fiscal discipline and improved debt management; risks to the program are high but remain manageable conditional on the authorities' sustained ownership of the reform agenda. Sierra Leone's outstanding debt to the IMF is now the largest in sub-Saharan Africa and among the PRGT eligible countries (13.3 percent of GDP). Outstanding IMF credit peaks at end-2022 at 187 percent of quota, almost 77 percent of gross reserves, 88 percent of revenue (excluding grants) and over 23 percent of public and publicly-guaranteed (PPG) external debt, well above the corresponding median values for the PRGT countries. Sierra Leone's debt service increases substantially and is expected to remain elevated in the medium-term with PPG external debt service peaking at 29 percent of gross international reserves in 2026. Annual gross repayments to the Fund peak in 2024 (5.1 percent of exports; 1½ percent of GDP) (Table 6). The country's participation in the CCRT and DSSI helped contain near-term payments,[17] debt servicing capacity may become strained as DSSI repayments start coming due and financing terms become less generous. Sierra Leone should continue to pursue highly concessional external support, fiscal adjustment, and active liability management to ensure adequate capacity to repay.

47. The BSL has implemented all but one of the recommendations from the 2017 safeguards assessment. While the FY2021 external audit is underway, this has resulted in a delay of the end-April SB for the publication of the 2021 financial statements (reset for end-September). The recently finalized FY2019 and 2020 audited financial statements have been published on the central bank's website and the BSL is working towards normalizing the audit cycle for FY2022. An external quality assessment of the central bank's internal audit function, conducted in 2021, noted a number of shortcomings against international standards. The BSL has developed an action plan to address the findings, including appointing a director of Internal Audit (**Structural Benchmark**) and further strengthening capacity (MEFP ¶63).

48. There are significant program risks. New COVID-19 variants, a weaker global outlook, and delays in external financing pose fiscal and debt sustainability risks. Higher fuel prices could add to existing fiscal pressures, in particular in an election year, and higher inflation could fuel social unrest. Capacity constraints and fragile institutions pose challenges despite the authorities' commitment and significant TA. Strong program ownership and tailored, parsimonious conditionality mitigates these risks.

STATISTICAL ISSUES AND CAPACITY DEVELOPMENT

49. Although data are broadly adequate for surveillance purposes, there is significant scope for improving statistics. The quality of BOP statistics has improved, including with help of

[17] Under the CCRT, Sierra Leone received SDR 58.24 million (US$82.2 million) relief in total of five tranches. DSSI debt deferment during 2020-21 was US$17.6 million.

IMF TA, but remaining recommendations and other data gaps should be addressed further. Statistics Sierra Leone successfully introduced an updated CPI in March 2022, with a more representative consumption basket and a new data collection center in the north-west region (SIP: Inflation). Rebased national accounts have been somewhat delayed due to the COVID-19 pandemic and are expected by end-2022. Prioritizing this project and reducing delays in publication of the national accounts will be important. Once the new national accounts are in place, Statistics Sierra Leone will commence work on a quarterly GDP series. The authorities are working with the Fund on introducing a Monthly Indicator of Economic Growth, to allow policymakers to assess the economic situation on a more real-time basis, and on an employment and remuneration matrix.

50. Sierra Leone is a major recipient of IMF capacity development (CD) including on most of the priority areas under the ECF program. Key areas of support from both IMF Headquarters and AFRITAC West 2 include revenue mobilization, public financial management and debt recording, strengthening the BSL's supervision and regulation capacity, monetary operations, and macroeconomic statistics. The IMF's Legal Department has also provided support on governance related to the ASSL and follow up of audit recommendations. The recent placement of two resident advisors at the BSL, on banking supervision and monetary policy respectively, will further help support CD delivery and program objectives in a fragile institutional setting (Annex VIII).

STAFF APPRAISAL

51. Sierra Leone has been implementing an ambitious development strategy for inclusive growth in the face of frequent shocks and very limited policy buffers. Staff lauds the National Development Plan's focus on human capital development and strengthening governance, with both key to reaping the potential demographic dividend. In addition, urgent action is required to prioritize interventions for climate adaptation, leverage efficiencies from digitization, invest in infrastructure and increase agricultural productivity. These efforts must be underpinned by determined efforts to maintain macroeconomic stability, even if challenging given the difficult medium-term outlook, frequent highly destabilizing shocks, inadequate revenues to finance large development needs, and a high debt burden. Expanding the revenue base, mobilizing more grant financing, together with an array of growth-enhancing reforms would contribute to easing these constraints.

52. The spillovers from the war in Ukraine have severely impacted a nascent recovery and added significant pressure to fiscal balances and external buffers. The economic response to COVID has been strong, but increasing vaccination rates remains crucial given risks from new variants. The surge in inflation from sharply higher fuel and food prices has compounded the impact of COVID on incomes, especially of the poorest. Food insecurity has risen further as have social protection spending needs. This has squeezed further the very limited fiscal space, added to debt vulnerabilities, and reduced external buffers. The partial use of the SDR allocation for priority spending and additional grant financing from development partners is playing a critical role in cushioning these shocks. Staff advises that new facilities to import critical food items and fuel should be temporary and, mindful of the impact on inflation, exchange rate flexibility should be an important element of the policy response to the terms of trade shock.

53. Against this difficult background, the ECF program has provided a policy anchor but performance has been mixed. While most PCs were met, the fiscal targets were breached by significant margins both on account of the shocks and inadequate budget controls. Performance on structural benchmarks has been encouraging with most criteria met, even if in some cases after delays. The authorities submitted a revised 2022 budget to Parliament and are taking other corrective actions to prevent fiscal slippages.

54. Staff supports the authorities' strategy to balance medium-term fiscal consolidation with supporting the recovery and addressing pressing development needs. Reducing debt vulnerabilities is critical given high risk of debt distress, limited reserve buffers and the need to create fiscal space. Staff notes that fiscal slippages and external factors have increased risks around the baseline, as a larger and more frontloaded fiscal adjustment is now required to achieve the program objectives. Staff is encouraged by the revised 2022 budget, that is calibrated to begin the consolidation while taking into account the many priorities in the NDP and from the difficult economic context. Staff welcomes commitments to develop an MTRS, ongoing efforts to automate tax filing and payments and review exemptions, and commitments to review the fiscal regime for timber. Priority attention should be paid to developing and implementing a medium-term wage bill management strategy. Staff are encouraged by comprehensive energy sector reforms to lower subsidies and contingent liabilities, while shifting to lower cost renewable power. Staff also encourage adherence to the automatic fuel pricing mechanism with some of the savings from regressive subsidies channeled to scale up targeted cash transfers.

55. Successful fiscal adjustment will also require stronger public financial management. Arrears have recurred frequently reflecting weaknesses in budget assumptions, inadequate commitment and other controls in IFMIS, and shortcomings in cash and debt management. The authorities could benefit from a strategic top-down budgeting approach to ensure budget ceilings are consistent with financing constraints, and staff welcome the interest in TA in this area. Sierra Leone's risk of debt distress remains high, but debt is sustainable provided the authorities' implement ambitious fiscal adjustment and continue to rely on concessional financing and grants. The adoption of a debt anchor could be an important additional element to the medium-term debt reduction strategy.

56. Further improvements in governance and continued effectiveness of the ASSL depend on its ability to perform its functions independently. Sierra Leone has a good track record of producing comprehensive audits of public finances, and of COVID-19 emergency spending. Safeguarding the public's and international partners' confidence in the management of public resources requires timely action to ensure the institutional and financial independence of ASSL, including enhancing powers to enforce audit recommendations as agreed under the program. More broadly, it is critical that Sierra Leone continues efforts to strengthen the governance of key fiscal, monetary and financial institutions to reduce vulnerabilities to corruption, foster private sector development and growth, and ensure more effective delivery of essential public services.

57. Rising inflation requires policy action on various fronts to ensure macroeconomic stability is maintained. The agreed fiscal consolidation and a reduction in domestic borrowing should ensure that second-round effects are contained. The path for money growth should remain tight going forward and the BSL may need to raise the policy rate further. While the new facilities for food and fuel will help to relieve pressure on the exchange rate and inflation in the short term, staff welcomed the BSL's intention not to renew them, given the level of reserves, and to keep the remainder of the SDR allocation in reserves. Sierra Leone's external position remains weaker than the level implied by fundamentals and desirable policies. Staff noted that, despite significant depreciation this year, the real exchange rate remains overvalued, and recommended that the BSL implement reforms, with Fund TA, to improve functioning of the FX market.

58. Staff urges the authorities to pay close attention to financial stability risks. The strong sovereign-bank nexus from heavy dependence on short-term government paper suggests rollover risks require regular monitoring. The authorities should work to lengthen domestic debt maturities following the recent MTDS, including to lower borrowing costs. Rising NPLs, weaknesses in supervision of the non-bank sector and strengthened supervision and regulation, notably completing prudential guidelines, are other priorities. Weaknesses in the corporate governance of the SOBs also pose risks to the health of the financial system and its ability to support private sector development. Based on international experience with logistical preparations, staff urges the BSL to lengthen its preparatory phase for redenomination of the Leone.

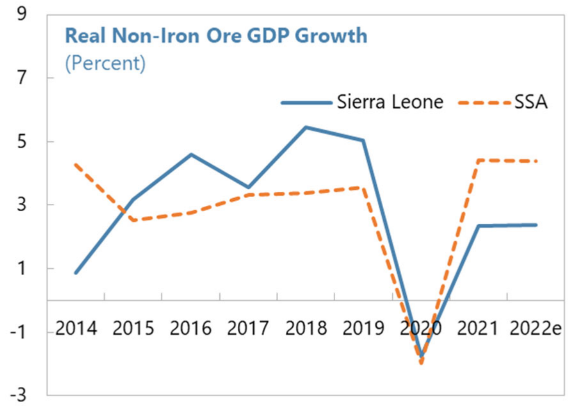
59. The program faces significant risks beyond those from the pandemic or global economy. These include from further increases in inflation, which could fuel unrest, from upcoming elections, delays in external financing or capacity constraints in fragile institutions. Strong ownership, the authorities' strong track record of servicing their debt obligations to the Fund, and extensive TA plans mitigate these risks.

60. Staff supports the authorities' requests for completion of the fifth review. Staff also supports the modification of PCs, ITs, and SBs under the ECF arrangement, and waivers of nonobservance of performance criteria. Although program performance was mixed, the external shocks faced, corrective actions taken, and the authorities' commitment to meeting program objectives are all mitigating factors. Staff also supports the completion of the financing assurances review. The authorities' Letter of Intent and MEFP spell out measures necessary to ensure that the objectives of the program remain achievable. The capacity to repay the Fund is constrained, although risks to the program are manageable.

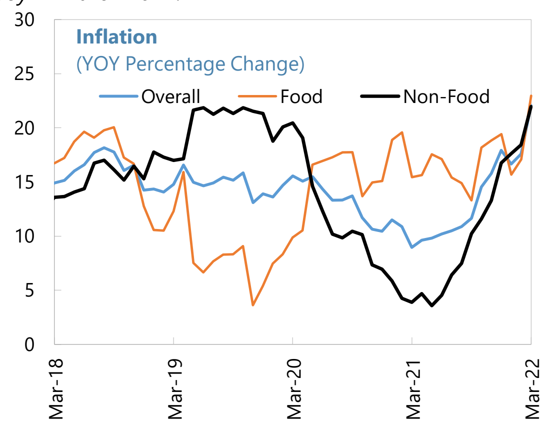
61. Staff recommends that the next Article IV consultation be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Sierra Leone: Real and External Sectors, 2014-22

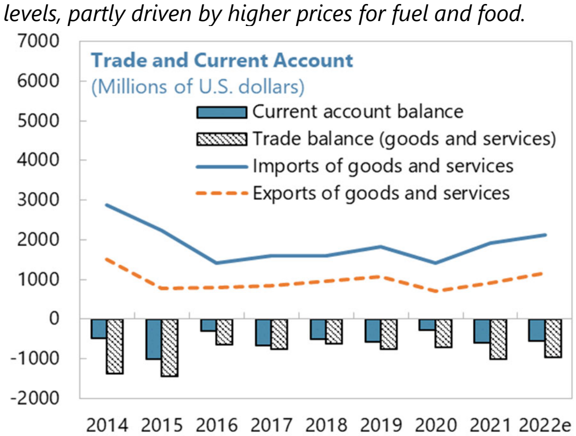
Growth rebounded in 2021 and is expected to stay flat in 2022...



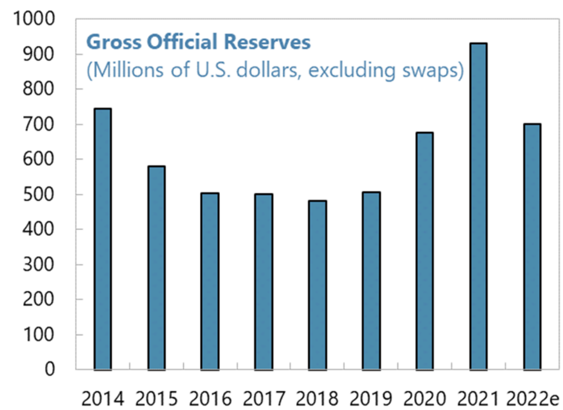
and inflation has increased steadily, reaching 22 percent yoy in March 2022.



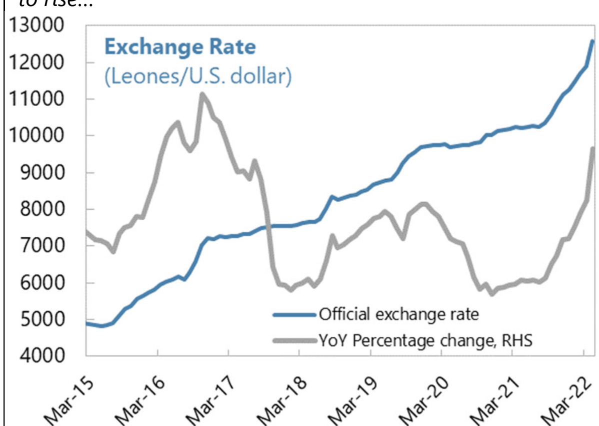
Imports and exports picked up beyond pre-pandemic levels, partly driven by higher prices for fuel and food.



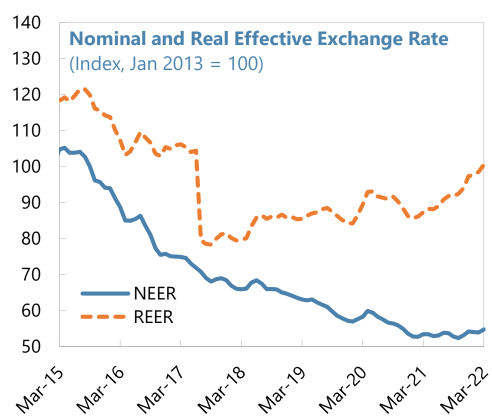
Official reserves were bolstered by the SDR allocation and are being drawn down to support the crisis response.



The pace of depreciation against the dollar has continued to rise...



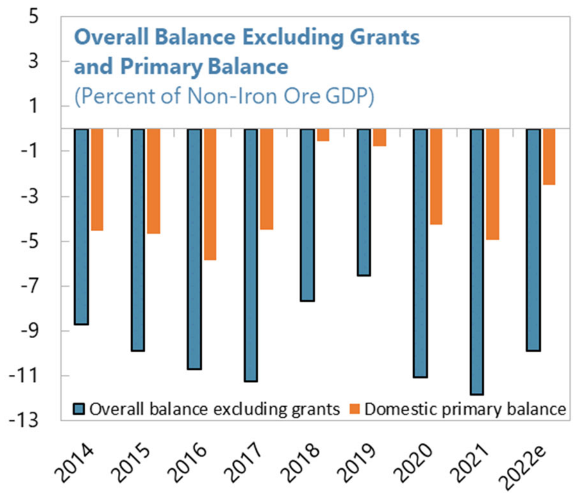
while the REER has appreciated.



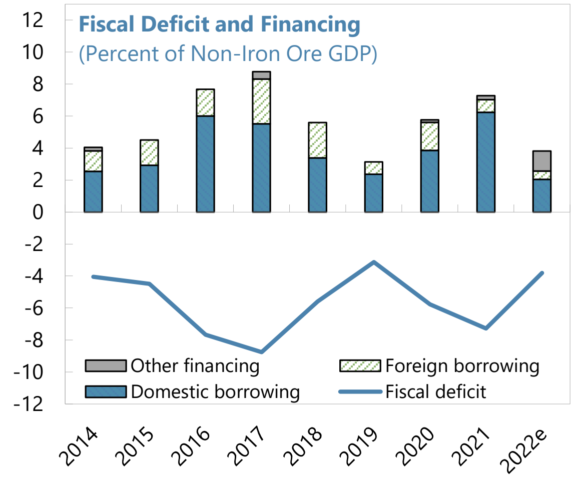
Sources: Sierra Leonean authorities and IMF staff estimates.

Figure 2. Sierra Leone: Fiscal Sector, 2014-22

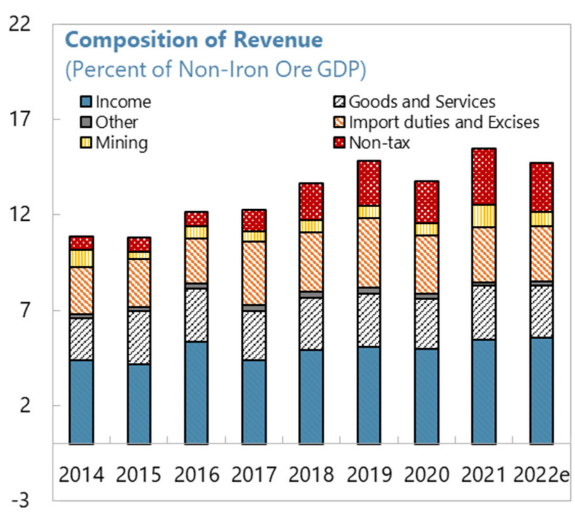
Deficits have remained elevated due to crisis response…



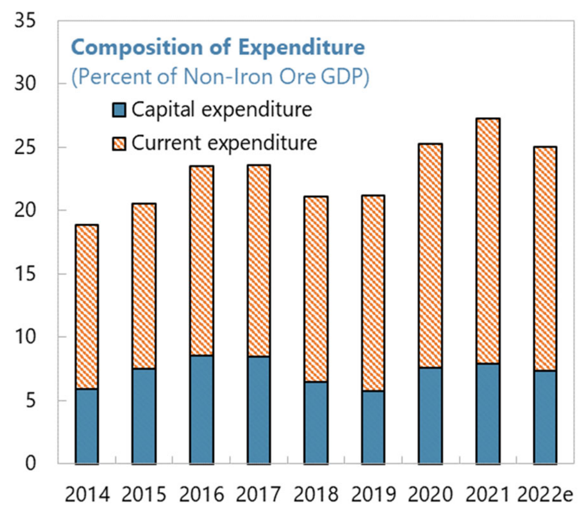
…and the share of external debt in financing is decreasing.



Revenue collection rebounded, buoyed by income and mining receipts…



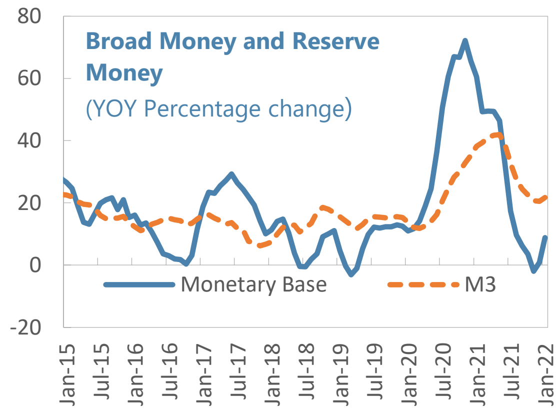
while both current and capital expenditure remain elevated due to the crisis response.



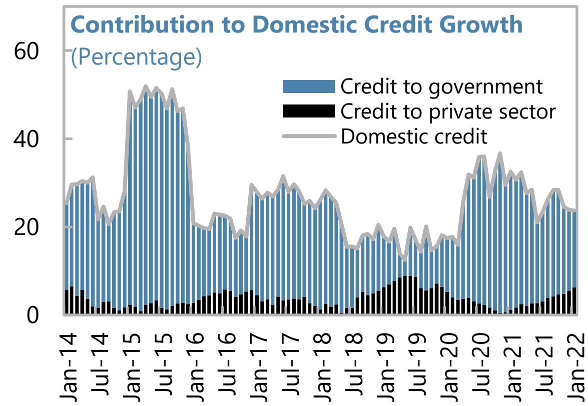
Sources: Sierra Leonean authorities; and IMF staff estimates.

Figure 3. Sierra Leone: Monetary and Financial Indicators, 2013–22

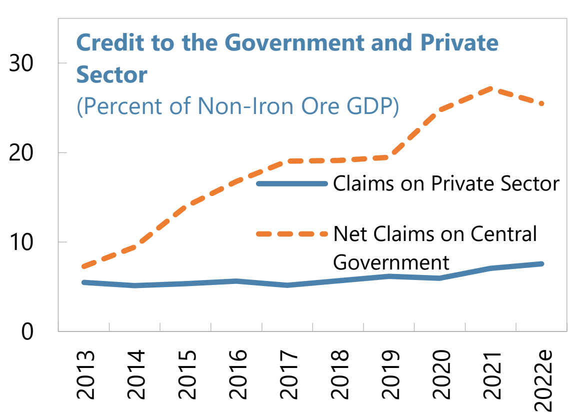
The growth of monetary aggregates moderated in 2021…



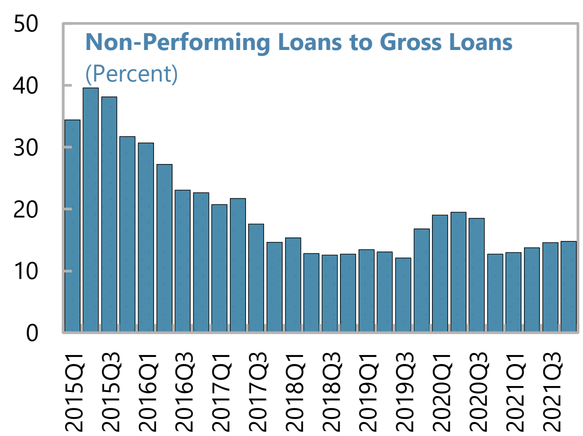
and domestic credit growth continued to be driven by government securities issuance.



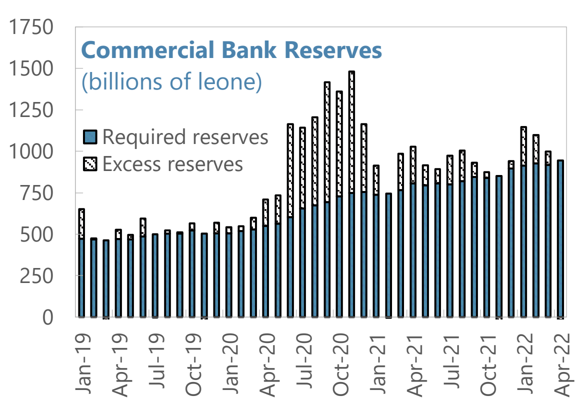
Private sector credit growth picked up…



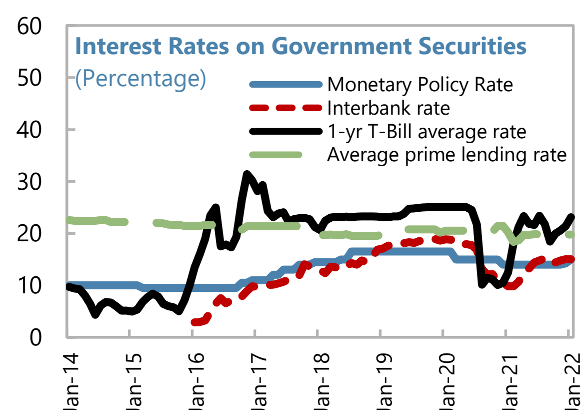
…and NPLs registered an uptick.



The excess liquidity from 2020H2 has fallen…



and yields on long-term government securities returned to pre-pandemic levels.



Sources: Sierra Leonean authorities; and IMF staff estimates.

Table 1. Sierra Leone: Selected Economic Indicators

	2020	2021		2022		2023	2024	2025	2026	2027
		ECF 3/4 Rev 1/		ECF 3/4 Rev 1/						
	Est.		Est.		Proj.			Proj.		
	(Annual Percent Change, unless otherwise indicated)									
National account and prices										
Growth										
GDP at constant prices	-2.0	3.2	3.2	5.9	3.6	3.4	5.0	5.1	4.4	4.3
GDP excluding Iron ore	-1.8	2.6	2.3	3.1	2.4	3.2	4.8	4.9	4.4	4.4
GDP excluding mining	-1.4	2.5	2.4	3.9	3.0	3.4	4.5	4.5	4.5	4.5
GDP deflator	10.9	11.8	11.1	10.5	15.8	17.9	15.9	13.4	11.2	8.9
Inflation										
Consumer prices (end-of-period)	10.4	13.9	17.9	12.0	22.1	19.6	16.4	13.2	10.8	9.0
Consumer prices (average)	13.4	10.7	11.9	13.0	21.7	21.0	18.0	14.8	12.0	9.9
External sector										
Terms of trade (deterioration -)	20.4	-5.2	-15.1	-2.2	-11.5	3.4	2.7	2.1	1.9	1.4
Exports of goods	-34.2	63.9	30.7	14.6	30.6	6.8	4.4	10.3	4.9	2.6
Imports of goods	-12.0	6.9	27.8	3.2	9.6	-4.1	-0.8	1.4	2.7	2.8
Gross international reserves (excl. swaps, months of next year's imports)	4.2	4.3	5.3	3.4	4.0	3.5	3.3	3.0	3.0	3.0
Money, credit and reserves										
Domestic credit to the private sector	4.9	15.6	32.9	19.9	22.8	30.4	28.4	22.1	15.2	12.6
Domestic credit to the private sector, percent of non-iron GDP	6.0	5.8	7.1	6.1	7.3	7.9	8.4	8.6	8.6	8.5
Base money	54.8	7.6	8.7	1.4	1.3	20.4	24.7	17.7	17.6	15.8
M3	38.2	14.0	22.1	6.6	10.1	16.8	20.9	17.7	17.6	15.8
Gross international reserves (excl. swaps, US$ millions)	677	652	932	532	689	600	572	545	555	576
Net international reserves (excl. swaps, US$ millions)	96	80	355	-24	120	71	109	152	235	328
	(Percent of Non-Iron Ore GDP)									
National accounts										
Gross capital formation	16.6	15.4	16.9	16.7	17.3	18.0	19.4	19.1	19.0	19.5
Government	7.6	6.4	7.9	6.7	7.3	7.0	7.4	7.1	7.0	7.5
Private	9.0	9.0	9.0	10.0	10.0	11.0	12.0	12.0	12.0	12.0
National savings	9.8	-0.2	2.3	0.8	3.7	7.1	10.5	12.7	13.1	13.7
Financing and debt										
Public debt	76.3	73.0	78.8	72.5	80.8	80.4	77.4	73.9	70.5	67.0
Domestic	26.6	22.0	28.3	20.9	22.9	22.2	21.0	20.4	19.5	18.6
External public debt (including IMF)	49.7	51.1	50.5	51.6	57.9	58.2	56.4	53.5	51.0	48.4
External sector										
Current account balance										
(including official grants)	-6.8	-15.6	-14.6	-15.9	-13.6	-10.9	-8.8	-6.4	-5.8	-5.8
(excluding official grants)	-11.3	-19.0	-17.8	-18.4	-16.9	-13.6	-12.1	-9.6	-9.0	-8.9
Central government budget										
Domestic primary balance 2/	-4.2	-2.1	-5.0	0.3	-2.5	0.3	1.7	1.6	1.3	1.2
Overall balance	-5.8	-3.8	-7.3	-2.8	-4.1	-2.8	-2.4	-1.9	-1.7	-2.0
Overall balance (excluding grants)	-11.1	-8.3	-11.9	-6.9	-9.9	-7.3	-7.6	-6.3	-5.4	-5.6
Revenue (excluding grants) 3/	13.8	14.1	15.5	14.2	14.7	15.0	15.5	15.9	16.3	16.5
Grants	5.3	4.5	4.6	4.1	5.8	4.5	5.2	4.4	3.7	3.7
Total expenditure and net lending	25.7	23.1	28.1	21.5	25.1	22.3	23.1	22.3	21.7	22.1
Memorandum item:										
GDP at market prices (billions of Leone)	39,938	47,583	45,775	56,316	54,926	66,987	81,512	97,134	112,816	128,138
Excluding iron ore	39,938	47,055	44,618	53,823	52,857	64,361	77,846	92,061	106,207	120,541
Excluding iron ore in millions of US$	4,059	4,302	4,172	4,267	4,041	3,924	3,898	3,959	4,081	4,274
Per capita GDP (US$)	509	534	526	537	505	481	471	472	480	493
National currency per US dollar (average)	9,840	..	10,695	..	..	..	..	..	..	..
National currency per US dollar (EOP)	10,133	..	11,256	..	..	..	..	..	..	..

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

1/ See *Sierra Leone: 3rd & 4th Review Under the Extended Credit Facility* (CR/21/183), August 2021

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

3/ Excludes transfers related to CCRT debt relief from 2020 through 2021

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

	2020	2021		2022		2023	2024	2025	2026	2027
		ECF 3/4		ECF 3/4						
	Act.	Rev 1/	Prel.	Rev 1/			Proj.			
Total revenue and grants	**7974**	**9076**	**9288**	**10067**	**11078**	**12578**	**16101**	**18766**	**21,245**	**24,314**
Revenue	5501	6642	6917	7637	7787	9666	12090	14681	17,327	19,903
Tax revenue	4613	5574	5585	6379	6422	8023	10098	12353	14,661	16,996
Personal Income Tax	1408	1661	1670	1904	2123	2572	2878	3219	3,679	4,205
Corporate Income Tax	584	673	765	805	804	975	1320	1573	1,828	2,159
Goods and Services Tax	1046	1224	1258	1464	1450	1820	2466	3284	4,002	4,722
Excises	577	663	481	787	598	729	887	1055	1,325	1,534
Import duties	644	766	807	902	949	1214	1600	2009	2,397	2,761
Mining royalties and licenses	258	472	523	375	396	533	732	946	1,114	1,246
Other taxes	96	114	81	142	103	179	216	265	316	369
Non-tax	887	1068	1332	1258	1365	1643	1992	2328	2,666	2,907
Other, Capital Transfers from BSL (CCRT Debt Relief)	352	335	327	213	222	0	0	0	0	0
Grants	2122	2099	2044	2217	3069	2912	4011	4085	3,918	4,411
o/w Budget support	1525	1138	1084	820	1451	1259	1822	2153	2,445	2,691
o/w Project grants	597	960	960	1396	1448	1653	2189	1932	1473	1721
Expenditures and net lending	**10274**	**10868**	**12533**	**11577**	**13257**	**14368**	**17983**	**20487**	**23,039**	**26,687**
Current expenditures	7067	7660	8622	7929	9362	9645	11939	13666	15,358	16,899
Wages and salaries 2/	3264	3663	3926	3702	4314	4636	5513	6412	7,391	8,264
Goods and services	1423	1164	1706	1264	1417	1594	1838	2363	2,764	3,172
Subsidies and transfers	1171	1555	1722	1398	2067	1704	1851	2162	2,503	2,749
Interest	1209	1278	1268	1566	1564	1711	2737	2729	2,700	2,715
Domestic	1089	1139	1134	1388	1402	1490	2420	2312	2,190	2,122
Foreign	120	138	134	178	162	221	317	417	510	593
Capital Expenditure	3026	3017	3528	3622	3874	4484	5755	6531	7,423	9,034
Foreign financed	1709	1836	1836	2532	2583	2986	4186	4258	4,186	4,842
Domestic financed	1317	1181	1692	1090	1290	1498	1569	2273	3,236	4,192
Net lending	0	0	0	0	0	0	0	0	0	0
Contingent expenditure	22	43	85	26	21	53	30	30	30	30
Arrears Paydown (cash)	159	149	298	0	0	186	260	260	228	723
Domestic primary balance 3/	-1697	-965	-2213	158	-1323	181	1289	1440	1,402	1,497
Overall balance including grants	-2300	-1793	-3245	-1510	-2179	-1790	-1882	-1721	-1,794	-2,372
Overall balance excluding grants	-4422	-3891	-5289	-3726	-5248	-4702	-5893	-5806	-5,712	-6,783
Financing	**2300**	**1793**	**3245**	**1510**	**2179**	**1790**	**1882**	**1721**	**1,794**	**2,372**
External financing (net)	692	240	350	351	271	284	699	712	826	1,176
Borrowing	1112	875	876	1135	1136	1333	1997	2326	2,713	3,121
Projects	1112	875	876	1135	1136	1333	1997	2326	2,713	3,121
Budget	0	0	0	0	0	0	0	0	0	0
Amortization	-420	-635	-526	-784	-865	-1049	-1298	-1613	-1,887	-1,946
Domestic financing (net)	1542	1366	2781	1198	1090	1382	1273	1063	1,028	1,244
Total Banking Sector (net)	2740	1775	2247	1366	1362	1069	821	763	628	844
Banks, net of onlending	1510	893	1407	1193	1161	1298	1681	1897	2203	2591
SDR onlending, Net	1230	882	840	173	201	-228	-860	-1134	-1575	-1747
Disbursements	1392	1011	978	322	629	410	0	0	0	0
of which, Regular ECF	0	503	471	322	629	410	0	0	0	0
of which, exceptional financing-RCF	1392	508	508	0	0	0	0	0	0	0
of which,SDR allocations onlending	0	---	0	---	0	0	0	0	0	0
Repayments	-161	-129	-138	-149	-428	-638	-860	-1134	-1575	-1747
Non-Bank Sector	-53	-148	520	-168	101	313	451	300	400	400
Government Securities, General	107	135	498	0	150	400	500	300	400	400
Government Securities, Arrears-Related	-160	-283	23	-168	-49	-87	-49	0	0	0
o/w Pre-Arrears Strategy	-160	-429	3	-119	0	-39	0	0	0	0
o/w Post-Arrears Strategy	0	146	20	-49	-49	-49	-49	0	0	0
Other 4/	-1145	-261	13	0	-373	0	0	0	0	0
Other, Use of SDR allocations	0		0		857	200	0	0	0	0
G20 debt initiative (deferment)	65	186	114	0	0	0	0	0	0	0
G20 debt initiative (payment)	0	0	0	-39	-38	-76	-90	-54	-60	-47
Financing Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ See Sierra Leone: 3rd & 4th Review Under the Extended Credit Facility (CR/21/183), August 2021
2/ Starting in 2019, tertiary education wages are classified in the wage bill rather than under subsidies and transfers.
3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed CAPEX and elections, and arrears paydown.
4/ "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)

	2020	2021		2022		2023	2024	2025	2026	2027
		ECF 3/4		ECF 3/4						
	Act.	Rev [1/]	Prel.	Rev [1/]	Proj.			Proj.		
Total revenue and grants	**20.0**	**19.3**	**20.8**	**18.7**	**21.0**	**19.5**	**20.7**	**20.4**	**20.0**	**20.2**
Revenue	13.8	14.1	15.5	14.2	14.7	15.0	15.5	15.9	16.3	16.5
Tax revenue	11.6	*11.8*	12.5	*11.9*	12.1	12.5	13.0	13.4	13.8	14.1
Personal Income Tax	3.5	3.5	3.7	3.5	4.0	4.0	3.7	3.5	3.5	3.5
Corporate Income Tax	1.5	1.4	1.7	1.5	1.5	1.5	1.7	1.7	1.7	1.8
Goods and Services Tax	2.6	2.6	2.8	2.7	2.7	2.8	3.2	3.6	3.8	3.9
Excises	1.4	1.4	1.1	1.5	1.1	1.1	1.1	1.1	1.2	1.3
Import duties	1.6	1.6	1.8	1.7	1.8	1.9	2.1	2.2	2.3	2.3
Mining royalties and licenses	0.6	1.0	1.2	0.7	0.7	0.8	0.9	1.0	1.0	1.0
Other taxes	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Non-tax	2.2	2.3	3.0	2.3	2.6	2.6	2.6	2.5	2.5	2.4
Other, Capital Transfers from BSL (CCRT Debt Relief)	0.9	0.7	0.7	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Grants	5.3	4.5	4.6	4.1	5.8	4.5	5.2	4.4	3.7	3.7
o/w Budget support	3.8	2.4	2.4	1.5	2.7	2.0	2.3	2.3	2.3	2.2
o/w Project grants	1.5	2.0	2.2	2.6	2.7	2.6	2.8	2.1	1.4	1.4
Expenditures and net lending	**25.7**	**23.1**	**28.1**	**21.5**	**25.1**	**22.3**	**23.1**	**22.3**	**21.7**	**22.1**
Current expenditures	17.7	16.3	19.3	14.7	17.7	15.0	15.3	14.8	14.5	14.0
Wages and salaries 2/	8.2	7.8	8.8	6.9	8.2	7.2	7.1	7.0	7.0	6.9
Goods and services	3.6	2.5	3.8	2.3	2.7	2.5	2.4	2.6	2.6	2.6
Subsidies and transfers	2.9	3.3	3.9	2.6	3.9	2.6	2.4	2.3	2.4	2.3
Interest	3.0	2.7	2.8	2.9	3.0	2.7	3.5	3.0	2.5	2.3
Domestic	2.7	2.4	2.5	2.6	2.7	2.3	3.1	2.5	2.1	1.8
Foreign	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Capital Expenditure	7.6	6.4	7.9	6.7	7.3	7.0	7.4	7.1	7.0	7.5
Foreign financed	4.3	3.9	4.1	4.7	4.9	4.6	5.4	4.6	3.9	4.0
Domestic financed	3.3	2.5	3.8	2.0	2.4	2.3	2.0	2.5	3.0	3.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent expenditure	0.1	0.1	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Arrears Paydown (cash)	0.4	0.3	0.7	0.0	0.0	0.3	0.3	0.3	0.2	0.6
Domestic primary balance 3/	-4.2	-2.1	-5.0	0.3	-2.5	0.3	1.7	1.6	1.3	1.2
Overall balance including grants	-5.8	-3.8	-7.3	-2.8	-4.1	-2.8	-2.4	-1.9	-1.7	-2.0
Overall balance excluding grants	-11.1	-8.3	-11.9	-6.9	-9.9	-7.3	-7.6	-6.3	-5.4	-5.6
Financing	**5.8**	**3.8**	**7.3**	**2.8**	**4.1**	**2.8**	**2.4**	**1.9**	**1.7**	**2.0**
External financing (net)	1.7	0.5	0.8	0.7	0.5	0.4	0.9	0.8	0.8	1.0
Borrowing	2.8	1.9	2.0	2.1	2.1	2.1	2.6	2.5	2.6	2.6
Projects	2.8	1.9	2.0	2.1	2.1	2.1	2.6	2.5	2.6	2.6
Budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.3	-1.2	-1.5	-1.6	-1.6	-1.7	-1.8	-1.8	-1.6
Domestic financing (net)	3.9	2.9	6.2	2.2	2.1	2.1	1.6	1.2	1.0	1.0
Total Banking Sector (net)	6.9	3.8	5.0	2.5	2.6	1.7	1.1	0.8	0.6	0.7
Banks, net of onlending	3.8	1.9	3.2	2.2	2.2	2.0	2.2	2.1	2.1	2.1
SDR onlending, Net	3.1	1.9	1.9	0.3	0.4	-0.4	-1.1	-1.2	-1.5	-1.4
Disbursements	3.5	2.1	2.2	0.6	1.2	0.6	0.0	0.0	0.0	0.0
of which, Regular ECF	0.0	1.1	1.1	0.6	1.2	0.6	0.0	0.0	0.0	0.0
of which, exceptional financing-RCF	3.5	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which,SDR allocations onlending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-0.4	-0.3	-0.3	-0.3	-0.8	-1.0	-1.1	-1.2	-1.5	-1.4
Non-Bank Sector	-0.1	-0.3	1.2	-0.3	0.2	0.5	0.6	0.3	0.4	0.3
Government Securities, General	0.3	0.3	1.1	0.0	0.3	0.6	0.6	0.3	0.4	0.3
Government Securities, Arrears-Related	-0.4	-0.6	0.1	-0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0
o/w Pre-Arrears Strategy	-0.4	-0.9	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0
o/w Post-Arrears Strategy	0.0	0.3	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Other 4/	-2.9	-0.6	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	0.0
Other, Use of 2021 SDR allocations	0.0	0.0	0.0	0.0	1.6	0.3	0.0	0.0	0.0	0.0
G20 debt initiative (deferment)	0.2	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
G20 debt initiative (payment)	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum item:										
Non-iron ore GDP (Le billions)	39,938	47,055	44,618	53,823	52,857	64,361	77,846	92,061	106,207	120,541

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

1/ See *Sierra Leone: 3rd & 4th Review Under the Extended Credit Facility* (CR/21/183), August 2021

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

3/ Revenue less expenditures and net lending adjusted for interest payments, foreign financed CAPEX and elections spending, and arrears paydown.

4/ "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)

	2022					2023				
	Q1	Q2	Q3	Q4	annual	Q1	Q2	Q3	Q4	annual
	Prel	Proj.	Proj.	Proj.		Proj	Proj.	Proj.	Proj.	
Revenue	**1620**	**1951**	**1947**	**2269**	**7787**	**2356**	**2437**	**2320**	**2554**	**9666**
Personal Income Tax	452	520	541	609	2123	744	642	672	515	2572
Corporate Income Tax	164	220	175	245	804	215	275	204	282	975
Goods and Services Tax	285	368	372	425	1450	376	446	453	545	1820
Excises	82	164	162	190	598	182	215	186	146	729
Import Duties	205	232	237	275	949	279	350	294	291	1214
Other	433	447	459	525	1864	560	508	512	775	2355
CCRT Debt Relief	**222**	**0**	**0**	**0**	**222**	**0**	**0**	**0**	**0**	**0**
Grants	**22**	**652**	**458**	**1937**	**3069**	**413**	**413**	**1672**	**413**	**2912**
o/w Budget Support	0	0	0	1451	1451	0	0	1259	0	1259
o/w WB emergency energy grant	0	0	85	85	170					
Expenditure	**2211**	**4125**	**3507**	**3414**	**13257**	**3534**	**3815**	**3481**	**3538**	**14368**
Wages 1/	1091	1079	1066	1079	4314	1173	1159	1145	1159	4636
Goods and Services	193	567	354	303	1417	398	398	398	398	1594
Subsidies and Transfers	467	546	542	512	2067	426	426	426	426	1704
o/w Energy subsidies, WB-financed	0	0	85	85	170					
Other	-114	105	21	9	21	13	13	13	13	53
Interest	241	418	461	444	1564	428	428	428	428	1711
Capital Expenditure	333	1410	1063	1067	3874	1050	1344	1024	1067	4484
Foreign	124	1049	676	734	2583	661	925	769	631	2986
Domestic	209	361	387	333	1290	388	419	255	436	1498
Arrears Paydown (cash)	0	0	0	0	0	47	47	47	47	186
Domestic primary balance 2/	**-225**	**-707**	**-338**	**118**	**-1153**	**-43**	**21**	**82**	**121**	**181**
Overall Balance incl. grants	-346	-1523	-1102	792	-2179	-765	-965	511	-571	-1790
Financing	**346**	**1523**	**1102**	**-792**	**2179**	**765**	**965**	**-511**	**571**	**1790**
Foreign	-71	138	87	117	271	-14	249	94	-45	284
Disbursement (Projects)	102	397	303	333	1136	248	511	356	218	1333
Disbursement (Budget)	0	0	0	0	0	0	0	0	0	0
Amortization	-173	-259	-216	-216	-865	-262	-262	-262	-262	-1049
Domestic	417	950	758	-1035	1090	729	704	-654	603	1382
Total Banking Sector, Net	837	924	737	-1136	1362	651	626	-732	525	1069
o/w Banks, net of onlending	952	687	821	-1298	1161	742	449	-627	735	1298
o/w SDR onlending, Net	-115	237	-84	162	201	-91	177	-105	-210	-228
Non-Bank	-48	25	25	99	101	78	78	78	78	313
Government Securities, General	-61	38	38	136	150	100	100	100	100	400
Government Securities, Arrears-Related	12	-12	-12	-37	-49	-22	-22	-22	-22	-87
o/w Pre-Arrears Strategy	0	0	0	0	0	-10	-10	-10	-10	-39
o/w Post-Arrears Strategy	12	-12	-12	-37	-49	-12	-12	-12	-12	-49
Other 3/	-372	0	-4	3	-373	0	0	0	0	0
Change in Unpaid Checks(+=accumul.)	-372	0	-4	3	-373	0	0	0	0	0
Change in Arrears (Timing Discrepancy)	0	0	0	0	0	0	0	0	0	0
Use of SDR allocations	0	450	257	150	857	50	50	50	50	200
G20 Debt Initiative (Deferment)	0	-14.9	0.0	-23.6	-38.5	0	-38	0	-38	-75.9
Financing Gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Total Bank Financing, excluding special bonds 4/	0	0	0	0	…	0	0	0	0	…

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)

	2021				2022				2023				2024	2025	2026	2027
	Act.				Prel.	Proj.			Proj.				Projections			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec				
I. Monetary Survey																
Net foreign assets	**3922**	**3702**	**6636**	**7833**	**7902**	**6712**	**6357**	**7028**	**7044**	**6969**	**8032**	**7907**	**10836**	**14058**	**18556**	**23266**
Net domestic assets	**8358**	**8909**	**6360**	**6558**	**7261**	**8579**	**9233**	**8821**	**8874**	**9610**	**9210**	**10606**	**11553**	**12295**	**12445**	**12631**
Net domestic credit	**12946**	**13468**	**14582**	**14993**	**15854**	**16697**	**17427**	**17077**	**17604**	**18565**	**18393**	**19327**	**21584**	**23785**	**25622**	**27615**
Claims on central government (net) 2/	10538	10890	11829	12120	12957	13881	14618	13482	14133	14758	14026	14551	15372	16135	16763	17607
Claims on private sector	2577	2745	2922	3162	3213	3132	3125	3884	3760	4096	4656	5065	6501	7939	9148	10297
Claims on others 3/	-169	-167	-169	-289	-316	-316	-316	-289	-289	-289	-289	-289	-289	-289	-289	-289
Other items (net)	-4589	-4558	-8222	-8434	-8594	-8118	-8194	-8256	-8729	-8956	-9183	-8721	-10032	-11490	-13177	-14984
Money and quasi-money (M3)	**12279**	**12611**	**12996**	**14391**	**15163**	**15291**	**15589**	**15848**	**15918**	**16579**	**17243**	**18513**	**22389**	**26353**	**31001**	**35897**
II. Bank of Sierra Leone																
Net foreign assets	**1080**	**935**	**3633**	**4181**	**3667**	**1938**	**1144**	**2020**	**1636**	**1161**	**1824**	**1298**	**2367**	**3758**	**6414**	**9553**
Net domestic assets	**3062**	**3139**	**387**	**422**	**836**	**2533**	**3414**	**2641**	**3046**	**3715**	**3248**	**4312**	**4630**	**4477**	**3274**	**1665**
Net domestic credit 4/	**4698**	**4632**	**5041**	**5404**	**5600**	**6877**	**7218**	**6985**	**7439**	**8210**	**7846**	**8624**	**9189**	**9374**	**8541**	**7382**
Claims on other depository corporations	404	330	283	641	682	1844	2185	1667	2469	3032	2749	3335	4406	5379	5723	5893
Claims on central government	4293	4246	4692	4704	4863	4977	4977	5264	4916	5124	5042	5229	4722	3935	2759	1429
Other items (net) 5/	-1635	-1493	-4653	-4983	-4764	-4343	-3804	-4344	-4393	-4495	-4598	-4312	-4559	-4897	-5268	-5717
Reserve money	**4141**	**4073**	**4020**	**4602**	**4503**	**4471**	**4558**	**4661**	**4682**	**4876**	**5071**	**5610**	**6997**	**8235**	**9688**	**11218**
Memorandum items:																
(Annual percent change unless otherwise indicated)																
Base money	55.4	10.8	0.3	8.7	8.7	9.8	13.4	1.3	4.0	9.1	11.3	20.4	24.7	17.7	17.6	15.8
M3	43.0	32.2	22.8	22.1	23.5	21.3	20.0	10.1	5.0	8.4	10.6	16.8	20.9	17.7	17.6	15.8
Credit to the private sector (growth)	8.9	14.5	22.5	32.9	24.7	14.1	6.9	22.8	17.0	30.8	49.0	30.4	28.4	22.1	15.2	12.6
Velocity 6/	...	...	...	3.4	..	..	..	3.5	..	..	..	3.7	3.8	3.8	3.7	3.6
Money multiplier (M3/base money)	3.0	3.1	3.2	3.1	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.3	3.2	3.2	3.2	3.2
Credit to the private sector (in percent of non iron ore GDP)	...	...	...	7.1	...	...	...	7.3	..	..	..	7.9	8.4	8.6	8.6	8.5
Nominal exchange rate, average (Leones/US $)	10,206	10,238	10,350	10,968	11,546	..	..	..	..	..	..	..	..	..	..	..
Nominal exchange rate, end of period (Leones/US $)	10,232	10,267	10,571	11,256	11,889	..	..	..	..	..	..	..	..	..	..	..

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

1/ End of period.

2/ The large increase in 2020 reflects the RCF disbursement, which is onlent from the central bank to the ministry of finance.

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

4/ Includes SDR onlending.

5/ Includes valuation. The decrease in September 2021 is the counterpart of the increase in reserves due to the SDR allocation in August.

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)

	2020	2021		2022		2023	2024	2025	2026	2027
		ECF 3/4 Rev 1/	Est.	ECF 3/4 Rev 1/	Proj.			Proj.		
Current account	**-275.6**	**-673.1**	**-611.1**	**-678.1**	**-549.5**	**-426.3**	**-344.8**	**-254.9**	**-238.6**	**-249.3**
Trade balance	-573.0	-611.3	-713.7	-551.2	-604.3	-458.2	-393.2	-289.5	-267.8	-278.4
Exports, f.o.b.	648.0	694.9	846.8	796.4	1,105.9	1,181.3	1,233.1	1,359.9	1,426.3	1,463.6
of which: Diamonds	303.5	177.2	261.1	174.1	249.4	250.5	289.3	329.1	337.3	345.8
Iron ore	0.0	134.9	144.8	375.1	404.8	474.3	549.0	625.9	670.5	682.9
Rutile and ilmenite	131.2	141.2	168.1	0.0	177.8	181.1	111.8	116.1	120.8	125.7
Imports, f.o.b	-1,221.0	-1,306.1	-1,560.5	-1,347.7	-1,710.2	-1,639.5	-1,626.3	-1,649.4	-1,694.1	-1,742.1
of which: Oil	-184.5	-300.1	-269.3	-309.6	-431.6	-387.0	-369.6	-362.3	-359.8	-364.1
Services (net)	-143.8	-340.6	-308.5	-371.9	-362.0	-364.2	-369.6	-391.4	-406.6	-417.6
Income (net)	-26.6	-71.9	-68.4	-74.6	-68.0	-67.4	-68.9	-72.2	-75.9	-80.1
of which: Interest on public debt	-13.9	-12.9	-12.7	-14.1	-13.4	-14.3	-15.9	-17.9	-19.6	-21.0
Transfers	467.8	350.6	479.4	319.7	484.7	463.4	486.9	498.3	511.7	526.8
Official transfers (net)	181.0	144.4	133.3	107.6	134.0	108.9	125.1	126.5	127.8	129.3
Other transfers (net)	286.8	206.2	346.2	212.0	350.7	354.6	361.7	371.8	383.9	397.6
Capital and financial account	**292.7**	**535.3**	**760.1**	**560.5**	**308.9**	**381.9**	**387.1**	**299.5**	**284.7**	**303.3**
Capital account	94.1	115.6	124.5	139.2	144.9	134.3	143.1	117.2	91.6	97.3
of which: Project support grants	60.6	87.8	89.8	110.7	110.7	100.8	109.6	83.1	56.6	61.0
Financial account	198.6	419.7	635.6	421.2	163.9	247.6	244.0	182.4	193.0	206.0
Foreign direct and portfolio investment	135.1	395.3	381.1	395.1	122.1	219.5	201.7	141.9	156.6	154.1
Other investment	63.5	24.5	254.5	26.2	41.9	28.1	42.3	40.5	36.4	51.9
of which: Public sector (net)	126.6	22.0	32.7	27.8	20.7	17.3	35.0	30.6	31.7	41.7
Disbursements	171.8	80.0	81.9	90.0	86.8	81.3	100.0	100.0	104.2	110.7
Amortization	-45.3	-58.0	-49.2	-62.2	-66.1	-64.0	-65.0	-69.4	-72.5	-69.0
Errors and omissions	**-12.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**4.5**	**-137.8**	**149.0**	**-117.7**	**-240.7**	**-44.4**	**42.3**	**44.7**	**46.0**	**53.9**
Financing	**-4.5**	**137.8**	**-149.0**	**117.7**	**240.7**	**44.4**	**-42.3**	**-44.7**	**-86.0**	**-93.9**
Change in net central bank reserves (- increase)	-46.7	90.1	-206.5	103.9	243.4	48.8	-37.9	-42.5	-83.8	-92.2
of which: Change in gross central bank reserves (- increase)	-170.6	24.8	-254.6	120.0	242.6	89.3	28.3	27.0	-10.0	-21.5
of which: Net use of Fund credit	123.9	65.3	48.0	-16.1	0.7	-40.5	-66.1	-69.5	-73.8	-70.7
Disbursements	166.1	95.7	94.5	45.4	43.4	21.9	0.0	0.0	0.0	0.0
Repayments	-42.2	-30.4	-46.5	-61.6	-42.6	-62.4	-66.1	-69.5	-73.8	-70.7
Exceptional financing	42.2	47.7	57.6	13.8	-2.7	-4.4	-4.4	-2.2	-2.2	-1.7
CCRT first tranche	18.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT second tranche	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT third tranche	…	21.8	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT fourth tranche and fifth tranche	…	8.7	25.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0
DSSI (deferment)	6.6	17.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DSSI (repayment)	0.0	0.0	0.0	-3.1	-2.7	-4.4	-4.4	-2.2	-2.2	-1.7
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**40.0**	**40.0**
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	40.0	40.0
Memorandum items										
(Percent of non-iron ore GDP unless otherwise indicated)										
Current account	-6.8	-15.6	-14.6	-15.9	-13.6	-10.9	-8.8	-6.4	-5.8	-5.8
Trade balance	-14.1	-14.2	-17.1	-12.9	-15.0	-11.7	-10.1	-7.3	-6.6	-6.5
Capital and financial account	7.2	12.4	18.2	13.1	7.6	9.7	9.9	7.6	7.0	7.1
Overall balance	0.1	-3.2	3.6	-2.8	-6.0	-1.1	1.1	1.1	1.1	1.3
Budget support (grants and loans)	3.9	2.4	2.4	1.5	2.5	1.9	2.3	2.3	2.3	2.2
Budget support (grants and loans, US$ millions)	156.4	101.5	100.7	65.0	100.0	75.0	91.3	92.6	93.9	95.4
Gross international reserves (including swaps, US$ millions)	709	654	948	532	706	600	572	545	555	576
Gross international reserves (excluding swaps, US$ millions)	677	652	932	532	689	600	572	545	555	576
Gross international reserves (excluding swaps, months of next year's import	4.2	4.3	5.3	3.4	4.0	3.5	3.3	3.0	3.0	3.0
National currency per US dollar (average)	9,840	…	10,695	…	…	…	…	…	…	…

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

1/ See *Sierra Leone: 3rd & 4th Review Under the Extended Credit Facility* (CR/21/183), August 2021

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

	2020	2021		2022		2023	2024	2025	2026	2027
	Est.	ECF 3/4 Rev [1/]	Prel.	ECF 3/4 Rev [1/]	Proj.			Proj.		
Financing needs	**-715**	**-881**	**-1,095**	**-790**	**-550**	**-572**	**-573**	**-493**	**-523**	**-540**
Current account balance (excluding net official current transfers)	-457	-818	-744	-786	-684	-535	-470	-381	-366	-379
Debt amortization (excluding IMF)	-45	-58	-49	-62	-66	-64	-65	-69	-73	-69
Gross international reserves accumulation (- increase)	-171	25	-255	120	243	89	28	27	-10	-22
Repayments to IMF	-42	-30	-47	-62	-43	-62	-66	-69	-74	-71
Financing sources	**519**	**738**	**943**	**730**	**509**	**555**	**577**	**495**	**485**	**502**
Capital account	94	116	124	139	145	134	143	117	92	97
Disbursements from official creditors (excluding IMF)	172	80	82	90	87	81	100	100	104	111
Net official current transfers	181	144	133	108	134	109	125	126	128	129
Foreign direct and portfolio investment	135	395	381	395	122	219	202	142	157	154
Net acquisition of financial assets of commercial banks (- increase)	-62	2	-70	-2	-14	-24	-28	-25	-30	-25
Other	-2	0	291	0	35	35	35	35	35	35
Errors and omissions	**-13**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other financing sources	**208**	**143**	**152**	**59**	**41**	**18**	**-4**	**-2**	**-2**	**-2**
Disbursements from IMF	166	96	95	45	43	22	0	0	0	0
Exceptional financing	42	48	58	14	-3	-4	-4	-2	-2	-2
CCRT first tranche	19	0	0	0	0	0	0	0	0	0
CCRT second tranche	17	0	0	0	0	0	0	0	0	0
CCRT third tranche	…	22	22	0	0	0	0	0	0	0
CCRT fourth tranche and fifth tranche	…	9	25	17	0	0	0	0	0	0
DSSI (deferment)	7	17	11	0	0	0	0	0	0	0
DSSI (repayment)	0	0	0	-3	-3	-4	-4	-2	-2	-2
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40**	**40**
Unidentified financing	0	0	0	0	0	0	0	0	40	40
Memorandum items										
Gross international reserves (excluding swaps)	677	652	932	532	689	600	572	545	555	576
Gross international reserves (excluding swaps, months of next year's im	4.2	4.3	5.3	3.4	4.0	3.5	3.3	3.0	3.0	3.0

Sources: Sierra Leonean authorities; and IMF staff estimates and projections.
1/ See *Sierra Leone: 3rd & 4th Review Under the Extended Credit Facility* (CR/21/183), August 2021

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

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit (millions of SDRs)												
Principal	30.6	44.3	46.5	48.5	51.2	47.3	43.4	40.2	25.2	9.8	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
Fund obligations based on existing and prospective credit (millions of SDRs)												
Principal	30.6	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
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
Fund obligations based on existing and prospective credit												
In millions of SDRs	30.6	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
In millions of US$	42.6	62.4	66.1	69.5	73.8	70.7	72.6	69.0	47.1	25.5	10.2	2.0
In percent of exports of goods and services	3.7	5.1	5.1	4.9	5.0	4.6	4.5	3.9	2.5	1.3	0.5	0.1
In percent of total debt service 1/	34.9	44.4	45.0	44.3	44.5	44.0	42.9	39.8	30.3	17.9	7.4	1.4
In percent of GDP	1.0	1.5	1.6	1.7	1.7	1.6	1.5	1.4	0.9	0.4	0.2	0.0
In percent of gross international reserves	6.0	10.4	11.6	12.8	13.3	12.3	11.7	10.5	6.8	3.5	1.3	0.2
In percent of quota	14.7	21.4	22.4	23.4	24.7	23.5	24.6	23.9	16.6	9.2	3.8	0.8
Outstanding Fund credit based on existing and prospective credit												
In millions of SDRs	387.4	358.7	312.2	263.7	212.5	163.6	112.5	63.0	28.4	9.3	1.6	0.0
In millions of US$	539.9	505.5	444.0	377.8	306.3	237.0	159.7	87.6	38.8	12.5	2.0	0.0
In percent of exports of goods and services	46.5	41.0	34.5	26.7	20.7	15.6	10.0	4.9	2.1	0.6	0.1	0.0
In percent of total debt service 1/	442.0	359.3	302.1	241.0	184.6	147.4	94.4	50.6	24.9	8.8	1.5	0.0
In percent of GDP	12.9	12.4	10.9	9.0	7.1	5.2	3.3	1.7	0.7	0.2	0.0	0.0
In percent of gross international reserves	76.5	84.3	77.7	69.4	55.2	41.1	25.7	13.3	5.6	1.7	0.3	0.0
In percent of quota	186.8	172.9	150.5	127.1	102.4	78.9	54.3	30.4	13.7	4.5	0.8	0.0
Net use of Fund credit (millions of SDRs)	0.5	-28.7	-46.5	-48.5	-51.2	-48.8	-51.1	-49.6	-34.5	-19.1	-7.8	-1.6
Disbursements	31.1	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	30.6	44.3	46.5	48.5	51.2	48.8	51.1	49.6	34.5	19.1	7.8	1.6
Memorandum items												
Exports of goods and services (millions of US$)	1,160	1,234	1,286	1,414	1,483	1,523	1,605	1,771	1,854	1,960	2,090	2,220
Total debt service (millions of US$) 1/	122	141	147	157	166	161	169	173	155	142	137	139
Nominal GDP (millions of US$)	4,200	4,084	4,082	4,177	4,334	4,543	4,784	5,070	5,385	5,715	6,063	6,429
Gross international reserves (millions of US$)	706	600	572	545	555	576	621	658	697	738	782	828
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

Source: IMF staff estimates and projections.

1/ Total debt service includes repayments to IMF.

Table 7. Sierra Leone: Schedule of Disbursements Under the ECF Arrangement 2018-23

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 continuous and December 31, 2018 performance criteria
December 1, 2019	15.555	7.50	Board completion of the second review based on observance of continuous and June 30, 2019 performance criteria
June 1, 2020	15.555	7.50	Board completion of the third review based on observance of continuous and December 31, 2019 performance criteria 2/
December 1, 2020	15.555	7.50	Board completion of the fourth review based on observance of continuous and June 30, 2020 performance criteria 2/
June 1, 2022	15.555	7.50	Board completion of the fifth review based on observance of continuous and December 31, 2021 performance criteria
December 1, 2022	15.555	7.50	Board completion of the six review based on observance of continuous and June 30, 2022 performance criteria
June 1, 2023	15.555	7.50	Board completion of the seventh review based on observance of continuous and December 31, 2022 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.
2/ The third and fourth reviews are combined.

Table 8. Sierra Leone: Financial Soundness Indicators of the Banking System, 2013-21

	2013	2014	2015	2016	2017	2018	2019	2020	2021			
									Mar	Jun	Sep	Dec
	(Percent, end of period, unless otherwise indicated)											
Capital adequacy												
Regulatory capital ratio 1/	30.1	30.2	34.0	34.1	34.1	38.4	41.7	40.1	49.0	49.0	45.3	39.9
Regulatory tier 1 capital ratio 2/	26.3	25.9	29.0	27.2	27.2	29.6	33.9	33.2	47.0	47.0	35.2	35.7
Asset quality												
Nonperforming loans to total gross loans	23.7	35.3	33.2	15.5	15.0	13.0	16.8	12.7	13.7	13.8	15.5	15.2
Nonperforming loans (net of provisions) to regulatory capital	31.7	41.8	31.9	1.2	12.1	9.9	7.2	4.3	4.5	5.7	5.1	4.8
Earnings and profitability												
Return on assets	2.2	2.6	3.2	3.8	5.6	6.0	6.1	6.1	1.4	5.3	3.8	5.5
Return on equity	9.6	15.4	18.0	21.8	29.8	28.6	26.1	25.7	6.2	23.6	16.1	26.7
Interest margin to gross income	59.2	43.5	36.6	51.1	63.2	63.2	66.9	70.0	60.6	60.6	66.5	62.6
Liquidity												
Liquid assets to short-term liabilities	81.3	87.0	87.0	86.0	77.8	82.3	86.8	94.1	..	..	92.6	92.1
Liquid assets to total assets	72.5	78.9	83.3	85.5	70.9	69.2	68.4	73.4	76.2	76.3	74.9	73.7
Memorandum Item:												
Number of banks	13	13	13	13	14	14	14	14	14	14	14	14

Source: Bank of Sierra Leone.
1/ Capital requirement over risk-weighted assets (solvency ratio).
2/ Core capital (Tier I) over total assets.

Table 9. Sierra Leone: Decomposition of Public Debt and Debt Service by Creditor, 2021-23 1/

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In mil. US$)	*(Percent total debt)*	*(Percent GDP)*	*(In mil. US$)*			*(Percent GDP)*		
Total	3,125	100.0	76.8	709	771	710	17.4	20.8	19.3
External	2,002	64.1	49.2	108	139	139	2.7	3.7	3.8
Multilateral creditors[3]	1,581	50.6	38.9	81	111	114	2.0	3.0	3.1
IMF	541	17.3	13.3						
World Bank	464	14.8	11.4						
AfDB	165	5.3	4.1						
Other Multilaterals	410	13.1	10.1						
o/w: Islamic Development Bank	128	4.1	3.1						
EEC/EIB	78	2.5	1.9						
Bilateral Creditors	253	8.1	6.2	16	20	17	0.4	0.6	0.5
Paris Club	50	1.6	1.2	0	0	0	0.0	0.0	0.0
o/w: South Korea	50	1.6	1.2						
Non-Paris Club	203	6.5	5.0	16	20	17	0.4	0.6	0.5
o/w: Kuwait	62	2.0	1.5						
China	78	2.5	1.9						
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	168	5.4	4.1	11	8	8	0.3	0.2	0.2
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic[2]	1,123	35.9	27.6	601	632	571	14.8	17.0	15.5
Held by residents, total	1,123	35.9	27.6	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	-	-	-	-	-	-	-	-	-
T-Bills	595	19.0	14.6	n/a	n/a	n/a	n/a	n/a	n/a
Bonds	31	1.0	0.8	n/a	n/a	n/a	n/a	n/a	n/a
Loans	17	0.6	0.4	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Nominal GDP	4,280								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt is not shown in the table due to confidentiality clauses and data limitation. Total includes domestic arrears.

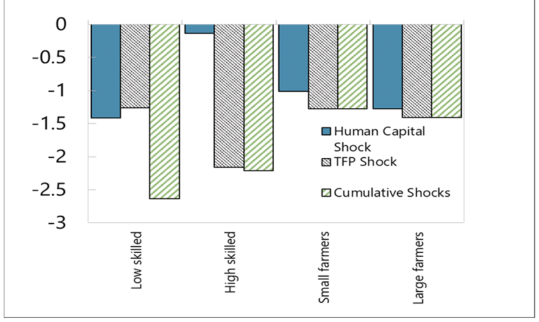
3/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

Annex I. Modeling the Longer-Term Impact of Covid and Mitigating Policies

1. Background. While surveys and recent national accounts data provide insights about the short-term impact of COVID-19, including for Sierra Leone, the longer-term impact on individual countries is less well understood. This analysis calibrates a general equilibrium model with heterogenous agents to model the impact of (i) the pandemic through the decline in human capital from school closures and sectoral productivity; and (ii) mitigating policies on macroeconomic and distributional outcomes.[1]

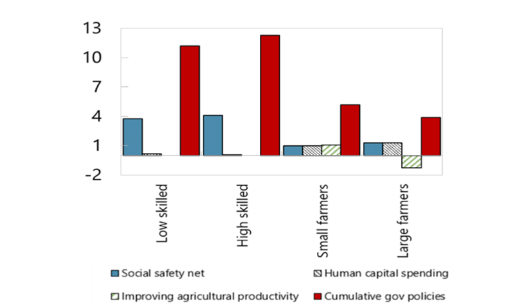
2. Long-term impact of the Covid shock. The shock to human capital (captured by declines in the share of skilled workers and in productivity, particularly for lower-skilled workers) shifts relative worker productivity. This increases urban income inequality as urban low-skilled workers suffer higher income losses relative to their high-skilled peers and reduces the relative weight of the services sector. Consistent with the observation that COVID has impacted the agricultural sector less severely, the differential impact on sectoral productivity results in a shift to agriculture away from manufacturing. Combining the shock to human capital with a shock to sectoral productivity leads to a medium-term decline in GDP of 3 percent and a fall in incomes across the board (Figure 1).

Figure 1. Impact of Covid Shock on Incomes
(Percent change relative to baseline)



3. Impact of mitigating policies.[2] Social safety nets targeted towards low-income urban workers protect their incomes and decrease urban inequality, while higher incomes increase the demand for food. However, large farmers benefit more than small farmers, thus increasing overall inequality. The gains from increasing investment in human capital are massive. The higher share of the skilled population raises the economy's overall productivity and GDP increases by 6 percent, while the manufacturing sector grows and absorbs a large portion of skilled workers. Increasing agricultural productivity decreases food prices. Together, these policies boost GDP by 10 percent while the manufacturing sector increases beyond its contribution before the COVID shock due to increased formalization. These mitigating policies also support an inclusive recovery by boosting incomes and thus decreasing inequality across the board (Figure 2).

Figure 2. Impact of Mitigating Policies on Incomes
(Percent change relative to Covid shock



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[1] See more in *Selected Issues Paper: Modeling the Longer-term Impact of the COVID-19 Crisis and Mitigating Policies for Sierra Leone.*

[2] Habib, Ashique, Tarak Jardak, and Adrian Peralta-Alva. 2022. Macro/Distributional Impact of COVID-19 and Policies for the Recovery. Preliminary draft.

Annex II. Implementation of 2019 Main AIV Recommendations

Policies	Key Recommendations	Status of Implementation
Fiscal Policy	• Tax administration measures, such as operationalizing the Integrated Tax Administration System (ITAS), would help broaden the tax base. • Accelerating key PFM and expenditure reforms to ensure better budget planning and execution, including by using the recommendations of the PIMA, will be critical. • Planning arrears clearance in a manner that is transparent, equitable, fiscally sustainable and limits the risks to financial stability is an important step. • Continuing to advance assessment and management of fiscal risks. • Publishing the outcome of fuel price setting decision.	• Revised National Revenue Administration (NRA) Act (soon-to-be approved) to strengthen the foundation for tax policy reforms. • Started to develop a MTRS. • On tax policy, undertaking stock-take of income tax exemptions; finalizing duty waiver policy; reviewing excise regime. • Tax administration reforms include the roll-out of the electronic cash registers, complete installation of ITAS, and improving the customs clearance process. • Fiscal risk unit published information of key SOEs online, received TA on fiscal/state-owned enterprises (SOE) risk. • Continued to broaden the coverage of the Treasury Single Account (TSA), strengthen commitment controls including by expanding coverage of IFMIS, authorities constituted the enhanced cash and debt. • Management committee, review of finances and performance of SOEs, strengthened payroll management, and progress in addressing gaps identified in the PIMA, such as development of project appraisal templates (in progress) and guidelines. • Continued implementation of the automatic fuel price adjustment mechanism (up to September 2021).
Debt	• Managing public debt sustainability remains a priority. Development of a new Medium-Term Debt Management Strategy and strategy to deal with domestic arrears.	• Debt has remained sustainable, underpinned by fiscal adjustment, reliance on only external grants and concessional financing, and debt relief under the CCRT and DSSI. • Concerted effort to understand the magnitude of domestic payment arrears. Subsequently, an Arrears Clearance Strategy approved in July 2020. Larger than anticipated stock of domestic arrears paid in 2020 to support small and medium suppliers as part of the crisis response. Renewed efforts to implement haircuts and NPV reductions, in line with strategy. • MTDS published in mid-2021.

		• Inter-agency cash management meetings, though irregular.
Monetary and Exchange Rate Policy	• Continuing to consult with the IMF will ensure that recent CPI updates are technically sound. • Strengthening liquidity management. • Enhancing the communication strategy • 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.	• Updated CPI released on March 4, 2022. • The BSL has continued to monitor and respond to inflation developments and liquidity conditions, and to improve monetary policy operations and forecasting, supported by Fund CD. • Limited recourse to secondary market purchases. • Introduced SFF and RFF with one-day lagged exchange rate. • Working with private vendor to improve computation of BSL rate to avoid MCP.
Financial Sector Policies	• Intensified efforts to contain risk from the two state-owned banks will help reduce fiscal and financial sector vulnerabilities. • Fully use the FSSR that will help develop a roadmap for financial sector reform.	• The SOBs remain under an enhanced supervision directive from the BSL. • Completed thematic review of NPL strategy and management in SOBs. • Work is underway on development of an updated corporate governance framework for SOBs. • The FSSR identified strengthening the regulatory and supervisory framework for banks as a near-term reform priority. Revised prudential guidelines for banks to ensure compliance with the 2019 Banking Act are under preparation.
Governance/Structural	• Broad efforts to advance governance reforms to strengthen economic institutions and promote policy effectiveness, including improved fiscal performance. • Keep strengthening the BSL's governance arrangements and internal controls.	• Transparent accounting of COVID-related spending by publishing financial statements of NaCOVERC, large procurement contracts related to crisis, and the broader (QAERP) social and economic response to the crisis. Real-time audit by ASSL. • The BSL has made significant progress with implementing the recommendations of the 2017 safeguards assessment. Key now is completing the FY2021 audit and publishing the financial statements.

Annex III. Risk Assessment Matrix

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
External Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions	**High**	***High.*** Supply chain disruptions lead to higher prices for essential imports such as fuel and rice.	Continuous application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues (with a stepwise adjustment to be considered in case of an extreme shock). Progress on energy sector reforms to shift away from reliance on fuel oil. Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net.
Rising and volatile food and energy prices	**High**	***High***. Higher energy prices would stoke inflation further and would also add to fiscal pressures, given the reliance on diesel power and an expectation of fuel subsidies.	Continuous application of the automatic fuel price adjustment mechanism to avoid expectations of a subsidy and to safeguard critical revenues (with a stepwise adjustment to be considered in case of an extreme shock). Progress on energy sector reforms to shift away from reliance on fuel oil. Introduce targeted measures to mitigate the impact of the shock, e.g., by expanding the social safety net.
Abrupt growth slowdown in China.	**Medium**	***High.*** China is the primary destination for Sierra Leone's iron ore exports. A growth slowdown would likely affect both China's demand for iron ore, as well as the global price. Extended lockdowns could disrupt supply chains and increase import prices.	Continue with efforts to diversify the mining sector and the economy more broadly.
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth	**Medium**	***Medium.*** While the omicron wave had little impact in Sierra Leone, the situation could be different with a more lethal variant. Vaccination rates are still low. There is little appetite for further lockdowns. Space for additional emergency spending is limited.	Prioritize vaccination program. Seek additional grant resources to accommodate necessary pandemic and health spending.

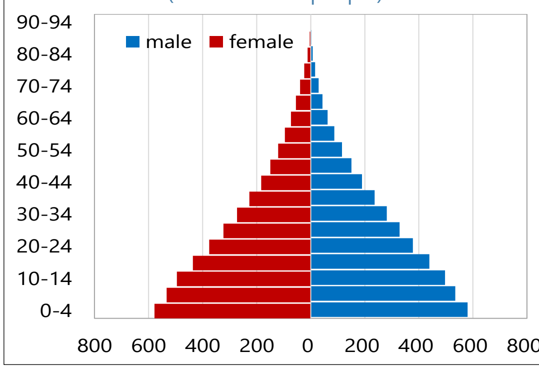
Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
De-anchoring of inflation expectations in the U.S. and/or advanced European economies	**Medium (for U.S.)/ Medium/Low (for Euro Area)**	***Medium.*** The capital flow channel will have limited impact. However, adverse impacts could be felt through knock-on effects (lower EMDE growth, lower commodity prices, currency depreciation).	Prudent monetary and fiscal policies will be important. The exchange rate should be allowed to adjust to reflect price differentials. Prioritize social spending to cushion the impact on the poor and vulnerable.
Regional and Domestic Risks			
Spillovers from instability elsewhere in West Africa	**Medium**	***High.*** Recent coups and security crises in the region could inspire domestic actors. However, memories of the civil war mean there is likely to be less support for coups amongst the populace.	Strengthen governance and efforts to curb corruption. Prioritize social spending and service delivery.
Setback in fiscal and structural reform momentum (via social discontent, political instability, and/or capacity constraints)	**Medium**	***Medium/High.*** Delays in revenue and PFM could set back fiscal adjustment, increase debt, dampen development partner confidence, and lower external financing/grants.	Accelerate structural reforms and continue to ensure prudent budgetary management. Put in place social programs to address potential adverse on the most vulnerable groups.
Worsening governance and resort to populist policies ahead of 2023 General Election	**Medium**	***Medium/High.*** Indications of deteriorating governance and a lack of fiscal discipline could lead to an unsustainable debt burden and a reduction in development aid.	Strengthen governance and efforts to curb corruption. Encouraged continued strong engagement with the Fund and other multilateral and bilateral development partners.
Natural disasters related to climate change	**Medium**	***Medium/High.*** Sierra Leone is highly vulnerable to natural disasters, the frequency of which is likely to increase as a result of climate change.	Prioritize public investment in climate-resilient infrastructure. Seek grant financing for climate projects related to adaptation.

Annex IV. Reaping the Demographic Dividend Through Education[1]

1. Sierra Leone's population is young and growing, presenting significant opportunities if workers enter the labor market skilled and productively. Half of Sierra Leone's population is below the age of 20 years (Figure 1). The number of workers entering the labor market is expected to increase over the next decades. A growing workforce presents opportunities for development: many countries that experienced episodes in which the workforce has grown more rapidly than the rest of the population—a declining dependency ratio—saw a boost to growth through a demographic dividend. Historically, policies to boost human capital, such as investments in education and health to ensure workers enter the labor market productively and at higher wages have accompanied a successful demographic transition globally.

Figure 1. Number of Persons per Age Group, 2020

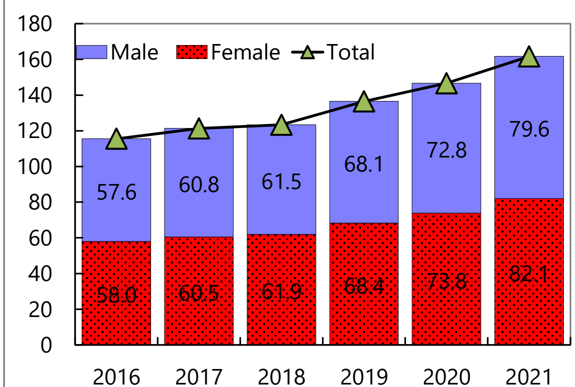
(Thousands of people)



2. Sierra Leone's development policy agenda that focuses on education is therefore welcome. The National Development Plan 2019-23 aims at building an inclusive educational system that enhances the productivity of the labor force. The public spending allocation on education has reached 21.4 percent in 2022 under FQEP. The national policy on radical inclusion, the national school feeding policy, and the integrated early childhood policy, among others, have improved access to education for marginalized groups, such as children with disabilities, children from low-income families, pregnant girls, and parent learners, with more children taking exams (Figure 2) and first evidence of improved learning outcomes, despite still significant challenges. Technology-based solutions in the education sector (EdTech), such as USSD/SMS (Unstructured Supplementary Data Service/Short Message Service) results checker, Learning Passport and Radio teaching programs ensured continuation of learning during Covid lockdowns and improved access to learning materials for pupils.

Figure 2. National Primary School Exam

(Thousands of students sitting on exam)



3. The World Bank's Public Expenditure Review points at key policy priorities. These priorities include optimizing spending on adequate learning materials and a favorable learning

[1] Reaping the Demographic Dividend in Sierra Leone – The Role of Education

environment, supporting disadvantaged groups through the removal of barriers, improving the quality of teachers and learning infrastructure, linking school subsidies to school performance and outcome, and strengthening quality assurance through school monitoring across government and private schools. Other policy recommendations include a strong fiscal framework to create space for sustainable education spending, collaboration within and across sectors and government agencies, and creating a synergy between the education sector and labor market where skills required by labor market guide curriculum designs and training programs.

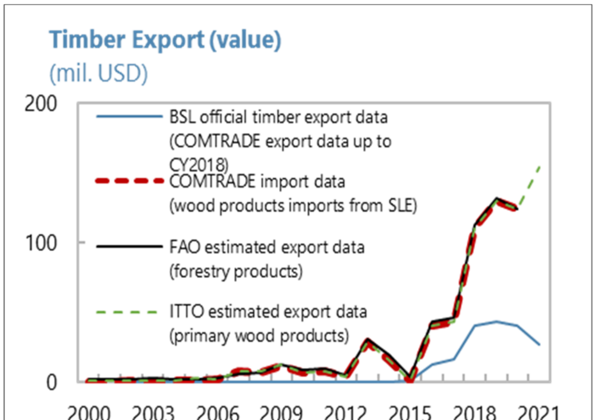
Annex V. Managing Forestry Resources Sustainably

1. **Timber should be sustainably managed to achieve the twin objectives of revenue mobilization and environmental protection.** To do so, timber must be correctly valued, including its potential to generate future, consistent revenue streams through climate finance. However, unsustainable harvesting and illegal trade have led to a recent suspension of Sierra Leone's rosewood exports by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

2. **Improving forest governance by tracking deforestation and illegal logging is the first step to sustainable trade and sets the foundation for carbon finance.** This could be achieved, for example, by signing on to Voluntary Partnership Agreements with the E.U., through which the E.U. agrees to only import licensed timber and participating in transparency initiatives like the Extractive Industries Transparency Initiative (EITI). Neighboring Liberia has set up a national system to verify the legality of timber (LiberTrace). Ghana deployed a similar digital wood-tracking system in 2009; some of the data is also made available to the public.

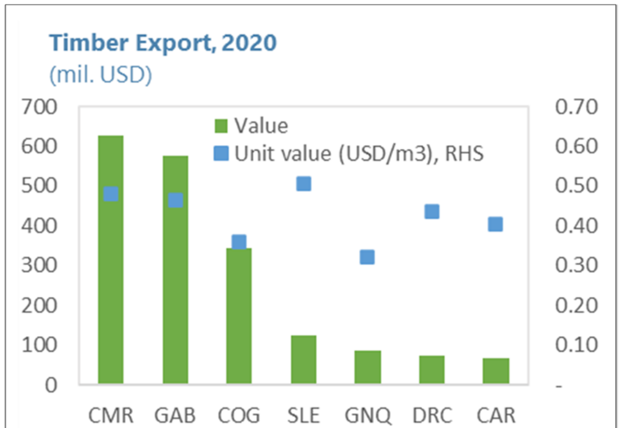
3. **The authorities should revisit the overall taxation of timber to encourage sustainable logging, protect precious species, and promote domestic processing.** Sierra Leone has a fixed timber export tax of US$3,000 per 20ft container and a US$300 afforestation levy, through which it collected about US$27 million in 2021. However, this regime is undifferentiated by type of species and does not capture the upside from increase in market prices, which an ad valorem rate could address. Some countries also levy timber export taxes based on the type of species (Ghana, Liberia, and Congo) or the processing phase of timber, which can encourage domestic processing and protect young trees. For example, Cameroon plans to increase export taxes on raw timber exports from 35 to 50 percent to encourage local wood transformation and reduce deforestation, and Gabon quadrupled its revenues from timber when it required that all timber be processed locally prior to export.

4. **The BOP data also suggest that timber exports are undervalued.** There are significant discrepancies between the data reported by the customs authorities and those by importing partners, suggesting significant undervaluation or uncaptured trading. Using external data (e.g., International Tropical Timber Organization (ITTO) bi-weekly market reports, Food and Agriculture Organization (FAO) and UNCOMTRADE) and comparing import invoices with bilateral trading partners can provide a basis for cross-referencing while internal capacity in the Forestry division is built. The CITES suspension makes building capacity to assess the species being exported even more urgent.



Sources: BSL, FAO, ITTO, and UNCOMTRADE.

5. Prompt actions are necessary while the authorities undertake a comprehensive review of timber, which can be supported by partners such as the World Bank and ITTO. International experience suggests that prompt action, including i) verifying export invoices by cross-referencing with other sources, ii) introducing the ad valorem tax on timber exports with a floor based on the current regime to avoid revenue losses, iii) continuing to improve tax enforcement, such as on timber and timber products exported by land, and iv) improving tracking of deforestation and illegal logging can yield dividends.



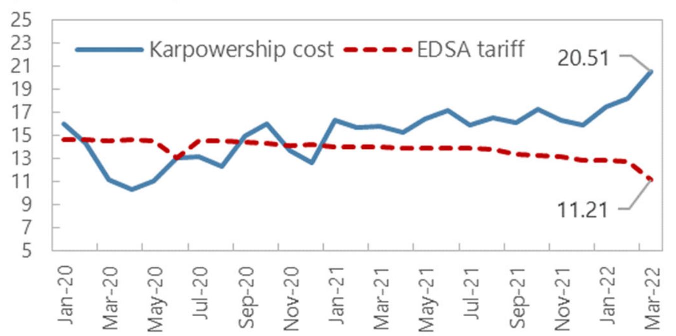
Sources: FAO.

Annex VI. Assessing Fiscal Risks from the Energy Sector

1. **The energy sector presents a significant risk to the government budget, growth potential and emissions reduction goals.** In 2021, the largest electricity supplier cut off power due unpaid bills by the government. The recent rise in fuel prices further weighs on fiscal sustainability. The government is implementing reforms with the support of the World Bank to contain contingent liabilities and reduce subsidies.

2. **Context.** The scarcity of a reliable energy supply is one of the key impediments to economic and social development. The country's installed power capacity as of 2018 is about 105 MW for a population of over 7 million. The Electricity Distribution and Supply Authority (EDSA) is responsible for the connection and distribution of electricity. EDSA has longstanding high commercial and technical losses (around 38 percent). Its balance sheet has further deteriorated as the cost of purchasing electricity has increased, including as depreciation increased the value of dollar denominated obligations to Karpower. Meanwhile, tariffs have remained constant since 2019 (Figure 1), putting additional pressure on the government budget (increase in subsidies to US$42million in 2022).

Figure 1. Difference between Karpowership cost and EDSA tariff
(in US$cent/kWh)



3. **Reforms.** The authorities are implementing comprehensive energy sector reforms, supported by the World Bank, which aim to improve EDSA's operational efficiency, increase generation capacity, and improve connection infrastructure. To increase revenue, the government plans to review electricity tariffs, which are currently at US$0.13 cents per Kwh, while maintaining the social band, and connect two mining companies to the grid. EDSA also aims to decrease losses to 35 percent by replacing meters to combat power theft and by installing pre-paid meters in government buildings. To phase out reliance on Karpowership, EDSA can further scaleup purchases from cheaper sources, such as the Cote d'Ivoire-Liberia-Sierra Leone-Guinea (CLSG) power pool, and further invest in renewable energy. The government is also investing in transmission lines and completing rural electrification projects. Development partners are also supporting efforts to strengthen corporate governance and design performance incentives to improve EDSA's viability.

Annex VII. External Sector Assessment

Overall Assessment: The external position of Sierra Leone in 2021 was weaker than the level implied by fundamentals and desirable policies. The assessment is subject to wide margin of error, given the quality and availability of official data and the sensitivity of the model results to parameters.

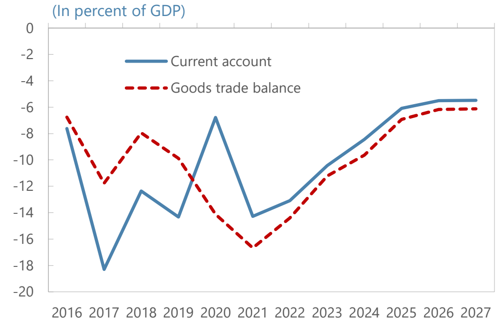
Potential Policy Responses: While the near-term policies should support the recovery from the COVID-19 crisis, reducing the current account gap and REER overvaluations is critical to maintain external sustainability. Specifically, the country should: (i) rely on highly concessional financing largely grants to contain external liabilities, (ii) make progress on fiscal adjustment while protecting essential spending, (iii) undertake reforms to facilitate FX market clearing, including allowing sufficient exchange rate flexibility while being mindful of the impact on inflation, and (iv) enhance productivity and improve competitiveness, keeping in mind that external financial support and FDI cannot be relied on indefinitely. These policies are also key to maintain adequate reserves over the medium term.

A. Current Account

1. Recent developments. The current account in 2021 is estimated to be around -14 percent of GDP, although the data shows a large fluctuation in remittances from the previous year and service balance due to the quality and availability of official data.[1] In terms of the trade balance, exports increased significantly after the COVID-19 crisis, but the impact on the current account is offset by an increase in imports both in terms of prices and quantities.

2. Outlook and risks. The current account balance in 2022 is expected to be about the same as in 2021 (-13 percent of GDP) due to the increase in import prices, especially in fuel and food, but is projected to moderately improve over the medium term, underpinned by an increase in mining exports. However, the current account deficit is expected to remain large (double digits), with risks associated with the international commodity price development and the resulting changes in commodity exports and imports

Current Account
(In percent of GDP)



Sources: BSL until 2020. Staff estimate and projection after 2021.

[1] These data fluctuations raise questions on the quality of official data. It is important that the authorities should address data gaps to improve the quality of BOP statistics.

B. Capital and Financial Accounts: Flows and Policy Measures

3. Capital account. The capital account in 2021 is estimated to be around 3 percent of GDP, increased somewhat over 2020 due to an increase in project grants, and expected to continue increasing slightly.

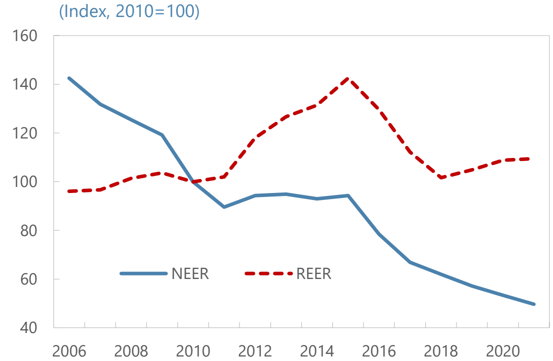
4. Financial account. FDI and other investment are the main drivers of the financial account. Net inflows are estimated to have increased in 2021 with higher FDI. They are projected to recover as mining activity increases.

C. Real Exchange Rate

5. NEER. The nominal effective exchange rate (NEER) has been on a depreciating trend.

6. REER. The real effective exchange rate (REER) appreciated until mid-2010s due to high inflation. It then depreciated until 2018 as the inflation rate declined. It appreciated somewhat in 2019-21, as inflation differential with trading partner more than offset nominal depreciation.

Exchange Rate
(Index, 2010=100)

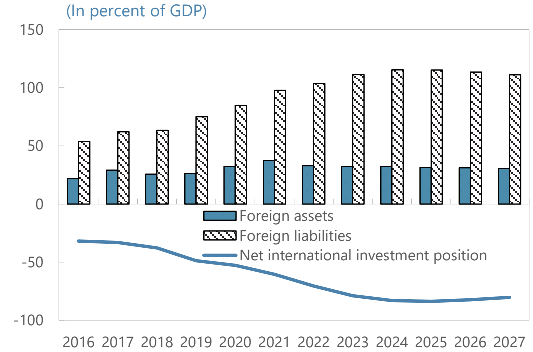


Sources: IMF IFS.

D. Foreign Assets and Liabilities: Position and Trajectory

7. Background. The net international investment position (NIIP) at end-2021 is estimated to be around -60 percent of GDP, with gross foreign assets of around 37 percent of GDP and gross foreign liabilities of around 98 percent.[2] The BSL's gross official reserves constitute more than half of foreign assets, with the remaining including foreign assets of deposit-taking corporations and other nonofficial sectors. About two-thirds of foreign liabilities are FDI liabilities and the rest is other investment liabilities (mainly public sector but also commercial banks and other sectors). The NIIP has worsened over the last five years, and it is projected to do so further as sizeable current account deficits persist.

Foreign Assets and Liabilities
(In percent of GDP)



Sources: BSL until 2017. Staff estimate and projection after 2018.

8. Assessment. We use the revised EBA-lite external sustainability (ES) model to estimate the size of necessary REER adjustment (and the corresponding current account adjustment) to keep the

[2] The official estimate for the NIIP is available until 2017

NIIP at the 2021 level over the medium term.[3] This assumption—maintaining the NIIP at the current level—is a common assumption applied also in other countries. While this level is high, containing the NIIR at that level is likely to ensure sustainability given that a large part of foreign liabilities is FDI.

9. The ES model indicates that a REER depreciation of around 6.6 percent is necessary over the medium term to keep the NIIP (as a percentage of GDP) at the 2021 level. Using the elasticity of the current account with respect to REER of -0.35 (the same value was used in the previous external sector assessment in August 2021), this corresponds to a current account gap of around -2.3 percent of GDP, which is the desirable level of current account balances over the medium term, based on the ES model.

10. The external position of Sierra Leone in 2021 was deemed to be assessed to be weaker than the level implied by fundamentals and desirable policies. A caveat is that data includes large fluctuations and its quality is still questionable, and the current account deficit is expected to remain double-digits in near term.[4] In addition, this assessment is subject to wide margin of error, given the quality and availability of official data (very large errors and omissions), potentially omitted variables such as terms of trade worsening risks, and the sensitivity of the results to parameters, including the elasticity of the current account with respect to the REER.

11. Potential policy responses. While the near-term policies should support the recovery from the COVID-19 crisis, reducing the large current account gap and REER overvaluation over the medium term is critical to maintaining external sustainability. In particular, the country should: (i) rely on highly concessional financing, ideally grants to contain external liabilities, (ii) make progress on fiscal adjustment while protecting essential spending, and (iii) undertake reforms to facilitate FX market clearing, including supporting sufficient exchange rate flexibility while being mindful of the impact on inflation. Although FDI and external financing supports help to cover the current account gap for now,

Sierra Leone: Model Estimates for 2021

		Revised EBA-lite ES model	
CA-Actual (in percent of GDP)		**-14.3%**	
CA Gap (in percent of GDP)		**-2.3%**	
Elasticity of CA with respect to REER		**-0.35**	
REER Gap		**6.6%**	
2021 (% GDP)	NIIP: -60	NIIP: -60	Gross Liab.: 98

[3] The ES model used here is explained in: O. Blanchard and M. Das, 2017, "A New Index of External Debt Sustainability." IMF, 2019, "The Revised EBA-lite Methodology." The ES model is based on the idea that net external liabilities or the NIIP are sustainable if they are less than or equal to the present value of net exports, plus the rate of return differential between external assets and external liabilities times the gross asset position. The ES model calculates the size of REER adjustment required to equate the present value of future net exports and net interest income to the current level of the NIIP (i.e., the level of the NIIP in 2020).

[4] As in the last external sector assessment in October 2021, we rely on the ES model, as it is difficult to implement the CA model and the REER model for Sierra Leone due to limited data availability and weak data quality.

these external supports cannot be taken for granted indefinitely. Therefore, the country should also make significant efforts to enhance productivity and develop a competitive export sector while making use of FDI and donor supports to maintain external stability.

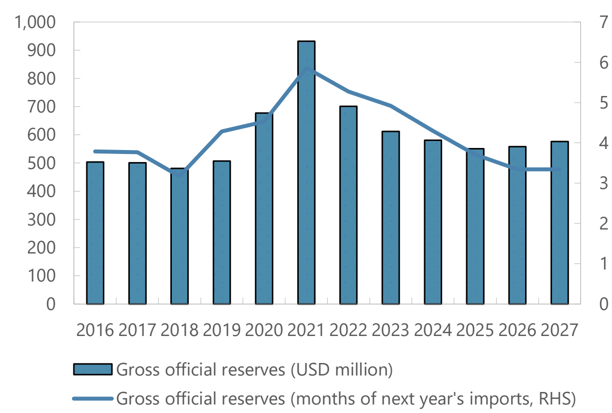
E. FX Intervention and Reserves Level

12. Background. BSL's gross official reserves (excluding swaps) at end-2021 were USD 932 million, corresponding to about
5.3 months of next year's imports of goods and services. Gross reserves sharply increased in 2021, mainly due to the SDR allocation in August, emergency financing from the IMF, and continued debt service relief and deferment (the CCRT and the DSSI). Gross reserves are projected to steadily decrease over the medium term, mainly because of increasing external debt service, the absence of exceptional support, and the BSL's additional facilities for supporting food and fuel import implemented in 2022.

13. Assessment and potential policy responses. While the reserve coverage in 2021 and 2022 is higher than the recommended level based on one reserve coverage metric
(3 months of next year's imports) due partly to the SDR allocation in August 2021, exceptionally large uncertainty after the COVID-19 crisis and severe macroeconomic vulnerabilities justifies the higher reserve coverage. Over the medium term, the reserve coverage is projected to decrease toward 3 months of imports.

14. Assessment and potential policy responses. While the reserve coverage in 2021 and 2022 is higher than the recommended level based on one reserve coverage metric
(3 months of next year's imports) due partly to the SDR allocation in August 2021, exceptionally large uncertainty after the COVID-19 crisis and severe macroeconomic vulnerabilities justifies the higher reserve coverage. Over the medium term, the reserve coverage is projected to decrease toward 3 months of imports.

Gross Official Reserves



Sources: BSL until 2021. Staff projection after 2022.

15. Potential policy responses. The policies to ensure external sustainability described in the previous section would help maintain adequate reserve coverage over the medium term.

Annex VIII. Capacity Development Summary

A. CD Strategy and Priorities

1. Sierra Leone's CD Strategy is anchored to the government's medium-term development goals and integrated with the Fund supported program. (Table A8.1). Priorities emerging from the COVID-19 shock largely require expediting existing CD needs, rather than fundamentally altering the focus of CD provision in Sierra Leone. In this regard, the authorities' National Development Plan (NDP), priorities under the 2018 ECF supported program, improving governance and fiscal transparency, and climate and gender-based budgeting, continue to guide this Strategy. In addition, the strategy for the financial sector is now guided by the 2021 Financial Sector Stability Review (FSSR).

- *Sierra Leone's fiscal situation remains extremely tight, characterized by large development financing needs, low tax base, and high debt levels.* This requires increased emphasis on revenue mobilization (through both improved tax policy and revenue administration), improving the efficiency and effectiveness of spending, selection of priority projects, strengthening budget credibility, and improved debt management. Against this, CD is focused on strengthening the medium-term budget framework (MTEF); building public finance management capacity to strengthen commitment controls, wage bill management; promoting transparency and accountability in the use of public funds; improving accounting and fiscal reporting; limiting tax exemptions and improving compliance, including with respect to extractive industries; and more effective debt management to address rising debt vulnerabilities.

- *Monetary policy is at a nascent stage and central bank operations require strengthening.* With the Fund's assistance, the BSL is developing analytical capacity and forecasting tools to inform monetary policy decisions. Improving the infrastructure and systems for foreign exchange operations to eliminate a MCP is high on the agenda this year.

- *High non-performing loans and weaknesses in state-owned banks require increased attention to financial sector supervision and stability.* The FSSR follow-up plan for Sierra Leone focuses on bank supervision, systemic risk, financial stability and macroprudential policy frameworks and on developing stress-testing capacity, as well as on the oversight of financial market infrastructure. The implementation of the new Banking and BSL Acts will be supported by capacity development focused on risk-based supervision and the implementation of Basel II/III. Additional support would be needed to advance reform of the state-owned banks.

- *Timely data compilation and dissemination are a priority in all sectors to enable effective policy design and implementation.* Support is needed in the area of debt recording and management, as well as public debt compilation and reporting. Rebasing national accounts and improving compilation methodologies will allow for more accurate estimates of output. Developing and disseminating the producer price index will enhance GDP estimates, and increased availability of high frequency data will also be crucial for timely policy design and implementation.

B. Main Risks and Mitigation

2. Risks to TA implementation in Sierra Leone relate to absorptive capacity, political risks and financing constraints. TA implementation is often constrained by the small number of officials that are handling a large variety of tasks. This can become binding without careful prioritization, particularly with numerous and sometimes bunched TA missions (Table A8.2), and TA delivery by other development partners. Differences in views among political and interest groups could also create stumbling blocks. The cost of implementing TA recommendations, especially those involving investments in hardware or new systems, has sometimes delayed implementation.

3. The authorities and country team discussed actions to mitigate these risks. Remote missions, while no replacement for in-person interaction, continue to be effective, including providing scope for increased integration with program work or peer learning. MCM has placed two resident advisors to the BSL on bank supervision and monetary policy, as part of the resilient CD delivery in the context of travel restrictions. With gradual resumption of in-person missions, alternative capacity building methods (e.g., end of CD mission workshops) could provide valuable hands-on experience to a broader range of officials. To mitigate political risk, the Res Rep office will continue regular outreach with Parliament and other stakeholders and to serves as interlocutor for financial assistance from development partners and synergy in TA delivery.

C. Authorities' Views

4. The authorities concur with the priorities outlined above and emphasized expediting implementation. The reform orientation of the current administration provides an opportunity to make sustained progress on structural reforms on governance and transparency. They expressed strong preference for in person missions. The authorities also strongly underscored the importance of CD that included hands-on workshops and have therefore requested that workshops be made a more routine part of CD delivery.[1] In the past, such engagement has effectively improved traction. Lastly, they signaled that better dialogue and planning ahead of missions—both with the Fund and other development partners—has allowed them to schedule CD missions more effectively to coincide with ongoing workflows, hence somewhat mitigating absorption capacity concerns.

[1] Under an FAD pilot project, the Ministry of Finance is currently participating in weekly training workshops on benefit-incidence analysis.

Table A8.1. Sierra Leone: Capacity Development Priorities	
Priorities	**Objectives**
Public Finance Management	Ensure **fiscal sustainability** through: (i) implementing reforms to better manage public investment with stronger focus on project appraisal and selection; (ii) more effectively prioritize spending to critical sectors within a medium-term budget framework; and (iii) improve debt recording and management. Improve **budget execution** through: (i) enhancing and rolling out more widely the Financial Management Information System (FMIS); and (ii) strengthening liquidity management and implementation of the Treasury Single Account (TSA). Accelerate **transparency and governance reforms**, with particular focus on the use of emergency funds by implementing commitments made under RCF and following standards set in recent COVID-19 Regulations. Improve **fiscal reporting** through: (i) enhanced coverage to the whole of central government and gradually extended to the general government; (ii) international standards (IPSAS) based accounting and fiscal reporting and (iii) improved data integrity of the financial statements.
Tax Policy	Support the Authorities to extend their tax analysis capability by developing a sectoral revenue forecasting model for mining revenue. Ensure the new extractive industries tax law is settled and minor legislative corrections are made where needed.
Revenue Administration	Improve the efficiency of domestic resource mobilization by (i) increasing tax compliance, including with respect to extractive industries revenue and contribution of large taxpayers and High Net Worth Individuals; (ii) broadening the tax base and strengthening border controls; (iii) modernizing the governance structure of NRA; (iv) building capacity in data analytics and audit of the specialized industries and (v) automating tax administration.
Expenditure Policy	A benefit incidence analysis on education and health is ongoing with FADEP combined with medium-term programmatic CD engagement with the Ministry of Finance. The first activity of the CD engagement provided training on how to conduct a distributional analysis of public spending on education and health, and how to map such analyses to policy discussions such as adequacy and efficiency of expenditure (including SDGs' costing). In March, FADEP has started to analyze the public sector wage bill (e.g., wage bill projections and estimating public sector wage premia) and design sound government compensation and employment reforms.
Financial Sector Supervision and Regulation	Increase financial system safety and soundness through strengthening prudential regulations as well as supervisory frameworks and processes.
Financial Stability	Establish the Financial Policy Committee and design new tools to monitor systemic risk, conduct stress tests and improve financial stability analysis.
Central Banking Operations and Governance	(i) Continue to implement the revised Banking and BSL Acts to strengthen the BSL's ability to supervise the banking system. (ii) Continue to improve monetary policy analysis and foreign exchange operations, and to modernize the monetary policy framework to be more responsive to market developments and more effectively promote price stability. (iii) Continue to enhance oversight and supervisory framework for financial market infrastructures (FMIs). (iv) support the authorities in its planned currency redenomination reform.
Statistics	Produce timely, frequent, and credible indicators of economic activities in all sectors to inform policy, including more attention to developing and leveraging high frequency data.

Table 2. Sierra Leone: Technical Assistance, FY2020-22

Date	CD activity
Apr-22	LEG remote mission on High level conference on Governance and Corruption Issues
Apr-22	FAD remote mission on Audit training -telecom sector
Apr-22	MCM STX Improving oversight and supervisory framework for FMIs
Apr-22	MCM LTX Improving oversight and supervisory framework for FMIs
Apr-22	MCM remote mission on Improving monetary policy analysis and near-term forecasting capabilities
Apr-22	FAD/AFW2 remote mission on the development of a framework for SOE Ownership
Apr-22	ICD ATI Course on Macroeconomics of Climate Change
Apr-22	FAD/AFW2 STX on strengthening Fiscal reporting and compliance with cash based IPSAS
Apr-22	STA remote mission on Sierra Leone-TA-GDP- GDP rebasing
Mar-22	FAD remote mission component (joint with MNRW mission)
Mar-22	FAD remote mission on regional coordination work
Mar-22	LEG scoping Mission
Mar-22	FAD remote mission on Customs Trade Facilitation - LTX Duty Station
Mar-22	FAD remote mission on Customs Post Clearance Controls - STX Field
Mar-22	LEG remote mission on Regional P2P event (AF)
Mar-22	MCM support on FSSR Banking Supervision LTX FY22
Mar-22	FAD support during Staff Visit
Mar-22	FAD STX Visit on CRM in the EI
Mar-22	MCM Bilateral LTX in Monetary Policy and Financial Stability FY22
Feb-22	FAD remote mission/HQ Workshop on MTRS
Feb-22	FAD remote mission on initial workshop
Feb-22	LEG remote mission on SAI Regional Event - Peer to Peer Preparatory Work FY2022
Feb-22	FAD remote mission on Strengthen Excise Duties Management Capacity
Feb-22	MCM remote mission on IFRS Improving Supervisory Understanding of ECL/IRB
Feb-22	MCM STX support on FSSR Review of Prudential Guidelines
Jan-22	STA remote mission on Sierra Leone - TA - PRC - Updating CPI
Jan-22	LEG Desk review work
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD STX support on Developing Reform Management Tools
Dec-21	FAD/AFW support the preparation of project appraisal guidelines
Dec-21	MCM remote mission in strengthening the Oversight Framework for Payment Systems
Dec-21	MCM remote mission on Sierra Leone-Payment Systems Oversight
Dec-21	MCM Sierra Leone-Payment Systems Oversight
Dec-21	FAD remote mission on Mining revenue model mission 1
Nov-21	FAD Strengthen Tax Exemptions Management Capacity
Nov-21	MCM /AFE/AFS/AFW2 Webinar on climate-related risk
Nov-21	MCM/AFE/AFS/AFW2 Regional Webinar on Climate Related Risk
Nov-21	STA remote mission on Sierra Leone - TA - BOP
Nov-21	FAD STX Assignment - Building Project Management Capacity
Nov-21	FAD Module 2 on Fiscal Risks and Macro Shocks (correct)
Nov-21	FAD STX support on Customs data analytics
Oct-21	MCM country Short Engagement Activity
Oct-21	STA Sierra Leone-TA-GDP-GDP rebasing
Oct-21	MCM Country X FY22 Short Engagement Activity
Oct-21	MCM Country X FY22 Short Engagement Activity
Oct-21	MCM SLE: Supporting Basel II/III Implementation Process
Oct-21	MCM Bank Supervision
Sep-21	MCM AFR IMF01 Short Engagement Project - Financial Crisis Management
Sep-21	FAD Customs Border Control, Risk Management & PCA - STX

Table 2. Sierra Leone: Technical Assistance, FY2020-22 (concluded)

Sep-21	STA Sierra Leone - TA - PRC - Updating CPI
Sep-21	FAD STX Assignment - Develop an Interim Modernization Plan
Sep-21	MCM Bank Supervision
Aug-21	STA Sierra Leone-TA-GDP- D4D
Aug-21	FAD Customs Trade Facilitation - LTX Remote (Regional)
Jul-21	FAD Customs Border Control, Risk Management & PCA - STX remote
Jun-21	STA Sierra Leone / AFR - TA - GFS&PSDS - D4D
Jun-21	FAD/AFW2-Follow up on the Review of the Sierra Leone Integrated Macro Economic Model
Jun-21	MCM Sierra Leone AFW2 Improving monetary policy analysis and near-term forecasting capabilities
Jun-21	FAD Strengthening Expenditure Policy
Jun-21	FAD Strengthening Expenditure Policy
Jun-21	FAD Benefit Incidence Analysis on Health and Education
Jun-21	FAD/AFW2: Implementing budget execution controls
Jun-21	FAD/AFW2: Implementing budget execution controls
Jun-21	MCM Developing Stress-testing capacity Mission 1
Jun-21	STA Sierra Leone - TA - HFI - MIEG
May-21	FAD/AFW2-Training MoF officials on the use of the fiscal risks SOE Health Check Tool
May-21	MCM ESP-FY22 MTDS
May-21	FAD CD Delivery
May-21	FAD LTX support time all desk review
May-21	MCM Sierra Leone- LTX and STX FX Mission
May-21	MCM Bank Supervision
May-21	SPR Presenting
May-21	SPR Macroresearch AFR F22 Backstopper4
May-21	SPR Macroresearch AFR F22 Backstopper3
May-21	SPR Macroresearch AFR F22 Backstopper2
May-21	SPR Macroresearch AFR F22 Backstopper1
May-21	STA Desk view
Apr-21	FAD remote mission on cash based IPSAS Financial Reporting
Nov-20	MCM Sierra Leone AFW2 Improving monetary policy analysis and near-term forecasting capabilities
Aug-20	STA remote mission on Debt recording and management
Jul-20	FAD/AFW2 Supporting Cash Management in COVID-19 Context
Jul-20	FAD/AFW2 Support for implementation of the Risk Management Strategy & Action Plan
Jun-20	FAD EI Ongoing on demand remote assistance
Jun-20	STA (Remote TA) Consumer Price Index (EDDI2)
May-20	FAD remote mission on establishing a Data Analytics Operating Framework
May-20	FAD remote mission on Establishing a Modernization Operating Framework
May-20	FAD remote mission on establishing a COVID-19 Fund
Apr-20	FAD/AFW2 Follow-up Mission to Support Authorities Implement Commitment Control Measures
Apr-20	FAD/AFW2 Development of Customs Integrity Framework (ECOWAS)
Apr-20	MCM WAH: Banking Supervision Desk Review and Remote TA
Apr-20	STA National accounts - Rebasing of GDP
Mar-20	FAD mission on Modernization Strategy
Mar-20	FAD mission COVID-19-Follow-up on natural resource regime mission
Mar-20	FAD/AFW2 Delivery of Training on Stakeholder Engagement Strategy
Mar-20	FAD/AFW2 Professional Attachment for NRA Risk Management Unit to Mauritius Customs
Mar-20	MCM WAH (COVID-19): FSSR Main Mission Prep Background Notes:
Feb-20	STA Price Statistics (EDDI2)
Feb-20	FAD modelling and Support to Petroleum Licensing Round
Feb-20	FAD mission on filing and Payment, Process re-engineering
Feb-20	FAD/AFW2 GST Compliance and data matching

Appendix I. Letter of Intent

MINISTRY OF FINANCE **BANK OF SIERRA LEONE**

June 10, 2022

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

Dear Madam Georgieva;

1. **On behalf of the Government of Sierra Leone, we hereby request the IMF Executive Board to complete the fifth review of the Extended Credit Facility (ECF) arrangement.** We request approval of the disbursement of sixth tranche of the credit following the progress made in the implementation of the structural benchmarks and after considering our request for waivers for not meeting the quantitative performance criterion relating to Net Credit to Government from the banking system at end-December 2021, and for the introduction of a new MCP and exchange restriction. We also request modifications of end-June 2022 quantitative performance criteria and the completion of the financing assurances review.

2. **The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme** supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It outlines the key policy and reform measures including corrective actions for the remainder of 2022 and the medium-term. These policies aim to restore macroeconomic stability, reduce debt vulnerabilities, boost resilience of the economy and promote broad-based inclusive, green economic growth and poverty reduction over the medium-term.

3. **With support from development partners, Government successively implemented the COVID-19 economic and health response programmes,** which mitigated the impact of COVID-19 on the population and paved the way for the recovery of the economy in 2021. The

economy grew by 3.2 percent in 2021, reflecting broad-based recovery in key sectors. The war in Ukraine, which started in February 2022 is threatening to undo the nascent economic recovery while undermining macroeconomic stability. Against the background of rising food and fuel prices, somewhat lower production prospects in the mining sector and the general uncertainty in the global economy, growth in 2022 has been revised downwards to an estimated 3.6 percent from 5.9 percent at the time of the 3rd/4th review.

4. We have been pursuing the quantitative programme goals despite major challenges, and made progress on the structural reform agenda:

- The high but necessary expenditures incurred to continue to respond to the lingering impact of COVID-19, increase in energy subsidies to ensure stable supply of electricity in the capital Freetown, general increase in the price of goods and services, unexpected wage pressures and cost overruns on capital projects resulted in expenditure overruns in the midst of weak revenues and decline in programme grants. As a result, government borrowing from the domestic banking system increased and unpaid checks accumulated with the concomitant weakening of programme performance in 2021.

- While we met the quantitative performance criteria (QPCs) and indicative targets on Gross International Reserves and Net Domestic Assets of the Bank of Sierra Leone as at end-September and end-December 2021, we missed the criterion on Net Credit to Government from the banking system at end-December 2021 by a large margin. Preliminary data indicate that we missed the March 2022 indicative targets on Net Domestic Assets of the Bank of Sierra Leone, gross international reserves and Net Credit to Government owing largely to the impact of the war in Ukraine on the economy, which is constraining economic activity leading to revenue shortfalls and triggering sharp increase in the price of fuel and general increase in the price level.

- We complied with the continuous Performance Criteria (PC) on concessional and non-concessional external debt, the continuous PC on external arrears and the indicative targets on domestic revenue and poverty related spending for September and December 2021. However, we missed the IT on the domestic primary balance.

5. We are taking further steps to ensure that the performance criteria and indicative targets under the programme will be met, and request for waivers for the missed QPCs based on corrective actions taken. In this regard, Government will refocus on the consolidation of public finances aimed at returning to a sustainable fiscal path and reduced debt vulnerabilities. Fiscal efforts will include improving domestic revenue mobilization by continuing to implement the full pass-through petroleum pricing formula, reviewing GST collection from telcoms and the energy sector, strengthening tax administration including stricter enforcement of tax laws, carrying out field audit of large tax payers, sustaining the roll-out of the electronic cash register and integrated tax administration system, extending the Block Management Registration System to other parts of Freetown, explore carbon financing, and levy taxes on timber exports going through the land borders, among others. A medium-term revenue strategy will guide revenue administration and polices going forward. We are also proactively seeking additional budget support and an emergency project financing to help address emerging expenditure pressures. We are committed to submitting a supplementary budget to Parliament by mid-June to reflect these efforts and critical steps and efforts to step up social protection to protect the most vulnerable from the current shocks. To this end, we are increasing the use of the SDR for fiscal purposes, while continuing to use the allocation as a buffer against possible future shocks.

6. At the same time, Government will embark on expenditure rationalisation and management by improving budget planning and execution and strengthening cash management. We have reactivated the Expanded Cash and Debt Management Committee, have held four regular meetings since mid-April in line with the committee's terms of references and taken stock of a list of actions to strengthen the committees functioning. Efforts will be made to align quarterly budget allocations with the recommendations from the cash and debt management committee on cash projections. In addition, Government will sustain the implementation of the payroll management reforms introduced so far and develop a Payroll Reform Strategy to guide payroll management in the medium-term. Government will also continue to improve the management of capital projects as recommended in the Public Investment Management Assessment (PIMA) Report. Given the high risk of debt distress, we would continue reliance on concessional loans and especially grants to finance infrastructure projects to lower the risk of unsustainable debt levels under the current difficult global environment.

7. We are committed to exchange rate flexibility and improving the functioning of the FX market. The BSL has introduced two new one-off facilities in April 2022 to provide foreign exchange for the importation of fuel and food, which should help to alleviate supply shortages occasioned by the war in Ukraine. We request waivers of non-observance of performance criteria on Multiple Currency Practices and exchange restrictions related to these facilities, in conjunction with our requests for approvals for these exchange measures. Furthermore, the BSL will be taking corrective actions by committing to (i) cap the total amount of these facilities and the non-renewal of these facilities, except with the consent of the Fund, and (ii) a move to calculate the official exchange rate with a one-day lag.

8. **We made significant progress in the implementation of structural benchmarks.** We met most of the structural benchmarks for the 5th review including the study on High Net Worth Individuals, Stocktaking of Income Tax exemptions, development of an infrastructure appraisal template, and the thematic review of non-performing loans at the state-owned banks. We made substantial progress on the update of the prudential guidelines in line with the 2019 Banking Act. The structural benchmark on the publication of the 2021 audited financial statements of the BSL has been delayed beyond April 2022, but the BSL has appointed an audit firm which has started the work. We temporarily suspended continuous SB on the automatic fuel pricing mechanism since October 2021 given the immense burden on our citizens. However, Government increased the pump price of fuel by 50 percent in March 2022 to insulate the budget from the continued increase in global fuel prices, thereby moving towards restoring the implementation of the full pass-through fuel pricing formula. We are committed to reducing energy subsidies going forward.

9. **We remain committed to good governance, building on past efforts, and are in particular targeting to strengthen the institutional and financial independence of Audit Service Sierra Leone.** Many of our past efforts have been recognized by the international community, and we have made noticeable progress in the fight against corruption as evident from a number of rankings, such on control of corruption, that also helped us secure additional financing. We are going to leverage this progress going forward, including the strengthening of specific institutions, such as ASSL. For example, we are working on strengthening the preparation, follow-up, and implementation of audit recommendations, and have developed a set of standard operating procedures to guide an effective follow-up on audit recommendations. We will amend the 2014 ASSL Act to strengthen ASSL's powers to follow-up and enforce audit recommendations and develop a roadmap to enhance ASSL's budgetary autonomy. We are developing and will be publishing procedural rules for future tribunal proceedings by mid-June that will strengthen the transparency and efficiency of legal cases under consideration by tribunals going forward.

10. **The Government believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of the programme,** but stands ready to take any further measures that are necessary for this purpose. The Government will consult the IMF in advance of revisions to the policies contained in the MEFP. The sixth review of the program will take place on or after December 1, 2022; the seventh and final review on or after June 1, 2023.

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

Very truly yours,

____________/s/____________	____________/s/____________
Bockarie Kalokoh	Kelfala M. Kallon
Ag. Minister of Finance	Governor of Bank of Sierra Leone

Attachment I. Memorandum of Economic and Financial Policies (MEFP) ECF 5th Review

Freetown, June 2022

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated July 2021.** It reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It outlines the key policy and reform measures for the remainder of 2022 and the medium-term. These policies aim to restore macroeconomic stability, reduce debt vulnerabilities, boost resilience of the economy against adverse external shocks and promote broad-based inclusive, green economic growth and poverty reduction over the medium-term.

2. **With support from development partners, Government successively implemented the COVID-19 economic and health response programmes, which mitigated the impact of COVID-19 on the population and paved the way for the recovery of the economy in 2021**. The Russia-Ukraine war, which started in February 2022 is threatening to undo the nascent economic recovery while undermining macroeconomic stability. The shock has added pressure in all areas – to inflation, already highly constrained fiscal space, the balance of payments, and reserves and the exchange rate. In particular, the uncertainty and supply disruptions caused by the war have caused sharp increases in the prices of food, fertilizer and fuel with adverse implications for food security and poverty reduction. To address these challenges and boost the resilience of the economy, Government will continue to implement and sound economic policies, sectoral and structural reforms including governance reforms consistent with our National Development Plan (2019–23 NDP).

RECENT ECONOMIC DEVELOPMENTS

3. **The Sierra Leone economy recovered from the devastating impact of COVID-19 in 2021 but the uncertainty associated with the ongoing war in Ukraine is constraining economic activity in 2022.** The economy grew by 3.2 percent in 2021, reflecting the recovery in agriculture, trade, tourism and travel, manufacturing and the more-than expected increase in mining output. The continued deterioration in the terms of trade, especially the surge in fuel and food import prices arising from the war in Ukraine, is constraining activities in 2022. Against the background of rising food and fuel prices, somewhat lower production prospects in the mining sector and the general uncertainty in the global economy, growth in 2022 has been revised downwards to an estimated 3.6 percent from an earlier forecast of 5.9 percent.

4. **Inflationary pressures surged in 2021 and continued into the first quarter of 2022**. After falling to a single digit of 8.9 percent in March 2021, inflation subsequently rose sharply during

the second half of 2021, reaching 17.9 percent in December 2021 fueled by higher prices of both food and non-food items due to supply bottlenecks and the depreciation of the exchange rate. The Ukraine-Russian war has led to disruptions in the supply of basic commodities (fuel, fertilizer, and food) and a spike in domestic prices in Q1, 2022. The sharp rise in global fuel prices required us to take bold actions by increasing fuel prices by 50 percent in March 2022. This, combined with the depreciation of the exchange rate, contributed to inflationary pressures. Consequently, year-on-year inflation rose to 22.1 percent in March 2022.

5. The current account deficit widened. Despite the recovery in exports, following the resumption of iron ore mining at the Tonkolili mine, higher imports of fuel, food, machinery and transport equipment and intermediate foods combined with the drop in official transfers resulted in widening in the current account deficit, from 6.8 percent of GDP in 2020 to 14.6 percent of GDP in 2021. Gross foreign reserves increased to 5.3 months of imports partly due to the disbursement of the Special Drawing Rights (SDR) allocation of US$282 million allocated to Sierra Leone. The exchange rate depreciated by 16 percent (March 2021 to March 2022).

6. Fiscal challenges were manifested in higher expenditures and moderate domestic revenues in the face of declining grants from development partners. Domestic revenues improved to 15.5 percent of GDP in 2021 after dropping to 13.8 percent of GDP in 2020, partly due to the recovery in economic activities, improved tax administration and payment of one-off royalties on stockpile of iron ore by the Marampa Mines. This notwithstanding, the higher level of recurrent and capital expenditures owing to the need to continue to respond to the lingering COVID-19 resulted in a higher budget deficit in 2021. The budget deficit, including grants, widened to 7.3 percent of GDP from 5.8 percent in 2020.

7. The fiscal situation in 2022 is also expected to be tight and a revised budget needs to accommodate pressures on priority expenditures. Preliminary 2022Q1 budget outturn indicates a shortfall in revenue of about Le 330 billion due to under-collection from excise on petroleum products (undermined by severe shortages in fuel shipments in the aftermath of the war in Ukraine), mineral royalties especially bauxite, which is adversely impacted by economic sanctions on Russia, fisheries, and GST due to global supply disruptions. At the same time, expenditure pressures have emerged including from energy subsidies and goods and services due to the sharp increase in the price of fuel and general increase in price level. The expenditure envelope in the 2022 budget has been revised to accommodate pressures in the energy subsidies (Karpower and CLSG), goods and services, wage awards (lower cadre civil servants, judges, security), and domestic capital spending. The cost of electricity supply from Karpower ship, an IPP that is currently the main source of power supply, has increased beyond programed subsidies and transfers.

8. Reflecting the increase in financing needs, the total public debt increased to US$3.1 billion (76.8 percent of GDP) in 2021 from US$3.0 billion (76.3 percent of GDP) in 2020. Of the total, domestic debt including verified arrears, amounted to US$1.1 billion and external debt, US$2.0 billion. Multilateral creditors accounted for the bulk (79 percent) of external debt followed by bilateral (13 percent) and commercial (8 percent).

9. The banking system appears to have remained largely resilient and stable as banks were profitable and adequately capitalized. The industry recorded an improvement in key financial indicators including total assets, investments, gross loans and advances, and deposits. The return on equity and return on assets for some banks were very low due to high and rising overheads. All but one bank met the statutory capital adequacy ratio requirements. However, the aggregate non-performing loans to gross loans increased to 14.8 percent by December 2021 from 12.4 percent in December 2020. When the two-state banks are excluded, NPL fell to 13.3 percent at the end of December 2021 but three banks recorded zero NPLs as a result of good credit administration and management. A World Bank team is reviewing the two state-owned banks (RCB and SLCB) in order to advise on a long-term strategy and corporate governance framework for the banks.

10. End-2021 debt data and macroeconomic and policy projections suggest that Sierra Leone's risk of debt distress is high but sustainable, the same classification as under the previous Debt Sustainability Assessment. Although Sierra Leone's debt carrying capacity is upgraded compared to the previous WB/IMF DSA report, the external debt service to revenue ratio is projected to continue breaching the threshold due to a large amount of debt service in the coming years, and the public debt to GDP ratio is also above its benchmark. Continued reliance on concessional financing and grants, and an effective debt management and borrowing strategy while creating space for financing key projects are critical for keeping debt sustainability. Adoption of a medium-term fiscal anchor could help credibly guide fiscal policy to reduce debt ratios while taking into account unanticipated macroeconomic shocks and preventing debt levels from returning to and staying below the NDP ceiling of 70 percent of GDP.

PROGRAMME PERFORMANCE

11. Programme performance weakened in 2021 owing to the expenditure overruns reflecting the increase in the price of goods and services, cost overruns on capital projects, unexpected wage pressures coupled with the need to continue to respond to the lingering impact of COVID-19 on the economy.

- We met the quantitative performance criteria and indicative targets on Gross International Reserves and Net Domestic Assets of the Bank of Sierra Leone as at end-September and end-December 2021 but missed the criterion on Net Credit to Government from the banking system at end-December 2021 by a large margin. The increase in Government borrowing and arrears accumulation was dictated by expenditure overruns caused by unexpected expenditures including wage demands, subsidies to EDSA to secure power provision and general increase in the prices of goods and services.

- Preliminary data indicate that we missed the March 2022 indicative targets on Net Domestic Assets of the Bank of Sierra Leone, gross international reserves and Net Credit to Government.

- We complied with the continuous Performance Criteria (PC) on concessional and non-concessional external debt, the continuous PC on external arrears since all new accumulated arrears are domestic and the indicative targets on domestic revenue and poverty related spending for September and December 2021. However, we missed the IT on the domestic primary balance.

12. We are taking further steps to ensure that the performance criteria and indicative targets under the programme will be met. Government will refocus on the consolidation of public finances aimed at returning to a sustainable fiscal path and reduced debt vulnerabilities. Fiscal efforts will include improving domestic revenue mobilization by continuing to implement the full pass-through petroleum pricing formula (**continuous Structural Benchmark**), consolidate the automation of tax processes through extensive engagement and training of taxpayers on the ECR and ITAS; intensify field audits of key sectors, reverse the NATCOM floor price instruction for telecommunications Companies, expanding the application of specific export levy on timber to cover all timber and timber related products (Text Table 1), and explore opportunity for carbon financing in the medium-term. We are also proactively seeking additional budget grants and an emergency energy support grant to help address emerging expenditure pressures.

13. At the same time, Government will embark on expenditure rationalisation and management by improving budget planning and execution and strengthening cash management. We have reactivated the Expanded Cash and Debt Management Committee, have held four regular meetings since April in line with the committee's terms of references and taken stock of a list of actions to strengthen the committees functioning (**Prior Action**). These include presenting reliable cash forecast and policy options in the meeting, producing minutes of the meeting with recommended policy options, in particular cash shortages, to the Minister to guide budget preparation and budget allotment. The public debt management division (PDMD) has (i) prepared an agreed action plan based on previous TA reports (Budget Execution TA report, Cash Management TA report) for preventing recurrence of new domestic arrears, to be reviewed by FAD; and (ii) published on the Ministry of Finance's website, the quarterly report for 2022Q1 and an

Text Table 1. Corrective Measures

Total additional revenue and expenditure measures (Revised 2022 Budget)	Amount Le.billions
Additional revenue measures	***186.0***
(in percent of non-iron ore GDP)	***0.4***
PAYE	24.0
GST	43.0
Others	119.0
o/w timber and related products	22.5
o/w TSA	86.0
o/w Digital IDs	10.5
Expenditure containment	***233.2***
(in percent of non-iron ore GDP)	***0.4***
Wage bill	140.2
Goods and services	93.0

annual report for 2021 on actual performance against actual budget allotments (**Prior Action**). Efforts will be made to align quarterly budget allocations with the recommendations from the cash and debt management committee on cash projections. In addition, Government will sustain the implementation of the payroll management reforms introduced so far and develop a Payroll Reform Strategy to guide payroll management in the medium-term. Government will also continue to improve the management of capital projects as recommended in the Public Investment Management Assessment (PIMA) Report.

14. *On the basis of these actions and commitments, we request the IMF Executive Board to approve a waiver for the non-observance of the December 2021 Quantitative Performance Criterion (QPC) on Net banking system Credit to Government (NCG).*

15. Significant progress was made in the implementation of structural benchmarks. We met most of the structural benchmarks for the 5th review including the study on High Net Worth Individuals, Stocktaking of Income Tax exemptions, development of an infrastructure appraisal template, and the thematic review of the strategy for non-performing loans. The update of the prudential guidelines in line with the 2019 Banking Act is still pending. The structural benchmark on the publication of the 2021 audited financial statements of the BSL has been delayed beyond April 2022, but the BSL has appointed an audit firm. The audit firm has started the work and we aim to publish the final statements by end-September 2022 **(structural benchmark)**. We temporarily suspended continuous SB on the automatic fuel pricing mechanism since October 2021 to ease the burden on citizens. However, Government increased the pump price of fuel by 50 percent in March 2022 to insulate the budget from the continued increase in global fuel prices, thereby restoring the implementation of the full pass-through fuel pricing formula.

MEDIUM-TERM ECONOMIC OUTLOOK

16. The medium- term outlook remains challenging on account of the deteriorating terms of trade, more uncertain global prospects due to the Ukraine war, and the lingering COVID-19 risks. The on-going Russia-Ukraine war is undermining the growth prospects of the economy. The war has led to disruptions in the supply of basic commodities (fuel, fertilizer, and food), thereby weakening economic activity and causing a spike in domestic prices. Reflecting these developments, the original projected economic growth for 2022 has been revised downwards from 5.9 percent to 3.6 percent. Economic growth is projected to slightly slow down to 3.4 percent in 2023 on concerns of the lingering impact of the Ukraine war and normalization of growth in the mining sector. The economy is projected to grow by an average of 5.0 percent during 2024 to 2025 on the back of the expected ramping up of iron ore mining, increase in agricultural output as the policy shift consolidates, expansion in construction and manufacturing activities, recovery of the tourism sector and improvement in the business environment. The 50 percent increase in the domestic pump price of fuel implemented in March 2022 is expected to add to inflationary pressures during the year. Inflation is therefore forecast to rise to 22.1 percent by end December 2022 compared to the original projection of 12 percent. Annual average inflation is also expected to hover around 21 percent compared to the initial projection of 13 percent. Inflation is projected to decline gradually to 19.6 percent in 2023 and 16.4 percent in 2024.

17. The overall fiscal deficit (including grants) is projected to narrow from 3.8 percent of non-iron ore GDP in 2022 to 2.5 percent in 2023 as Government refocuses on fiscal consolidation. The current account deficit is expected to narrow from 13.6 percent of non-iron ore GDP in 2022 to 8.8 percent of non-iron ore GDP in 2024, on the back of increased iron ore exports. Increased inflows of FDI and project support grants will finance the current account deficit. Gross foreign reserves will average 3.3 months of imports during 2022-2025.

18. The risks to the economic outlook include the uncertainty associated with the Russia-Ukraine war and impact on the global economy; resurgence of COVID-19; inadequate international financial support and sharp rise in the prices of food and fuel and implications for domestic inflation and fiscal and external balances.

PROGRAMME OBJECTIVES AND POLICIES

19. Government's policy objectives remain broadly as originally articulated at the time of requesting the ECF in 2018 and are adapting to new challenges. Our key objectives under this programme are to safeguard macroeconomic and financial system stability, strongly pursue the implementation of structural reforms and promote sustainable, resilient, green and inclusive growth, centered on human capital development. In this context, Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability, strengthen financial sector stability, promote transparency and accountability in the use of public funds, improving the business environment and expand social protection systems. In all of this, we are also reacting to the challenges faced by several severe external shocks over the past few years.

A. Fiscal Policy

20. The key objective of fiscal policy remains the pursuit of sustainable fiscal consolidation through the intensification of domestic revenue collection and prudent expenditure management to provide the fiscal space for priority spending. Given the large expenditure overruns in 2021 due to domestic and external shocks and unexpected wage awards, Government will implement measures to return the fiscal situation to a sustainable path and stabilise the debt situation. This is expected to free up fiscal space for spending on priority social areas. In this context, and on the basis of the uncertainty on the duration of the shock to the economy caused by the Russia-Ukraine war, Government will adopt a combination of revenue enhancing measures and reprioritize expenditures while seeking grant financing to boost the fiscal space for priority spending, and increasing somewhat the use of the SDR allocation for fiscal purposes.

21. The objective is to gradually reduce the fiscal deficit from the high level of 7.3 percent of GDP recorded in 2021 to an average of 2.5 percent during 2023 and 2024, and move into a primary surplus in 2024, in order to stabilize the debt situation. Government is committed to reducing domestic banking financing to the sustainable level of 2 percent of GDP, consistent with our policy objective under the ECF arrangement. In addition, Government will utilise the Le 857 billion equivalent of SDR resources to scale up cash transfers, support to the COVID-19 health response, critical domestic capital expenditures (water supply), programs to address food insecurity and improve educational outcomes (e.g., school feeding program, hygiene and welfare packages for girls) and to support climate mitigating activities to boost social and economic resilience (Text Table 2). The government commits to transparent accounting and use of SDR resources through regular budget monitoring process (**Structural Benchmark for the 6th review**)

Text Table 2. Programmed SDR allocation and use (Le. billions)*

Priority Spending (Revised 2022 Budget, Le. billions)	FY2022 Budget	FY2022 Rev.budget
	A	B
Transfers to NaCOVERC	174.0	174.0
Arrears clearance	100.0	100.0
Other priority expenditures	178.7	582.9
o/w Health	11.9	36.2
National Emergency Medical Services (NEMS)	2.1	26.4
Support to Ambulances services	4.9	4.9
Construction of Cancer and diagnostic medical center	4.9	4.9
o/w Education	80.0	145.0
Welfare and hygiene for school going girls	9.5	14.5
School feeding program	68.8	128.8
Rehabilitation/expansion of boarding facilities	1.7	1.7
o/w Water	48.8	158.8
Water supply services in six district capitals	45.0	155.0
45 industrial boreholes(urban wash supply)	3.8	3.8
o/w Agriculture	18.6	18.6
o/w Energy (Rehabilitation of Goma-Dodo Hydro dam)	5.0	5.0
o/w Energy (subsidies)	0.0	156.9
o/w Fisheries(Support to Artisanal fisheries, including women)	5.2	5.2
o/w Environment (Support Tree Planting and carbon financing)	9.2	37.2
o/w Sierra Leone Social Safety Net (Cash Transfers)	--	20.0
Total (Le.billions)	**452.7**	**856.9**
in percent of non-iron ore GDP	*0.9*	*1.6*

*Note: In 2022, we have reprioritized the allocation for arrears clearance to honour our outstanding obligations to the World Food Program and Plan International, and to procure essential drugs for the government's flagship Free Health Care drugs initiative.

22. On June 15, we have submitted to parliament a revised 2022 budget (prior action) consistent with the agreed fiscal consolidation path that includes specific measures, including the commitment to freeze further payments of legacy arrears until a new arrears clearance plan is in place (Structural Benchmark).

23. Domestic revenue was broadly on target in 2021. The improved revenue performance was attributed mainly to the recovery in economic activities, stricter enforcement of tax laws including the provisions of the Finance Act 2021, which resulted in increased compliance; opening of international trade thus enhancing customs collection and export revenues especially from timber and minerals. Other reasons include the close monitoring of revenue collection through collaboration with stakeholders and weekly revenue meetings, increased taxpayer sensitisation and education through traditional and social media, as well as the roll-out of the Electronic Cash Register for the administration of GST and the Integrated Tax Administration System (ITAS) for the electronic registration, filing and payment of taxes. Finally, one-royalty payments also provided a boost to revenues.

24. However, domestic revenue collection during the first Quarter of 2022 was weak with a shortfall Le 330 billion relative to the quarterly target agreed during the 3rd/4th review under the ECF. The poor revenue performance was driven by many factors including (i) weak tax compliance, (ii) transition challenges to a lower GST threshold to be administered with the electronic cash register; (iii) delays in the payment of mineral and fisheries license fees, (iv) suspension of the implementation of the full pass-through fuel pricing formula, and (v) supply chain challenges in the export of timber logs.

25. Despite the shortfall recorded in Quarter 1, we are hopeful to meet the original annual revenue target for 2022. To this end, Government will implement a combination of tax policy and tax administration measures as outlined below:

Tax Administration

26. We are pursuing the following actions on the tax administration side:

(i) We expect parliament approval of the NRA Act at the latest in 2022Q3.

(ii) Implement the change management strategy to support reforms. Expand taxpayer engagement on the ongoing tax administration reforms to minimise resistance and increase acceptance. This involves current effort by NRA in engaging on a series of taxpayer workshops and meetings to educate and train them on the ECR and ITAS systems.

(iii) Undertake intensive and extensive trainings on ITAS for many of the new taxpayers.

(iv) Dedicate more resources to field and desk audit and intensify the use of data analytics tools – Computer Assisted Audits of financial and petroleum sectors. This will also include undertaking transfer pricing audits for risky companies. DTD staff resources will be refocused towards audit following automation of many transactions and processes.

(v) Close tracking of filing and payment compliance and enforcement for non-compliant taxpayer and non-tax revenue payers.

(vi) Engaging importers and beneficiaries of the QAERP to pay accumulated arrears and encourage importers stocking their goods in warehousing regime to ex-warehouse.

(vii) Maintain the implementation of the policy on full pass-through for domestic fuel pump prices for all products.

(viii) High level Engagement with the Ministry of Fisheries and development partners on revamping collection from marine resources. While still with the objective in mind to prevent overfishing, the EU will be engaged to relax their restriction on licensing of fishing vessels.

(ix) Implementation and enforcement of the Finance Act 2022 (whistle blower policy, differentiated penalty rates for late and non-filers, recovery of overdue arears, minimum floor price for telecommunication data services etc.).

(x) Reverse the NATCOM Floor Price instruction to telecommunication companies.

(xi) Implement the recommendation of the concluded Non-Tax Revenue enhancement study to improve collection of MDAs revenue.

(xii) Engage MOF, MOPED, NaCSA, and NPPA to provide information on contractors and consultants to track the payment of withholding taxes.

(xiii) Enforce collection of GST from EDSA.

(xiv) Implement compliance improvement measures, including:

a. Implementation of the administrative phase of the Block Management System in the Western Area
b. Roll out of mobile payment app for especially the medium and small taxpayers

27. In the medium term (2023-27), a number of tax administration measures are being considered including:

(i) Embarking on the block registration exercise in the provinces to bring more taxpayers into the tax net though formal registration of businesses (June 2023).

(ii) Building capacity in data analytics and risk analysis (through use of AI technology, data warehouse, training in data analytics and econometrics) (March 2023).

(iii) Implementing a strategy for operationalisation of a High Net Worth Individual Taxation regime (September 2024).

(iv) Introduction of an Excise Tax Stamp and fuel marking scheme to combat smuggling of exercisable goods while raising additional revenues in the process (March 2023).

(v) Development and Implementation of Telecoms auditing tool to aid the collection of GST revenues on telecoms sector (June 2024).

(vi) Implementing a centralised tax exemption monitoring and reporting system to better inform policy and streamlining of tax exemptions, including activating the ITAS exemption module (September 2023).

(vii) Initiate and conclude negotiate with Kingho Iron Ore Mining Company to ensure utilisation of the Port and Rail by Marampa Mines when the latter would have commenced their expansion phase (December 2024).

(viii) Continue strengthening and implementing the compliance risk management framework (September 2024).

(ix) Explore opportunity for carbon financing (December 2023)

Tax Policy

28. We are pursuing the following tax policy measures:

(i) Escalate the Duty Waiver Policy approved by Cabinet in March 2022 to a law.

(ii) Implement recommendations of the World Bank Tax Policy mission.

(iii) To improve domestic revenue collection in the medium-term, Government has commenced the process of formulating a Medium-term Revenue Strategy (MTRS), with support from the IMF and the World Bank, that will continue to build revenue administration gains while pursuing tax policy options. We intend to submit a draft MTRS to Cabinet for approval by December 31, 2022 (**structural benchmark**).

Exploring Climate Finance

29. Government will explore the possibility of leveraging climate finance from Sierra Leone's forests, including carbon credits, REDD+ payments, and grants for forest conversation or reforestation. To this end, Government will strengthen the legislative framework around forest protection, endeavour to meet the stringent transparency and verification prerequisites, and building capacity. While Government has already issued 1 million carbon credits, primarily through the GOLA Rainforest (the first REDD+ project in West Africa), the pace of projects has declined in recent years. There is a lot of potential, including through existing reforestation activities (such as #Freetown the TreeTown and the Ministry of Environment's plan to plant 5 million trees), protected areas like the Western Area Peninsula National Park, and renewable energy projects.

Expenditure Management Measures

30. Government remains committed to improving public expenditure management in order to ensure effective and efficient public spending and strengthen budget credibility. We hope to achieve this by continuing to improve budget planning and execution, cash management, sustain efforts to improve the integrity and sustainability of the payroll, and improve the efficiency of public investment.

31. There are large fiscal risks posed by Electricity Distribution and Supply Authority (EDSA). Projected payments to Karpower under the new contract amount to US$70 million in 2022. To lower energy subsidies, the government will strengthen EDSA revenues generation through measures including: (i) adjustment of the average tariffs; (ii) connecting two mining companies to the grid and upgrade the Bumbuna 161 Line to increase the uptake from the CLSG line into the national grid, and (iii) working with the World Bank to decrease commercial and technical losses, while maintaining the lifeline tariff band (i.e. those who consume less 25kWh per month) to protect the poor. These measures are expected to open up some fiscal space by reducing EDSA's dependence on budget transfers.

32. Agriculture input subsidy (Tractor, fertilizers, seeds, combined harvesters etc.), given importance of enhancing rice production. Government has withdrawn from the direct procurement and distribution of agricultural inputs to ensure transparency and efficiency in the process with a view to boosting domestic rice production. Under the Policy Shift adopted by Government, agro-dealers are encouraged to import agricultural inputs such as fertilizer, seeds for sale to farmers. Government subsidy to farmers is provided through an –electronic voucher system domiciled in one of the commercial banks. Under this system, farmers are allocated vouchers, which they will submit to agro dealers for the supply of agriculture inputs. The agro dealers will encash the vouchers at the commercial bank. The e-voucher system is expected to address issues of over-pricing, poor quality and late delivery of inputs to farmers.

Improving Budget Execution

33. The Ministry of Finance will endeavour to regularly release quarterly budget allocations on time, align these allocations with cash forecasts and implement the principle of "Not in Budget, No Funding" to ensure the adherence to approved expenditure ceilings. We will seek technical assistance from the Fund to adopt the strategic top-down budgeting approach to ensure that the total level of expenditure is determined before detailed items in the budget are negotiated so that it properly reflects aggregate fiscal policy priorities, hence improving the credibility of the budget.

34. The Integrated Financial Management System (IFMIS) has been upgraded from version 6.5e to a web-based GRP version 7 application with effect from January 2022 and rolled out to 61 MDAs. This upgraded version entails an integrated application system that has seamlessly integrated the Payroll, Budget Planning and core Financial Modules all in one with a unified database engine and can be accessed through the internet. The wider coverage ensures that over

80 percent of Government expenditures are processed through the system. It also ensures that MDAs do not exceed their respective budget allocations as they cannot commit expenditures outside the system. The next step is to roll out the IFMIS to additional MDAs and sub-vented agencies in 2023. These include Office of the Chief Minister, Sierra Leone Small Arms Commission, Anti-Corruption Commission, Public Sector Reform Unit, Law reform Commission, Administrator and Registrar General's Office , Law Officers Department, Law Officers Department, Financial Intelligence Unit, National Electoral Commission, National Commission for Democracy, Statistics Sierra Leone, National Commission for Privatization National Public Procurement Authority, National Commission For Human Rights, Right to Access Information Commission, National Civil Registration Authority, National Drugs and Law Enforcement Agency, National Youth Service, Teaching Service Commission, National Children's Commission, National Children's Commission, National Sports Authority, Pharmacy Board, National Tourist Board, and the National Protected Area Authority.

Improving Cash Management

35. Government is taking steps to strengthen the functioning of the expanded Cash and Debt Management Committee in order to improve the execution of the budget and prevent the accumulation of payment arrears. The Committee will now meet on a weekly basis to review revenue and expenditure performance, arrears accumulated and paid down, prepare and review quarterly cash flow and determine the borrowing requirement of Government. Efforts will be made to reconcile revenue and expenditure issues amongst all parties (AGD, NRA and BSL before the meeting, using a unified data template, present reliable cash forecast and policy options in the meeting, and adopt the use of the cash forecasting tool.

36. Furthermore, Government will prepare an agreed plan that incorporates recommendations from previous TA reports on Budget Execution and Cash Management to prevent the recurrence of arrears. The Public Debt Management Division (PDMD) has published, on MOF’s website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments (**Prior Action**). These reports shall provide updates on budget execution and arrears paydown or accumulation. In addition, the quarterly report shall also include an additional statement monitoring the actual performance against quarterly budget allotments. Going forward, we will prepare a quarterly budget out-turn reports that includes i) progress in reduction of unpaid checks, ii) implementation of the ECDMC recommendations, iii) the disbursement and use of SDR-backed resources for fiscal purposes, iv) actual fiscal performance against budget allotments (**structural benchmark**).

37. Government is closely monitoring the operational and financial performance of state-owned enterprises including the state-owned banks in order to enhance financial sustainability, with a view to reducing any potential recourse to the Government budget for support or bail-out. To this end, the Ministry of Finance undertook for the first time a comprehensive review of the aggregate financial position and performance of SOEs in 2020. A similar exercise is being undertaken for the 2021 financial year covering 14 SOEs including the two state-owned banks. In addition, Government has compiled and published all the borrowings and guarantees of 14 state-owned enterprises as part of efforts to identify the contingent liabilities of these enterprises, which are potential fiscal risks. As of end-2021, state-owned enterprises' outstanding loans amounted to 3.4 percent of non-iron ore GDP. Government is also in the process of developing an SOE ownership policy and governance policy (**structural benchmark for September, 2022**).

Improving the Sustainability of the Payroll

38. Several payroll reforms initiated in 2018 have been institutionalized. The implementation of these reforms will therefore be sustained. A Payroll Quality Assurance Team was established to ensure the sustainability of these reforms. These reforms, which have contributed towards improving on the reliability and transparency of the payroll include a) timely retirement of employees that have attained the retirement age, b) adding employees on the payroll only if they have a valid NASSIT Number, National Identification Number (NIN), a unique BBAN and a Date of Birth (DOB) that matches the DOB embedded in the employee's NASSIT Number, c) implementation of the teacher recruitment and retirement policy and d) routinely producing payroll monitoring and payroll audit reports.

39. In order to continue the efforts towards improving on the transparency and sustainability of the wage bill, in line with commitments made in the FY2022 Budget, the following payroll reforms have been implemented during 2022:

(i) Teacher reassessment and promotion to ensure teacher quality. Following a comprehensive reassessment and promotion of 4,158 teachers during 2021, effective April 2022, additional 1,083 teachers have been promoted and reassessed, with a payroll cost of Le 550 million per month and about Le5 billion for FY2022.This reform continues to ensure that teachers are now being paid according to their qualifications and are now in their right scale/grade. This policy action was also taken in line with Government's

(ii) Minimizing manual voucher payments – Government continues to implement reforms that will ensure manual payroll payments are minimized with a view to ultimately automate the entire payroll. To this end, following a pilot with the Military and Police during 2021, effective January 2022, retirees from all categories of the payroll will be paid their gratuity with their last salary directly from the central payroll. In the past, retirees were paid their gratuities manually after the employee's assignment has been ended on the payroll. This policy action has also contributed towards improving on the efficiency of the procedures relating to gratuity payments

(iii) Payroll Policy - With support from the Foreign and Commonwealth Development Office (FCDO), a draft Payroll Policy has been prepared. The Payroll Policy captures statutory provisions and policy instructions impacting the Government Payroll, including the different end of service benefits related laws and computations. The next steps are to conduct consultations with all the relevant stakeholders, following which the document will be finalized. The document will serve as a guide for the management of the Government payroll on daily basis.

40. For rest of FY2022 and the medium-term, the following payroll reforms are planned:

(i) **The Health Service Commision will take over a delegated responsibility** for the recruitment, including the issuance of PIN Codes, promotion, transfer and managing the personnel files of professional health care personnel. This reform will address the current delays in the recruitment of health workers especially nurses.

(ii) **Conduct of a biometric verification of teachers**. The objective is to continue to maintain a clean and reliable teacher payroll

(iii) **Complete a follow-up verification of Government Pensioners** following the initial verification exercise that was conducted during 2021. The objective is to have a clean and reliable pension roll.

(iv) **Develop a medium-term payroll strategy to guide payroll reforms in the medium-term**. The Ministry of Finance is currently seeking Technical Assistance to prepare the strategy. The establishment of the proposed Wages and Salaries Compensation Commission is expected to support implementation of this strategy. A training on wage bill management is currently ongoing with support by the IMF's Fiscal Affairs department.

Improving the Efficiency of Public Investment Management

41. The Government strives to improve on the efficiency of public investment and quality of public spending and has adopted a National Public Investment Management Policy and an accompanying Investment Guidelines. Going forward, the Technical Investment Committee shall review all new projects and the Ministerial Steering Committee will henceforth consider only projects and programmes that have been vetted for inclusion in the Public Investment Programme (PIP). As part of reforms in the Public Investment Programme, Government will rationalise and streamline existing projects on the basis of their socio-economic benefits. Furthermore, Government will develop public investment regulations to ensure adherence to the PIM cycle and public procurement of investment projects as part of the implementation of the recommendations of Public Investment Management Assessments (PIMA). We will also take measures to avoid late budget releases.

Improving Public Procurement

42. As part of efforts to prevent the accumulation of arrears, Government is strengthening the legal and regulatory framework for public procurement. The Finance Act of 2022 gave the power to the Ministry of Finance to give pre-approval to all MDAs before they go into high value procurement related activities i.e. the Ministry reviews requests for procurement of goods, services and works in relation the budgetary provisions to ensure that the allocations are not exceeded.

43. Furthermore, the Ministry is rolling out an electronic contract profiling system (ECOPS) that will track all outstanding payments for contracts and also capture upcoming procurement expenditure from planning stage unto the payment stage. The process of introducing

Electronic Procurement Systems by the National Public Procurement Authority (NPPA) is at an advanced stage. This is expected to improve the efficiency and transparency of public procurement transactions.

Public Debt Management

44. The new global shock from the Russian-Ukraine war has increased public debt vulnerability. Despite this challenging global environment, Government will continue to take additional steps to mitigate the growing public debt landscape by ensuring that future new borrowing and pipeline loan would not worsen the debt distress rating. Total public debt is estimated at US$3.12 billion or 76.8 percent of GDP as at end-December 2021, of which, external debt is estimated at US$2.00 billion and domestic US$1.12 billion as at end-December 2021**.**

45. The overall objective of debt policy is to maintain debt sustainability despite the new Russian-Ukraine war and lingering challenging from the COVID-19 pandemic. Government will continue to implement additional fiscal and external sector adjustments through revenue mobilization, exports diversification to build reserves, and rely on highly concessional external financing (largely grants) from Development Partners, to limit recourse to expensive domestic debt. Government anticipates that public debt-to-GDP ratio will return to below the NDP target of 70 percent in the medium-term.

46. A new Medium-Term Debt Strategy (MTDS) 2021-2025 has been developed in 2021, approved by Cabinet in April 2022 and published on the website of the Ministry of Finance. Cabinet adopted a strategy which assumes concessional external financing and market development aimed at reducing domestic borrowing and lengthening maturities of domestic instruments. The rationale of the strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs. The MTDS 2021-2025 will be updated to reflect the borrowing requirements implied under the current fiscal framework.

47. On the external front, Government would continue to prioritise concessional loans and especially grants to finance infrastructure projects in order to lower the risk of unsustainable debt levels under the current difficult global environment. Innovative financing approaches including Public Private Partnership arrangements to implement specific self-liquidating projects would be explored. Government would uphold the yearly conduct of Debt Sustainability Analysis (DSA) by the National DSA team to provide signal on the level of risks of external and public debt sustainability. The result of the last National DSA conducted in December 2021 shows that Sierra Leone is at high risk of debt distress mainly as a result of sustained breach in debt service to revenue and debt service to export ratios.

48. However, the overall debt is assessed to be sustainable predicated on the strong fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates. Sierra Leone's debt carrying capacity has improved from low to medium (CI is 2.75) with recent improvement in the Composite index under the Low Income Countries (LICs) Debt Sustainability Framework.

49. On the domestic front, Government is cognisant of the high rollover risks in the domestic debt portfolio and would issue medium-to-long-term bonds to reduce these risks and support the development of the domestic debt market. Government would develop the domestic debt market to provide the platform to raise medium to long-term resources to implement infrastructure project under the National Development Plan rather than utilising short-term instruments, as in the past, which triggers liquidity and refinancing risks.

50. Implementation of the arrears clearance strategy and principles 2020-2025 commenced in 2020 but application of the full discount outlined in the strategy was rejected by vendors mainly because Government does not have the liquidity to make upfront payment of the discounted amount and contractors/suppliers rejected five-year payment plan of the discounted amount. To avoid litigation, Government pursued section 4.1.1 of the Arrears Clearance Strategy 2020-2025 to make gradual payments under payment plans for contractors who supported: i) economic growth, ii) response to CoVID-19, iii) health-related interventions, iv) agriculture and v) roads. Payments were also made to contractors whose exposure to banks posed challenge to the financial sector in line with 3.1.6 of the strategy.

51. Going forward, Government would update its Arrears Clearance Strategy and commit to transparency in debt management. The new Arrears Clearance Strategy would be consistent with fiscal sustainability and financial stability, to address the challenges of implementing the current strategy. Specifically, the new Arrears Clearance Strategy would include a list of creditors, criteria to prioritize the list of creditors, and amounts to be paid over the next three years (**structural benchmark, October 31, 2022**). On debt transparency, the publication of the liabilities of the biggest State-Owned Enterprises (SoEs), in terms of balance sheet, has been expanded from 5 to 10 to help track contingent liability exposures across SOEs. The publication of SoEs loans and guarantees is a continuous practice to monitor the exposures of all SoEs in line with the provisions of the Public Debt Management Act 2011.

B. Monetary and Exchange Rate Policies

52. The Bank of Sierra Leone (BSL) remains committed to its mandate of price and financial stability, while supporting the Government's economic recovery programme. The BSL continues to implement monetary policy based on monetary targeting framework using indirect policy instruments to achieve its target goal of price and financial stability. The BSL also maintains flexible exchange rate regime, with exchange rate of the Leone against international currencies freely determined by market forces. The BSL intervention in the foreign exchange market is limited to smoothening excessive volatility in the exchange rate.

53. During 2021, monetary policy implementation was challenged by the continued rise in the prices of goods and services triggered by global supply chain disruptions, high freight charges and the uncertainties surrounding COVID-19 pandemic. The situation is exacerbated by supply disruptions caused by the Russia-Ukraine war. The sharp increase in the prices of food and fuel is posing serious challenges to monetary policy implementation in 2022. The 50 percent increase in the retail price of fuel initiated in March will put further pressure on prices in the coming months, as will the accelerating depreciation of the exchange rate (16 percent y-o-y in March) with inflation forecast to average close to 22 percent over 2022.

54. To dampen the inflationary pressures, the BSL raised the Monetary Policy Rate by 75 basis points in April 2022. The BSL will continue to monitor price developments and respond appropriately taking into consideration the need to balance efforts to contain inflation with the need to support economic recovery.

55. The BSL has also introduced two new one-off facilities in April 2022 to provide foreign exchange for the importation of fuel and food, which should help to alleviate supply shortages occasioned by the Russia-Ukraine war. These include the Special Facility for Food in the sum of US$50 million to support the importation of rice, flour and sugar and another Special Facility to the tune of US$36 million to support the importation of fuel announced in the BSL's Monetary Policy Committee statement in April 2022. These two Facilities together with the Agriculture Credit Facility (all temporary and not subject to renewal, except with the consent of the Fund) will enhance the supply of essential commodities and thus help to moderate prices increases and exchange rate pressures going forward.

56. Over the medium term, the BSL will work towards strengthening its monetary policy framework to improve transmission. The BSL maintains an asymmetric corridor around the monetary policy rate with the standing facilities, and the interbank rate has largely been maintained within this corridor. Going forward, the BSL will limit the use of secondary market purchases to support government issuance and consider introducing its own instrument for liquidity management purposes. Monetary policy communication will also be improved to better anchor expectations, by, for example, publishing and clearly explaining the BSL's goal to bring inflation to single digits in medium term. We are also making efforts to improve inflation and liquidity forecasting, with technical assistance from the IMF, and are working on enhancing the composite index of economic activity (CIEA).

57. Exchange rate depreciation began to pick up in the second half of 2021 and has accelerated in 2022, while the parallel market spread appears to be widening. Of particular concern is that commercial banks are not currently able to fully supply the FX needs of importers—reflecting, the limited supply of FX relative to demand as well as market imperfections which impede the FX market from clearing. To help alleviate some of these pressures in the short term, the BSL introduced two facilities to support the importation of basic food items (rice, sugar and flour) and fuel imports as described in the preceding paragraphs.

58. In line with the 2019 BSL Act, all transactions of goods and services should be done in Leones. However, given the high level of demand for FX, the BSL may allow selected companies and international organizations with FX to pay locally for certain imported goods, particularly fuel and electricity, in dollars. They are expected to increase the supply of foreign exchange in the economy given that the demand for fuel from mining companies alone accounts for close to 50 percent of all fuel demand. To meet the FX needs of the wider public and increase financial inclusion, the BSL is also considering to provide a limited amount of FX through the SALPOST.

59. Going forward, Sierra Leone's external position remains weaker than the level implied by fundamentals and desirable policies and reducing overvaluation of the real effective exchange rate is critical to maintain external sustainability. In this regard, market intervention should be limited to reducing excessive volatility. Government will also pursue reforms to improve the competitiveness of the export sector to complement FDI and external official loans in financing the current account deficit. The BSL will retain an adequate reserve buffer to avoid the risk of an even sharper depreciation.

60. We intend to move to a daily calculation and publication of an exchange rate that is based on a one-day lag (structural benchmark, April 30, 2023). This would be an improvement on the current BSL Rate, which is calculated and published weekly. To that end, we are engaging AFRITAC West II on technical assistance, and are working with Reuters (Refinitiv) to automate the reporting by banks.

61. We request a temporary approval from the IMF Executive Board for the exchange restriction and the multiple currency practice under Article VIII. The proposed actions taken under the ECF-supported program will support the removal of the exchange restriction. The prioritization through the facilities discussed above, giving rise to the exchange restriction, is imposed for BOP reasons, necessary and temporary, and the measure related to the multiple currency practice relating to the facilities is imposed for BOP reasons, temporary, does not give the member an unfair competitive advantage over other members or is non-discriminatory. In conjunction with requesting these approvals, we also request waivers of non-observance of the continuous performance criterion on the non-introduction of MCPs and exchange restrictions. We are taking further corrective actions to change the current BSL calculation methodology mentioned above, and commit to capping the total amount of new facilities. We anticipate that the new facilities as well as the ACF will have been wound down before the end of the program.

62. We do not intend to introduce new measures or policies that would compound our balance of payments difficulties. We commit to not imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, introducing or modifying multiple currency practices, concluding bilateral payments agreements which are inconsistent with Article VIII; we will implement public policies under that framework.

63. We continue to strengthen governance at the BSL. The FY 2019 and 2020 audits of the BSL's financial statements were finalized in March 2022 and published on the BSL's website. A reputable external auditor with central banking experience has been appointed for the FY 2021 audit, which is already underway and expected to be finalized by August (**structural benchmark 5th review**). Going forward, we will ensure external audits are completed within the statutory deadline (i.e., end-March). We have developed an action plan to address the recommendations from the external quality assessment conducted of our internal audit function in 2021. In line with the plan, we will appoint a chief internal auditor (**structural benchmark December 31, 2022**) and continue to strengthen the internal audit function's capacity.

C. Financial Sector Policy

64. The Bank of Sierra Leone will continue to provide regulatory and supervisory oversight on the banking system using the Risk Based approach with eventual focus on adopting the Basel 2 and Basel 3 framework over time. The enhanced supervision of the state-owned banks remains in force in order to strengthen their capacity to handle any presenting shocks as and when they come on the basis of adequate and resilient capital. The banks are also subject to regular examinations as well as constant monitoring by the resident supervisors to ensure that the directives issued to the banks are implemented. This will enhance confidence in these banks to perform their intermediation function with prudence and within a risk management culture.

65. The Bank of Sierra Leone is working assiduously to keep the banking sector stable by advancing the regulatory and supervisory framework for the banking system. In this context, the bank started the process to review key banking sector guidelines to include the Prudential Guidelines and the corporate governance guidelines. We aim to finalize the revision of the Prudential Guidelines, in line with the 2019 Banking Act, by September 2022 **(structural benchmark)**. The Bank is also working on introducing Cyber Security guidelines for Financial Institutions.

66. The two state-owned banks continued to be viable with fully constituted Boards, responsible for corporate governance and overall policy formulation. Board members were drawn from various disciplines relating to the banking spectrum. Efforts are underway to assess the performance and effectiveness of the boards and in addition identify ways to improve board efficiency and overall corporate governance. Onsite examinations have been recently concluded and the next round of examinations is slated for late 2022 to early 2023. With technical assistance from the World Bank, Government is developing an updated corporate governance framework for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit. By end-September 2022, we aim to have an action plan ready to address the identified gaps in the corporate governance framework of these banks **(structural benchmark).**

67. The BSL carried out examinations including a thematic review of governance and NPLs. It was observed that high NPLs of the two state-owned banks remains a challenge as they are above the 10% threshold. The high NPLs was driven primarily by the COVID-19 pandemic, which affected most sectors of the economy. The BSL has put forward recommendations with timelines to reduce the NPLs to below the 10% threshold as well as to improve corporate governance. The other recommendations focus on putting in place formidable strategies to boost recoveries, develop sound credit underwriting standards and frameworks for enhancing the quality of risk management. BSL will prepare a document to be shared with the Fund which sets out the BSL's system-wide strategy for bringing down NPLs to the 10 percent prudential limit **(Structural Benchmark, December 15, 2022).**

68. The Bank of Sierra Leone with the technical assistance from the US Treasury Department, is working on setting up a deposit protection fund. A Deposit Protection Bill has been laid in Parliament for legislation and the Bank will set up the fund once the bill is passed. This is in line with the Banks policy of setting up an effective crisis management and resolution framework.

69. The World Bank's Financial Sector Assessment Program (FSAP) team completed its assessment mission in March 2022. The team had presented the draft Aide Memoir to the Bank for comments. The Bank will utilize the findings and recommendations to strengthen financial sector policies, set out action plans for financial sector reforms and build capacity to monitor and safeguard financial stability.

70. We are making progress on AML/CFT and are targeting to further strengthen implementation. The 2020 mutual evaluation by the Inter-Governmental Action Group against Money Laundering (GIABA) identified some challenges. While the legal basis is sound, the regulation of a proliferation of finance and non-profit organizations requires further work. We are planning to take actions to strengthen the effectiveness of the AML/CFT regime, including making beneficial ownership of legal entities available; enhancing risk-based supervision and monitoring of non-bank financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs); and strengthening enforcement against money laundering and financial crimes. If necessary, we will engage in the process of making legal changes, such as amendments to the Companies Act, comprehensive allocation of supervisory powers over all relevant DNFBPs and extending of the sanctioning powers to the Financial Intelligence Unit. We will also work towards the National Risk Assessment and the national AML/CFT strategy reflecting the practical analysis, monitoring, supervisory, and enforcement actions necessary in practice to achieve concrete outcomes.

D. Inclusive Growth and Social Protection

71. Sierra Leone continues to implement policies, programmes, and projects to drive inclusive growth, reduce inequality, and alleviate multidimensional poverty with the support of development partners. The Government's ongoing public financial management stance and reforms continue to focus on ensuring a stable macroeconomy and creating the fiscal space needed to drive investments in human capital development, economic diversification, adapting to the impact of climate changes and expanding social protection systems.

72. The ongoing crises, COVID-19 and the Ukraine-Russia war continue to affect economic fundamentals, public service delivery and the socio-economic life of citizens, especially through high food and fuel prices. Sierra Leone is yet to recover completely from the economic contraction brought on by the COVID-19 pandemic. The Government proactively implemented the Quick Action Economic Response Programme (QAERP) alongside the COVID-19 Health Response to maintain macroeconomic stability and mitigate the impact of

COVID-19 on businesses and households. However, the Ukraine-Russian crisis has worsened the pass-through effect of global fuel prices and supply chain disruptions on domestic prices. These two crises have exacerbated existing socio-economic challenges and increased uncertainties like in other countries.

73. Sierra Leone continues to sustain efforts to return to a growth path within the context of the Medium-Term National Development Plan for an inclusive, resilient but green recovery. Given current domestic and global economic conditions, in order to enhance inclusive growth and social protection, the Government will:

- Continue to pay tuition fees for all children in Government-owned and Government-assisted schools;
- Expand school feeding for Government-owned and Government-assisted pre-primary and primary schools in impoverished communities;
- Continue to improve the efficiency of the school bus services and provide assistive devices for special needs children;
- Develop a new national basic and senior secondary education policy focusing on radical inclusion;
- Expand the provision of accelerated learning to out of school girls and scale-up efforts for their reintegration into school as well as teenage mothers;
- Provide sanitary hygiene kits for school going girls;
- Continue to construct classrooms, schools and boarding schools;
- Continue the Cost Recovery Initiative for the provision of drugs and encourage private sector participation through public-private partnerships;
- Continue efforts to establish the Sierra Leone Social Health Insurance Scheme (SLeSHI);
- Expand the National Emergency Services (NEMS) to all districts;
- Expand the unconditional cash transfer scheme for the extremely poor and vulnerable households, including Persons Living with Disabilities (PWDs);
- Develop a Social Protection Register and rollout the economic inclusion project;
- Enact the Social Protection Bill;
- Implement the National Street Children Project, which will re-integrate street children with their families;

- Continue to implement the Gender Equality and Women's Empowerment Policy and the Women's Economic Empowerment Fund for female entrepreneurs;
- Invest in the productivity of youths through entrepreneurship and job creation; and
- Sustain capital expenditures to address macro-critical infrastructure bottlenecks and improve business competitiveness

E. Business Environment and Economic Diversification

74. Government recognizes that improving the business environment is critical to attracting new investments and expansion of existing businesses to promote economic growth and create jobs. To this end, Government has been implementing several regulatory reforms to improve the ease of doing business in the country. These include efforts to improve business registration, tackling obstacles to trading across borders and streamlining the processes for registering properties. Even though the country's overall score of 47.5 percent in 2020 was below the sub-Saharan average of 51.8 percent in 2020, the score for starting a business and trading across borders improved in 2020. In particular, the score for starting a business of 91.3 and overall global ranking at 58 was above the Sub-Saharan average of 80.1 for this indicator.

75. With support from the World Bank funded Economic Diversification Project, Government continues to implement reforms to improve business registration. A One-Stop-Shop for business registration has been established and the efforts to automate the process by electronically linking all the relevant stakeholders including the Corporate Affairs Commission, National Revenue Authority, National Social Security and Insurance Trust and the Office of the Administrator-and Registrar General is underway. The review of the Companies Act, the Companies Amendment Act and the accompanying Regulations is in progress. Nationwide consultations on the revised Companies Act will start in June 2022.

76. The project has also been supporting reforms to improve access to finance for businesses in the country. The Collateral Registry at the Bank of Sierra Leone has been upgraded to include the use of moveable assets, individual search and e-payment services. The upgraded online collateral registry was launched in December 2021. Efforts are also underway to upgrade the Credit Reference Bureau. The Regulations for the revised Borrowers and Lenders Act has also been developed. Discussions are also ongoing with the Ministry of Lands and Country Planning and the Office of the Administrator and Registrar-General to determine how the processes for property registration and construction permits can be streamlined and automated. A National Switch, which will facilitate interoperability among commercial banks is being installed with support of the World Bank funded Financial Inclusion Project

77. In pursuit of Government's economic diversification strategy, Government has adopted a major policy shift in the agriculture sector. The new policy focuses on encouraging the private sector to take the lead in procurement and distribution of agricultural inputs such as fertiliser and improved seeds to farmers in order to boost agriculture productivity. To operationalize the policy shift, Government establishment an Electronic Voucher (E-Voucher) system domiciled at the Rokel Commercial Bank through which agricultural inputs are provided to farmers in an efficient and transparent way. Government also established Machine Rings at the district level, which are managed by the private sector to prepare large tracts of land for cultivation. The Bank of Sierra Leone also established an Agricultural Credit Facility to provide credit to agro-dealers for the importation and distribution of agricultural inputs.

78. In the fisheries sector, Government is sustaining efforts to combat illegal, unregulated and illegal fishing practices through routine surveillance patrols and remote monitoring of fishing vessels. Government also continues to observe the "Closed Season" which is a resting period to ensure conservation and preservation of fish stock.

79. In the tourism sector, Government with support from the World Bank will embark on the upgrading of tourist destination sites in Freetown, starting with the Leceister Peak, Tacugama Sanctuary and Bureh Beach in 2022.

F. Improving Governance

80. Combating corruption remains a top priority of Government as part of efforts to improve the governance of the State with a view to reducing opportunities for corrupt practices, increase efficiency in the use of scarce public resource, increase equity and fairness in the dispensation of justice and reduce red tape in the delivery of public services. Sierra Leone continues to make significant progress in the fight against corruption as demonstrated by recent commitment to strengthen the laws and the legal framework governing graft. To enhance integrity in the public sector, Government enacted the Anti-Corruption Act 2019 (an amendment of the Anti-Corruption Act 2008) to provide a more robust legal framework in the fight against corruption. The Anti-Corruption Amendment Act of 2019, increases the minimum punishment for major corruption offences, introduced a robust asset declaration regime for all public servants- which has since move to web-based from paper-based, with an over 90 percent response from public servants. The Amendment to the law also made provisions for the creation of special division of the high courts with its own registrar and five dedicated judges to expedite corruption cases. The Anti-Corruption Commission (ACC) also adopted a new Anti-Corruption Strategy in accordance with the Anti-Corruption Act 2019 and the United Nations Convention Against Corruption 2005, which defines the focus of the fight against corruption. The new strategy shifts the focus on fighting corruption to enforcement whilst corruption prevention remains an important component. As a result, the ACC has recovered over Le35 billion from corrupt officials and institutions in the past three years.

81. The efforts of the ACC in the fight against corruption have been recognised by international organizations and compilers of international corruption indices such as the Control of Corruption by the US based Millennium Challenge Corporation and the Corruption Perception Index (CPI) by Transparency International. Since 2019, Sierra Leone continue to make steady but noticeable progress in the fight against corruption; moved to 81 percent in 2020, from 49 percent in

2019 in the MCC control on corruption ranking, which secured the country a compact with MCC. In the CPI score, we moved by 12 places, from 129 in 2018 to 117 in 2020

82. Going forward, the Government with support from development partners will continue to support programmes and policies that will strengthen and deepened the institutional independence of the ACC by further strengthen the laws and legal framework that underpinned the operations of the commission and align these laws and regulations with international best practices including international conventions and protocols.

83. While many good governance efforts have continued, additional reforms to strengthen the operational functionality and independence of the Audit Service Sierra Leone (ASSL) are necessary to reinforce safeguards over the use of public resources. To strengthen the audit process, Government will amend the Audit Service Act 2014 and implementing regulations with a view to strengthen the implementation of ASSL recommendations and compliance during the audit process. The amendments will include a detailed provision which will oblige auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act) (**structural benchmark**). The amendments will also include a provision to extend the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014) (structural benchmark). Government is also developing Standard Operating Procedures (SOPs) that place responsibilities and sanctions on auditees in the implementation of audit recommendations in relation to public sector entities that are issued by either the Auditor-General or its Internal Audit Directorate. The approval of the SOPs will pave way for incorporation in the amendments of the Public Financial Management Act, 2016 and Audit Service Act, 2014.

84. We remain committed to good governance and transparency in our crisis response. Earlier in the COVID-19 crisis, the Government had published the unaudited financial statements of the NaCOVERC as well as key details of large procurement contracts related to crisis mitigation. Even though, NaCOVERC's activity is expected to wind down, the publication of the quarterly report and details of procurement details in the NPPA remains critical. In line with our commitments under the Rapid Credit Facility Letter of Intent, Government has published the second audit of the COVID-19 response (covering July to December 2020) (**Prior Action**).

85. We are also committed to strengthening the ASSL's independence. We are committed to a time-bound and transparent tribunal for the suspended auditor general and her deputy. To ensure an efficient and transparent functioning of future tribunals more generally, we have developed and published procedural rules for tribunal proceedings (**Prior Action**). ASSL commits to pay all salaries and allowances (including any overdue, unpaid claims) that are legally due to the persons holding the positions listed in the "Management Profile" section of [ASSL's website] (as of May 31, 2022) in accordance with the Sierra Leone Constitution, the Audit Service Act 2014, and the ASSL Conditions of Service 2014, as amended in 2018. We are working on strengthening preparation, follow-up, and implementation of audit recommendations, and have developed a set of standard operating procedures to guide an effective follow-up on audit recommendations. By mid-

October 2022, will amend the 2014 ASSL Act to strengthen ASSL's powers to follow-up and enforce audit recommendations (**Structural Benchmark**) and develop a roadmap to enhance ASSL's budgetary autonomy (**Structural Benchmark**). We also commit to jointly (through the ASSL, AGO and MOF) publish a roadmap by November 30, 2022, in consultation with IMF staff, which enacts the currently dormant statutory provisions on surcharges with an implementing regulation (Section 12 Audit Service Act 2014), to strengthen compliance to audit recommendations by the ASSL. The roadmap will include proposals on the safeguards related to such surcharges, the appropriate body/instrument through which such regulation should be issued, and the timing for the key steps.

G. Strengthening Statistics

86. The compilation and dissemination of credible and timely data is critical to informed policy design, analysis and implementation. In the current absence of quarterly GDP estimates, our work with IMF technical assistance brought increased attention to high frequency indicators of economic activity. It will improve the ability to monitor the reform process and refine monetary and fiscal policies in response to shocks or changed circumstances. With support from the IMF and other development partners, efforts continue to improve statistics in core areas. With support from the IMF Headquarters and AFRITAC West 2, Stats SL has now fully rebased the CPI to a more recent period, December 2021; updated the CPI basket and revised the weights based on the 2018 Sierra Leone Integrated Household Survey. The AFRITAC West 2 continued to provide technical support to Stats-SL in improving the compilation of economic statistics including the rebasing of the estimates, improving the data collection instruments, production of Quarterly National Accounts and development of Supply and Use tables. The IMF is also providing technical assistance to the Ministry of Finance to improve debt recording and to the Bank of Sierra Leone to improve balance of payments statistics and financial soundness indicators.

87. Statistics Sierra Leone has carried out the Mid-term Population and Housing Census and is in the processing of analyzing the data. Stats-SL, in collaboration with partners, is planning to carry out the Labour force survey in 2022; a costed proposal has already been developed.

88. Stats-SL is also teaming up with partners such FAO, WFP and the Ministry of Agriculture and Food Security to conduct an agriculture census in 2022, which has not been conducted for over 40 years. Going forward, with support from the World Bank under the Harmonizing and Improving Statistics Project in West Africa (HISWA), Stats-SL will continue to improve the quality of economic statistics using harmonized methodologies through:

(i) Designing and implementation of coherent system of enterprise statistics using electronic platforms and conducting of related data collection;

(ii) Design and implementation of comprehensive collection of agricultural statistics; and

(iii) Modernization of National Accounts using enterprise and agriculture statistics and additional data to be collected;

(iv) Adopt the use of international standards on administrative data processing. The project will also support the improvement of the statistical Infrastructure of Stats-SL and enhance data accessibility through the creation of national data bases and development of or update web-based apps and platforms.

(v) Furthermore, Stats-SL will continue to partner with organizations across the country to bring timely, accurate, and useful information about Sierra Leone,

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

(vii) 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.

(viii) 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.

(ix) 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.

H. Building Climate Resilience

(i) Sierra Leone is highly vulnerable to the adverse impacts of climate change, with a growing number of people at risk to extreme events, and significant impacts on the economy. Like other vulnerable countries, Sierra Leone has gradually experienced high temperatures, inconsistent weather patterns, recurrent storms, floods, mudslides, rising sea levels, coastal erosion, poor water quality and scarcity, changes in ecosystems, and biodiversity loss, among others. Sierra Leone ranks 47th among 181 nations recording high scores for vulnerability, susceptibility and lack of coping capacities on the World Risk Index 2021. In August 2017, mudslides and flooding in Freetown and its outskirts affected thousands of people resulting in multiple deaths. The floods caused widespread destruction of at least 1,245 properties with over 300 houses being destroyed. Over 11,000 people were displaced and their livelihoods were completely destroyed.

(ii) The Government is deeply concerned with the impacts of environmental degradation and climate change on its citizens and is therefore committed to ensuring effective protection of the environment and the sustainable utilization of its natural resources through efficient climate-resilient and low-emission development pathways for a sustainable future. To achieve this, Government embarked on the following;

(iii) Adopted its National Climate Change Policy (NCCP) and National Climate Change Strategy and Action Plan (NCCS&AP). Sierra Leone’s policy response to climate change is driven by the need to urgently address the adverse impacts of climate change on the country’s economy and society as well as its physical environment. This entails efforts to reduce vulnerabilities and strengthen adaptation to climate change in all sectors and at all levels, as well as to develop and implement mitigation initiatives for a low-carbon and high growth development path.

(iv) Established a Ministry of the Environment for the first time as a separate entity in November, 2019 to consolidate Climate Change and overall Environmental Governance in the country. The Ministry of Environment is mandated to formulate and facilitate the implementation of appropriate policies and programmes for sustainable management of the Environment

(v) Reviewed 6 (six) key environmental legislations to strengthen environmental coordination and governance and improve on enforcement and compliance. These include Wildlife Act of 1972; Environment Protection Agency Act of 2008 as amended in 2010; Environment Protection Agency Act of 2008 as amended in 2010; National Protected Area Authority and Conservation Trust Fund Act of 2012; Sierra Leone Meteorological Agency of 2017; Nuclear Safety and Radiation and Protection Authority of 2012; and the Forestry Act of 1988

(vi) Established the Environmental Court to prosecute environmental offenders throughout the country.

(vii) Established an inter-Ministerial Committee on Water Catchment, Mangroves and Forest Reserves in the Western Area to facilitate quick response to the challenges faced by the Environment and Water Resources Sectors and to develop a long-term strategy for conservation of water and land resources in Sierra Leone for increased environmental protection and sustained water availability;

(viii) Government has also taken concrete actions to mitigate the impact of climate Change and reduce environmental risks. Some of these include:

(ix) Government through the Sierra Leone Meteorological Agency conducted a Vulnerability Impact Assessment within 10 disaster prone communities to ascertain the level of impact erected at each of the vulnerable communities capturing the typical climate impact that the selected assessed areas are prone to. The diverse sign posts (as per particular climate risk) will help people in the various communities to put in place safeguard measures to either mitigate and/or adapt to the identified climate risk.

(x) Government has also embarked on a massive reforestation programme to address the crucial challenge of deforestation, targeting the planting of five million trees in four years. The main objective of the project is to plant and maintained five (5) million trees on approximately 13,500 hectares of degraded lands and coastal areas all over Sierra Leone from 2020 to 2023 to minimize the impacts of climate change and in fulfilment of the commitments in the country's Medium-Term National Development. In 2020, the Ministry through Service Providers (NGOs and CBOs) and Communities planted approximately, 1.2 million assorted tree crop seedlings in degraded community lands in all the sixteen (16) districts of the country. The Ministry aims to plant another 1.6 million in 2022 and the remaining 2.2 million in 2023.

(xi) Sierra Leone's updated Nationally Determined Contribution (NDC, 2021) underscores that climate change mitigation is particularly crucial for the country in terms of adaptation, being ranked one of the least able countries to adapt to climate change in the world. The NDC proposes sector-based measures for both adaptation and mitigation (as project and policy actions) to deal with current and emerging vulnerabilities, as well as contribute to the reduction of Greenhouse Gas (GHG) emissions.

(xii) The NDC envisions to achieve long-term goals for mitigation: a reduction in CO2 emission levels by 10% by 2030 from about 74,655 Gg of CO2 in 2020 with a transformational shift toward a low-emission development pathway, by targeting priority sectors, implementing REDD+ (Reducing Emissions from Deforestation and Forest Degradation) as well as promoting innovation and technology transfer for sustainable breakthroughs in energy, waste management, transport, agriculture, etc. Technology transfer through private sector partnerships will create new markets, provide jobs, and support economic growth, while reducing GHG emissions. Given the low electricity access rate of about 25%, investment in green energy generation infrastructure remains a top priority.

(xiii) To facilitate green economic recovery, the Government committed in Budget 2022 to invest in low-cost renewable energy such as hydro-power, Liquefied Petroleum Gas and solar mini-grids to reduce carbon emissions while stimulating economic activities.

PROGRAMME MONITORING

89. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks (Table 3, Table 4). Quantitative targets for end-June 2022 and end-December 2022 are performance criteria. Those for end-March 2022 and end-September 2022, and end-March 2023 are indicative targets. The sixth review of the program will take place on or after December 1, 2022; the seventh and final review on or after June 1, 2023.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021								2022										2023
	Sep. IT				Dec. PC				Mar. IT (Preliminary) 1/				Jun. PC		Sep. IT		Dec. PC		Mar. IT
	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog	Est.	Status	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	Proposed
Performance criteria																			
Net domestic bank credit to the central government (ceiling) 2/	1858	602	1920	Not met	1775	482	2255	Not Met	259	656	837	Not met	757	1762	681	2498	1366	1362	651
Unadjusted target (ceiling)		1858				1775				259									
Adjustment for the shortfall in external budget support		0				9				0									
Adjustment for the excess (shortfall) in unpaid checks and other outstanding payments		-516				-634				372									
Adjustment for the excess (shortfall) in leone value of net issuance of government securities to non-bank private sector		-740				-668				25									
Adjustment for the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears		0																	
Net domestic assets of the BSL (ceiling)	1170	-1860	-2532	Met	995	-1829	-2493	Met	291	424	572	Not met	723	2112	612	2993	1328	2220	405
Unadjusted target (ceiling)		1170				995				291									
Adjustment for the shortfall (excess) in external budget support		0				9				0									
Adjustment for exchange rate depreciation (appreciation)		-29				-117				100									
Adjustment for SDR allocation		-3002				-3131				0									
Adjustment for the Special Credit Facility		0				414				33									
Gross international reserves of the BSL, US$ millions (floor)	-84	195	265	Met	-25	216	268	Met	-56	-61	-78	Not met	-78	-222	-85	-304	-120	-243	-44
Unadjusted target (floor)		-84				-25				-56									
Adjustment for the shortfall (excess) in external budget support		0				-1													
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement		0				0													
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		-7				-7				-2									
Adjustment for SDR allocation		286				286													
Adjustment for Special Credit Facility		0				-38				-3									

1/ Data is preliminary and subject to change

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

3/ These apply on a continuous basis.

4/ Poverty-related spending is defined in paragraph 24 of the TMU.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23 (Concluded)

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021								2022										2023
	Sep. IT				Dec. PC 6/				Mar. IT (Preliminary) 1/				Jun. PC		Sep. IT		Dec. PC		Mar. IT
	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog	Est.	Status	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	Proposed
Performance criteria (cont,)																			
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (annual ceiling) 3/	130		87	Met	130		104	Met	70		65	Met	70	115	70	115	70	115	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Indicative targets																			
Total domestic government revenue (floor)	4848		4969	Met	6642		6917	Met	1951		1620	Not met	3939	3571	5642	5518	7637	7787	2356
Poverty-related spending (floor) 4/	1585		1740	Met	2034		2565	Met	421		451	Met	965	1141	1562	1841	2165	2496	572
Domestic primary balance (floor)	-981		-1480	Not met	-965		-2213	Not met	202		-204	Not met	356	-932	112	-1271	158	-1153	-43
Memorandum items:																			
External budgetary assistance (in $ million)	27		26		102		101												
Exchange rate (Leones/US$)																			
Program	10486				10939				11832				11966	13282	12184	14085	12614	14805	15164
Actual			10571				11256				11889								

1/ Data is preliminary and subject to change

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

3/ These apply on a continuous basis.

4/ Poverty-related spending is defined in paragraph 24 of the TMU.

	Table 2. Sierra Leone. Prior Actions and Structural Benchmarks		
	Prior Actions for 5th Review		
1.	Prior action for the Public Debt Management Division (PDMD) to: (i) prepare an agreed action plan based on previous TA reports (Budget Execution TA report, Cash Management TA report) for preventing recurrence of new domestic arrears before the Board meeting, to be reviewed by FAD; and (ii) publish on the Ministry of Finance's website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments. These reports shall provide updates on budget execution and arrears paydown or accumulation of due payables during the quarter.		**Corrective actions for fiscal overruns in 2021 that led to breach of NCG. Actions include enhanced monitoring of budget allocations and cashflows to strengthen PFM controls.**
2	Submit to Parliament a revised 2022 budget consistent with agreed fiscal consolidation path and including specific measures (no further pre-April 2018 domestic arrears payments until a new arrears clearance plan is in place) that are necessary for a fully financed budget in line with program targets.		**To correct for fiscal overruns and revert to medium-term fiscal consolidation path.**
3.	MoF has reactivated the Expanded Cash and Debt Management Committee and held at least four meetings between April 15 to June 15 in line with the committee's terms of references. Submit to the IMF a note with a list of actions to improve the functioning of the cash management committee.		**Corrective action to enhance cash management in the face of tight liquidity.**
4.	Publish all quarterly unaudited financial statements of NACOVERC up to March 2022 on the Ministry of Finance's website.		**As per RCF commitments.**
5.	Publication of procedural rules for any Tribunals that may be established in the future under Section 137 under (5) ff. of the Constitution in Sierra Leone, which shall reflect general principles in the Constitution, including (i) ensuring a fair hearing (Section 23); (ii) with the procedure conducted in public (Section 23); (iii) with reasonable and predictable timelines (Section 23) and (iv) with the announcement of the decision in public (Section 23).		**To strengthen governance by providing transparent and time-bound process for resolving tribunal cases.**

6.	Publication of the second audit report on the COVID-19 response, covering July-December 2020, on ASSL's website, in compliance with the commitments in the 2021 RCF Letter of Intent.		**As per RCF Commitments.**
	Benchmarks for 5th Review		
7.	Undertake a stock-take and prepare a report on existing income tax exemptions.	December 31, 2021	**Met.**
8.	Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	December 31, 2021	**Not met.** Following an MCM review of the draft prudential guidelines, TA is currently being provided to help the authorities finalize the guidelines. The authorities are expected to, and should be able to, issue the revised prudential guidelines for consultation to the industry before the Board meeting. The SB is reset to September 2022 (see 21 below)
9.	Conduct a study on effective ways to identify and tax High Net Worth Individuals (HNWI), including to determine whether to establish a dedicated HNWI unit at the NRA; share the study with IMF staff.	March 31, 2022	**Met.**
10.	Develop infrastructure project appraisal templates and guidelines, as recommended in the recent FAD PIMA.	March 31, 2022	**Met.**
11.	Conduct a thematic review of NPL strategy and management in the two state-owned banks and share a summary of the actionable recommendations with the Fund.	March 31, 2022	**Met.**
12.	Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	April 30, 2022	**Not met.** The FY2019 and FY2020 accounts have been published. The SB is proposed to be reset to September 2022 (see 17 below)

13.	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	**Not met.**
	Benchmarks for 6th Review		
14.	Develop updated corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit.	September 30, 2022	**Proposed to be modified (see #15 below).** The World Bank is currently undertaking an assessment of their corporate governance frameworks, which will allow refinement of the program objectives in this area going forward. Given that the WB report will only be ready by June 2022, more time will likely be needed (beyond the end-September due date) for the various elements of updated corporate governance frameworks to be in place.
15.	Develop and publish an action plan on corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulation (e) internal audit; (f) external audit	September 30, 2022	**Proposed.**
16.	Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	September 30, 2022	**Proposed.**
17.	Develop an SOE Ownership Policy that outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.	September 30, 2022	**In progress.**
18.	Develop a Medium-Term Revenue Strategy (MTRS) approved by Cabinet.	September 30 , 2022	Proposed to be modified (see #19 below). The FAD is currently assisting authorities to develop an MTRS. A roadmap has been

			agreed but more time (beyond the end-September due date) is needed to prepare and submit a draft for cabinet approval.
19.	A draft Medium-Term Revenue Strategy (MTRS), developed with stakeholder inputs, submitted to Cabinet for approval.	December 31, 2022	**Proposed.**
20.	Prepare a quarterly budget out-turn report that includes i) progress in reduction of unpaid checks, ii) implementation of the ECDMC recommendations, iii) the disbursement and use of SDR-backed resources for fiscal purposes, iv) an additional statement monitoring the actual performance against quarterly budget allotments, and provide corrective policy options in case of budget overruns (in line with PA#1)	September 30, 2022	**Proposed.** Corrective action for the NCG breach.
21.	Prepare a document to be shared with the Fund which sets out the BSL's supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis with to the 10 percent prudential limit	December 15, 2022	**Proposed.**
22.	Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	September 30, 2022	**Proposed.**
23.	Appoint a Chief Internal Auditor at the Bank of Sierra Leone	December 31, 2022	**Proposed.**
24.	With the aim to strengthen the audit process, adopt by parliament a statutory amendment of the Audit Service Act 2014 and implementing regulations, as follows: (i) to strengthen the implementation of ASSL recommendations with a detailed provision which includes the obligation of auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act)	October 15, 2022	**Proposed.**

	(ii) to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014).		
25.	The MoF and the ASSL will jointly publish a roadmap, in consultation with FAD, which aims to enhance the budgetary autonomy of the ASSL. The roadmap will make statutory amendment proposals on three issues, as follows: the process of setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees.	September 30, 2022	**Proposed.**
26.	Update the legacy arrears clearance strategy, consistent with debt sustainability, in consultation with FAD, that includes a list of creditors, criteria to prioritize the list, and amounts to be paid over the next three years	October 31, 2022	**Proposed.**
	Benchmarks for 7th Review		
27.	Move to daily calculation and publication of an exchange rate that is based on a one-day lag, in consultation with AFRITAC West II.	April 30, 2023	**Proposed.**
28.	The Government will establish a high-level steering committee on the MTRS which will meet quarterly and be led by the Ministry of Finance with representation from the NRA, development partners, civil society and other relevant government departments and agencies.	March 31, 2023	**Proposed.**

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 2022.** 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 June 2022 through March 2023. The program PCs and ITs through March 2022, and relevant adjustors, remain as defined in the Technical Memorandum of Understanding of July 9, 2021 (see CR No. 21/183xx).

2. **Program exchange rates**.[2] For the purpose of the program, foreign currency denominated values for 2022 and 2023 will be converted into Sierra Leonean currency (Leone) using a program exchange rate of Le 11,255.72/US$1 and cross rates as of end-December 2021.[3]

Sierra Leone Program Exchange Rate for ECF Arrangement
Cross Rates as of end-December 2021

Currency	Currency units per SDR	Leones per currency unit	US dollars per currency unit
US dollars	1.40	11,255.72	1.00
British Pound Sterling	1.04	15,120.93	1.34
Japanese Yen	159.85	98.55	0.01
Euro	1.24	12,748.23	1.13
SDR	1.00	15,753.44	1.40
Renminbi	8.90	1767.66	6.37

[1] This TMU will apply to test dates starting in June 2022.

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

[3] For calculating program targets for 2022 and 2023, all end-December 2021 stock variables will be based on the program exchange rate of Le 11,255.72/US$. The program exchange rates for test dates are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

QUANTITATIVE PROGRAM TARGETS

3. Quantitative performance criteria are proposed for June 30, 2022, and December 31, 2022 with respect to:

- Net domestic bank credit to the central government (NCG) (**ceiling**);
- Net domestic assets (NDA) of the Bank of Sierra Leone (BSL) (**ceiling**);
- Gross international reserves (GIR) of the BSL (**floor**);
- New concessional external debt with original maturity one year or more contracted or guaranteed by the public sector, US$ millions (**continuous annual 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 September 30, 2022 and March 31, 2023 with respect to NCG, NDA and GIR (above) and for June 30, 2022; September 30, 2022; December 31, 2022; and March 31, 2023 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, but including any bonds issued in the conversion/securitization of ways and means into debt (government's overdraft at the central bank); (b) ways and means; and (c) 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$50 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 2021); (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 nontradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears.[6,7]

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.

[7] The stock of legacy arrears refers to arrears identified in the stocktaking exercise completed in September 2019, totaling Le 3.287 trillion. As indicated in the MEFP, the Government completed and published its arrears clearance strategy in July 2020 and, to date, has not yet issued any securities for the purpose of clearing these arrears.

rates.[8] 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, the September 9, 2009 Special allocation, the August 23, 2021 SDR allocation, and any future allocation of SDRs by the IMF to its membership; 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. the September 9, 2009 SDR special allocation, the August 23, 2021 SDR allocation, and any future allocation of SDRs by the IMF to its membership; 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 US$8.4 million relating to a legacy clearing account for a previous Bilateral Trade Agreement;[9]

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[8] For the purposes of the 2022 PCs and IT, the cumulative flow will be calculated based on the IMF's monetary accounts for end-2021 (Table 3 of the Staff Report), which record a debt relief grant of SDR 11.5545 million under the CCRT fifth tranche in December 2021. The authorities have recorded the CCRT debt relief grant in their January 2022 monetary accounts.

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

- 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.

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$50 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 of the BSL excludes 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; (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); and (d) a downward adjustment by a cumulative maximum of US$12 million in case the BSL decides to implement its plan to sell FX through SALPOST on a pilot basis.

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, 2022 to:

End-June 2022	US$ 0.0 million
End-September 2022	US$ 0.0 million
End-December 2022	US$ 100.0 million

14. The programed external budgetary assistance for the calculation of NCG, NDA, and GIR targets will amount, from January 1, 2023 to:

End-March 2023	US$ 0.0 million

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

15. 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. 16919-(20/103), October 28, 2020, paragraph 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 20.

16. 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 concessional external debt with original maturity of one year or more will be applied on a continuous basis and evaluated in terms of cumulative changes within each calendar year.[10]

17. 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

18. Non-concessional external debt is defined as external debt (defined in paragraph 15) on terms that do not meet the definition in paragraph 17. 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. This PC will apply on a continuous basis.

[10] For example, a ceiling amount of US$100 million in calendar year 2022 means that up to US$100 million of new concessional external debt can be contracted in 2022. Once that ceiling is reached at any point in the year, any new concessional external debt that is contracted will result in the nonobservance of the PC.

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 SOFR is 0.42 percent and will remain fixed for the remainder of the program. The spread of six-month Euro ESTR over six-month USD SOFR is 50 basis points. The spread of six-month JPY TONAR over six-month USD SOFR is 50 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is zero basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 50 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) will be added.

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 21. 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 9 of the 2022 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 (i) external arrears accumulated before the approval of this ECF arrangement and (ii) those debts subject to rescheduling or restructuring or are under litigation.

QUANTITATIVE INDICATIVE TARGETS

I. 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.

J. Domestic Primary Balance

22. Definition. Central Government Revenue less expenditures and net lending adjusted for interest payments; foreign financed capital, elections and energy 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.

K. 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.

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
External sector data	Gross official foreign reserves.	Weekly	End of week + 1 week
	Foreign exchange cash flow table.	Monthly	End of month + 3 weeks

Type of Data	Tables	Frequency	Reporting Deadline
	Balance of payments data.	Annual	In addition, updated data should be reported when revisions occur
	Exports and imports of goods (including the volume of key minerals and fuels).	Monthly	End of month + 3 months
Public finance	Outstanding external arrears and repayments (if applicable).	Monthly	End of month + 4 weeks; the occurrence of new external arrears should be immediately reported to IMF staff
	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; the contracting or guaranteeing of external debt should be immediately reported to IMF staff
	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 quarter + 3 weeks

INTERNATIONAL MONETARY FUND

SIERRA LEONE

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Montfort Mlachila and Anna Ilyina (IMF) and Marcello Estevão and Abebe Adugna (IDA)

Prepared by the staffs of the International Monetary Fund and the 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 and overall debt distress remains high, but debt is sustainable*. Fiscal slippages and external factors have increased the risks around the baseline, as a larger and more frontloaded fiscal adjustment is now required to achieve the program objectives. Although Sierra Leone's debt carrying capacity has been upgraded to medium compared to the previous DSA report, one external debt burden indicator and the PV of public debt-to-GDP ratio exhibit sustained breaches of their respective sustainability thresholds. A heavy reliance on short-term domestic financing (T-Bills) creates potential rollover risks, as reflected in persistently elevated debt service ratios and gross financing needs over the medium- and long-term. Domestic rollover risks are mitigated by limited alternative investment options for domestic banks and the authorities' commitment to limit future domestic borrowing. That said, a lengthening of the maturity structure of domestic debt (via active liability management operations) is critical to reduce refinancing risks. Sierra Leone's debt is sustainable as all the debt indicators remain on a declining trend over the medium- to long-term. This assessment is predicated on the authorities' ambitious fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates. Maintaining debt sustainability requires sustained fiscal adjustment underpinned by strengthened public financial management, effective expenditure prioritization, redoubling structural and revenue mobilization reforms.*

[1] The Composite Indicator score of 2.75, based on the April 2022 WEO and the World Bank's 2020 CPIA, indicates a medium debt-carrying capacity, upgraded from weak in the previous DSA report.

PUBLIC DEBT COVERAGE

1. **The DSA covers known sources of public debt** (Text Table 1). As in earlier DSAs, the debt stock includes central government public and publicly-guaranteed debts. The DSA also includes the latest estimate of the consolidated stock of domestic payment arrears. The Government is working, with the support of development partners, to improve its financial and debt management systems, and to enhance the accounting and timely reporting of public debt, including those of state-owned enterprises (SOEs) and self-accounting-bodies.

Text Table 1. 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	

2. **The contingent liability stress test accounts for vulnerabilities associated with SOEs and financial market risks** (Text Table 2). The contingent liability for SOE debt is set at 7 percent of GDP, higher than the default 2 percent of GDP, reflecting the authorities' estimate of indebtedness of SOEs and self-accounting bodies, which is not captured in the baseline. Contingent liabilities from financial markets are set at the standard minimum value of 5 percent of GDP, which represents the average fiscal cost 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 because the baseline reflects estimated domestic arrears. Overall, total contingent liabilities are estimated at 12 percent of GDP, as in the previous DSA.

Text Table 2. 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 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	

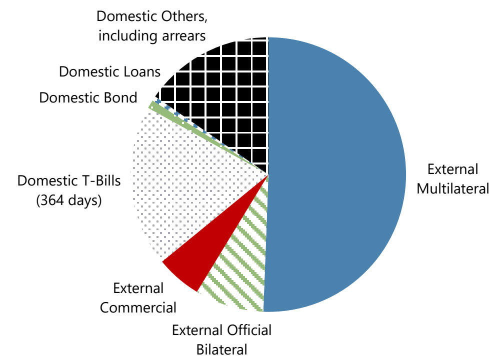
1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1) and risks associated with SOE's debt not guaranteed by the government is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

BACKGROUND ON DEBT

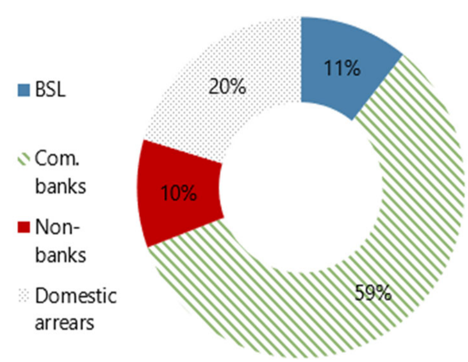
3. **The COVID-19 shock seriously strained Sierra Leone's public finances, and total public debt increased in 2021**. The large shock to growth and revenues and measures to counter the impact of the pandemic, increased the fiscal deficit in 2020 and 2021. Total public debt at end-2021 is estimated to be around 76.8 percent of GDP, slightly increased from the level of end-2020. Public debt would slightly increase further in 2022-2023 and steadily decrease over the medium term.

4. **Public and publicly guaranteed (PPG) external debt was around 50 percent of GDP in 2021, almost the same level as at end-2020** (Text Figure 1). It is expected to increase further in 2022. This reflects additional loans incurred in 2022, including planned ECF disbursements (SDR 15.56 million or 7.5 percent of quota in both June 2022 and December 2022), and SDR retrocessions (¶16). About 79 percent of Sierra Leone's PPG external debt at end-2021 comprised non-restructurable obligations to multilateral creditors. The IMF and World Bank account for about 27 percent and 23 percent of total PPG external debt (US$541 million and US$464 million respectively), followed by the African Development Fund (around 8 percent or US$165 million), the Islamic Development Bank (around 6 percent or US$128 million), the EEC/EIB (around 4 percent or US$78 million). Each of the other multilateral creditor accounts for less than 5 percent. Official bilateral creditors account for around 13 percent of total PPG external debt, with the Kuwait Fund the largest (around 3 percent or US$62 million).[2] Sierra Leone has pre-HIPC arrears to external commercial creditors (about 8 percent of PPG external debt or around US$168 million at end-2021).

Text Figure 1. Composition of Public Debt, End-2021



Text Figure 2. Composition of Domestic Public Debt, End-2021



5. **Sierra Leone domestic public debt increased from 26.6 percent of GDP at end-2020 to 27.6 percent at end-2021**. Around 59 percent of domestic debt is owed to commercial banks mainly in the form of 364-day T-Bills, while the rest are distributed between the BSL, the non-bank, and legacy domestic arrears owed to suppliers (Text Figure 2). The pre-April 2018 legacy arrears

[2] Each of other official bilateral creditors' accounts for less than 3 percent of total PPG external debt.

have been progressively paid down from about 9.8 percent of GDP in 2019 to about 5.6 percent of GDP in 2021, largely at face value.

6. A retrocession transaction based on the 2021 SDR allocation is envisaged in 2022 and 2023 to provide fiscal space to finance priority expenditures. Of the total SDR assets and liabilities (6.6 percent of GDP), this DSA assumes the equivalent of 1.6 percent of GDP in 2022, and 0.3 percent of GDP in 2023, will be transferred to the government (retrocession transaction) and then the SDR assets will be sold back to the central bank to convert them into the local currency for financing priority expenditures. These operations would leave to the government with SDR liabilities which are counted as additional long-term and highly concessional external debt in the DSA.[3]

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

7. The assumptions are consistent with the macroeconomic framework in the staff report.

Text Table 3. Macroeconomic Assumptions

	Current DSA			Previous DSA (July 2021)		
	2022	2032	LT ave.	2021	2031	LT ave.
Real GDP growth (in percent)	3.6	4.5	4.4	3.2	4.5	4.5
Inflation (GDP deflator, in percent)	15.8	6.6	10.7	11.5	5.1	7.6
Primary deficit (percent of GDP)	1.1	0.8	0.4	1.1	-2.0	-1.1
Non-interest current account deficit (percent of GDP)	12.8	6.4	7.1	15.2	11.6	12.3

- **Growth**. Real GDP growth is estimated to have rebounded to about 3.2 percent in 2021 following the COVID shock in 2020, and to increase to 3.6 percent in 2022. Growth in 2022 has been downgraded from 5.9 percent in the previous DSA, due to lower forecasts for iron ore production, greater uncertainty around the global trajectory of the COVID-19 pandemic, and the likely shock to terms-of-trade[4] and global growth as a result of the ongoing war in Ukraine. Nearly three-fourths of the country is assessed to be food insecure and recent rise in food prices and supply disruptions, precipitated by the war in Ukraine, has intensified this concern and poses risks to economic activity. Growth is projected to converge to its long-run potential and historical average of around 4½ percent over the medium term, supported by the recent resumption of production at both the Tonkolili and Marampa iron ore mines (for the first time since Ebola), good prospects for new developments in the diamond mining sector, and continued policy support for the agricultural sector. Around 17¼ percent of the population have received two vaccination doses as of mid-May. Vaccine hesitancy and logistical challenges persist.

[3] Assumptions for the DSA calculation include a maturity of 100 years, and payment of USD-equivalent of the SDR interest rate on the government SDR liabilities net of SDR assets.

[4] The shock to import prices (in particular for fuel, food and fertilizer) is likely to outweigh any boost to iron ore or other mineral prices.

- **Inflation**. Inflation, as measured by the GDP deflator, is estimated to be broadly in line with average consumer price inflation in 2021 at 11.1 percent and increases to 15.8 percent in 2022.[5] Inflation projections for 2022 and beyond have been revised up relative to the previous DSA due to recent trends in global food and fuel price inflation, and the outturn through March 2022, which was higher than expected. Inflation is projected to decline gradually after 2022, and to reach single digits by 2027 measured by the GDP deflator, as fiscal financing pressures recede, and the monetary policy framework improves.

- **Fiscal**. Successive shocks and emerging spending pressures have rendered an extremely tight budget situation. Notwithstanding revenues being on target, the overall fiscal deficit widened by about 3.5 percentage points higher than the target of 3.8 percent of non-iron ore GDP in 2021. These overruns reflected expenditure pressures (containing a third wave of COVID-19, wages and salaries, goods and services due to inflationary pressures, accelerated domestic capital projects following COVID delays) and more than anticipated energy subsidies. These pressures have persisted into the FY2022 budget with preliminary 2022Q1 out-turn showing continued increases in energy subsidies, wages, goods and services amidst revenues shortfalls. A supplementary 2022 budget covers emerging spending pressures, while ensuring that the fiscal targets under the program remain on course. Pressures on social transfers, wage bills and pre-election spending will continue to pose risks to planned fiscal consolidation. Under the baseline scenario, the domestic primary balance shifts into surplus in 2023 and to 1.7 percent of non-iron ore GDP by 2024, as domestic revenues improve.

- **External**. Due to the ongoing Russia-Ukraine war and the resulting fuel price increases, the current account deficit is projected to remain high in 2022. The deficit will be partly offset by strong exports due to the commodity (iron ore) price increase. The current account will gradually improve towards the medium-term, supported by mining production.

- **IDA financing**. IDA financing is assumed to be all grants until 2027, and 100 percent regular IDA credits after 2028, consistent with the 2017 LIC DSF guidance note. Previously, the LIC DSA assumed that 100 percent of the IDA financing after 2028-31 would be disbursed by grants and a 50:50 split between grants and credit (2032-41). However, the assumptions have been revised to be consistent with IDA's commitment capacity and to reflect change in IDA Financing terms. This revision of IDA financing results in widened fiscal deficits and primary balance (financing needs increase due to a decrease in grants) and increase external debt after 2028 as previous grants are now treated as program loans (PV of external debt to GDP ratio increases by more than 10 percent in the long run). Further, higher credit financing from IDA would put pressure on Sierra Leone to undertake a relatively steep medium-term fiscal adjustment relative to the previous DSA —to reach given fiscal deficit and public debt objectives.

- **Other assumptions**. This DSA reflects two RCF disbursements in June 2020 (SDR 103.7 million or 50 percent of quota) and in March 2021 (SDR 35.3 million or 17 percent of quota), actual and

[5] Consumer price inflation averaged 11.9 percent in 2021 and is projected to average 21.7 percent in 2022.

projected future disbursements under the Extended Credit Facility (ECF), SDR allocation in August 2021, debt relief under the CCRT, and debt deferment under the DSSI.[6] This DSA also takes into account the projected external financing gap during 2026-27, and assumes that the gap will be covered by concessional financing with an overall grant element of 35.5 percent.[7] Further, the assumption of excluding T-Bills issued in the past from calculation of GFN and the debt service to revenue ratio has been changed and they are now included to capture the full GFN and debt service even if rollover risks are manageable (see Text Table 6 and ¶13).

8. Arrears clearance. The authorities have paid large amount of the pre-April 2018 legacy arrears (or Le. 457 billion over 2020-21) without large discounts (i.e., overall NPV reduction on total stock of 35-40 percent) envisaged under the approved arrears clearance strategy. The lack of resources for upfront payment ("sweetener") of discounted amount was mentioned as one of the reasons for rejection of haircuts by vendors but also because some of the creditors are strategically important e.g., in the supply of medicine to the security sector, which necessitate selected payments. Authorities are planning to update the current arrears clearance strategy with TA from IMF FAD to make it implementable. In the meantime, a temporary halt in clearance of legacy arrears was agreed for 2022 until a new strategy is in place. This has implications on the assumptions on the term (years) within which the arrears will be fully paid after the NPV reductions-extending this by a year to 2028, assuming a new plan comes into effect from 2023. As in the previous DSA, the overall NPV reduction on total stock is set at about 35-40 percent.

9. The realism tools suggest optimism relative to the historical trend, as a bigger and more frontloaded fiscal adjustment is now needed to achieve program objectives. Regarding the primary balance, fiscal adjustment over the coming years includes recovery from a sharp deterioration due to the shocks amid the authorities' strong commitment to the reform program (Figure 4). The three-year average of fiscal adjustment over 2022-25 reflects a structural break recovery from a sharp deterioration in the primary balance in 2020 and 2021 due to the COVID-19 shock and its impact on revenues, higher energy subsidies, and wage pressures from key sectors (education, security, and health). To maintain the fiscal path under the program, Sierra Leone authorities will have to frontload a steeper fiscal adjustment than anticipated in the previous DSA. Regarding domestic revenue, it is projected to increase from about 13.8 percent of GDP in 2020 to about 16.0 percent in 2025, lower relative to previous DSA due to lower than anticipated efficiency yields from the automation program. However, continued reforms on revenue mobilization, including the adoption of a new duty waiver policy will support revenue collection in the medium-term. Regarding the expenditure side, improved expenditure control and greater efficiencies in spending on will be essential to support a fiscally sustainable adjustment in the medium term. Finally, under the IMF ECF-supported program and the World Bank Sustainable Development Finance Policy (SDFP), the authorities have also committed to a concessional debt ceiling and a zero non-concessional borrowing policy and

[6] Debt service deferment under the DSSI was around US$6.6 million in 2020 and around US$11 million in 2021. This DSA also reflects all five tranches of the CCRT and the corresponding early repayment to the Fund.

[7] More specifically, IMF financing under the ECF has a 5.5-year grace period and 10-year maturity and currently carries a zero interest (the interest rate is subject to Executive Board review every two years). Loans from other multilateral creditors other than the World Bank are assumed to have an overall grant element of 35 percent.

continue to seek additional budget support grants for priority and social spending, which will contain debt vulnerabilities.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TEST

10. **Sierra Leone's debt-carrying capacity has been upgraded to medium compared to the previous DSA report assessment based on improved reserves coverage and stronger remittances**. With the Composite Indicator (CI) score of 2.76 based on the latest data including April 2022 WEO and the World Bank's latest CPIA, Sierra Leone's debt carrying capacity is evaluated as medium, upgraded from weak in the previous DSA report (Text Table 4). Comparing to the previous DSA, reserves coverages improved due to the SDR allocation in August 2021, and remittances increased.[8] Due to the upgrade, thresholds for the external debt burden indicators and the benchmark for the PV of total public debt have been elevated. Text Table 5 shows applicable thresholds for debt indicators.

Text Table 4. Composite Indicator (CI) Rating

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.75	Medium 2.76	Medium 2.69

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.161	1.22	44%
Real growth rate (in percent)	2.719	3.583	0.10	4%
Import coverage of reserves (in percent)	4.052	36.560	1.48	54%
Import coverage of reserves^2 (in percent)	-3.990	13.366	-0.53	-19%
Remittances (in percent)	2.022	3.555	0.07	3%
World economic growth (in percent)	13.520	3.050	0.41	15%
CI Score			2.75	100%
CI rating			Medium	

Text Table 5. Applicable Thresholds for Debt Indicators

PV of PPG external debt in percent of GDP	40%
PV of PPG external debt in percent of exports	180%
PPG external debt service in percent of exports	15%
PPG external debt service in percent of revenue	18%
PV of total public debt in percent of GDP	55%

[8] Balance of payments data for 2020 have been subject to large revisions due to new estimates of unrecorded diamond exports and remittances.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External DSA

11. Sierra Leone is assessed to be at high risk of external debt distress, and PPG external debt is assessed to be sustainable. This is predicated on the strong fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates.

- Under the baseline scenario, the PV of PPG external debt-to-GDP ratio and the PV of PPG external debt-to-export ratio are projected to stay below the threshold and decline over the medium term (Figure 1, Table 1).[9] The projected decline in the debt ratios reflects several factors such as repayment of past ECF disbursements including those from Ebola period and the projected improvement in GDP and exports. While the historical scenario indicates increasing debt ratios, this reflects the COVID-19 crisis and Ebola crisis and commodity price shocks earlier.

- PPG external debt service-to-revenue ratio rises over the medium term,[10] indicating a tight liquidity situation, before steadily declining in the medium- to long-term, although it remains significantly above its threshold of 18 percent for the next ten years. PPG external debt service-to-exports ratio stays slightly below the threshold of 15 percent over the medium term.

- Stress tests indicate that the external debt indicators are most sensitive to exports. In the stress scenarios, all the external debt indicators remain above the thresholds over the medium term.

- Since one of the external debt indicators breaches its threshold under the baseline, Sierra Leone is assessed to be at high risk of external debt distress. However, all the external debt indicators are on a declining trend over the medium- to long-term under the policy settings in the ECF-supported program, PPG external debt is assessed to be sustainable.

Overall Risk of Public Debt Distress

12. Sierra Leone is assessed to be at high overall risk of public debt distress, but public debt is assessed to be sustainable. Again, this is predicated on the strong fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates.

- Under the baseline scenario, the PV of public debt-to-GDP ratio gradually declines to the threshold of 55 percent by 2025 (Figure 2). The public debt service-to-revenue ratio is projected to rise over the medium term, suggesting a tight liquidity situation. This increasing debt service is expected to be financed with external grants and concessional loans and government revenues. In this context, Sierra Leone will need continued access to concessional financing to ensure that financing terms remain contained. In the long term, as the economy fully recovers

[9] The residuals in Table 1 reflect exchange rate changes.

[10] The ratio shifted up slightly compared to the previous DSA due to the adjustment in revenue projections based on the outturn in 2021.

and revenue mobilization gains materialize, the public debt service-to-revenue ratio is expected to decline.

- Stress tests indicate that the public debt indicators are most sensitive to shocks to commodity price. Considering that both external debt indicators and public debt indicators exceed their thresholds under the baseline, the country is assessed to have high overall risk of public debt distress.

- Nevertheless, public debt is assessed as sustainable given the downward trend in all debt indicators under the policy settings in the ECF-supported program. In this context, (i) sustained and significant fiscal adjustment, and (ii) continued reliance on highly concessional external financing (ideally grants) including from the IFIs which account for a large share of Sierra Leone's PPG external debt, while limiting recourse to expensive domestic debt are particularly important.

13. The debt service to revenue ratio and gross financing needs in Sierra Leone are persistently high and their reduction is contingent on very strong fiscal policies and greater grant and/or concessional borrowing. The need to rollover T-Bills issued in the previous year ("T-Bills amortization" in Text Table 6) accounts for around 70 percent of gross financing needs and the debt service-to-revenue ratio (Text Table 6 and Text Figure 3).[11] However, considering the characteristics of Sierra Leone's domestic financial market—where commercial banks' business model has relied heavily on T-Bills, there is no secondary market, and foreign participation is absent—liquidity risks from this rollover appear manageable. In case significant negative shocks materialize, the burden on banks to absorb short term government debt will rise further, leading to larger rollover risks, especially if banking sector health also deteriorates following the shock. Reducing residual rollover risks is a medium-term endeavor, including containing inflation and extending issuance maturities. Therefore, lengthening of the maturity structure, along with strong fiscal consolidation and efforts to secure more grant financing is imperative.[12]

Text Table 6. Debt-Service to Revenue and Grants Ratio

	Actual	Projections											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2042
Debt service-to-revenue and grants ratio 1/	**80.2**	**89.5**	**92.6**	**93.8**	**97.4**	**101.5**	**97.7**	**111.9**	**100.0**	**92.1**	**81.7**	**76.9**	**40.1**
of which: T-bills amortization	55.5	60.4	55.7	58.5	62.9	68.2	68.5	80.0	69.4	58.9	53.7	47.0	22.5
of which: others	**24.7**	**29.1**	**37.0**	**35.3**	**34.5**	**33.3**	**29.2**	**31.8**	**30.6**	**33.1**	**28.0**	**29.8**	**17.7**
Gross financing need 2/	**20.6**	**19.2**	**17.5**	**17.5**	**17.8**	**18.3**	**18.3**	**20.2**	**18.3**	**17.0**	**15.3**	**14.5**	**8.9**
of which: T-bills amortization	11.3	12.2	10.5	11.6	12.2	12.8	13.0	13.2	11.5	10.1	9.4	8.4	4.4
of which: others	**9.3**	**7.0**	**7.1**	**5.9**	**5.6**	**5.5**	**5.3**	**6.9**	**6.8**	**6.9**	**5.9**	**6.1**	**4.5**

Sources: Country authorities; and staff estimates and projections.

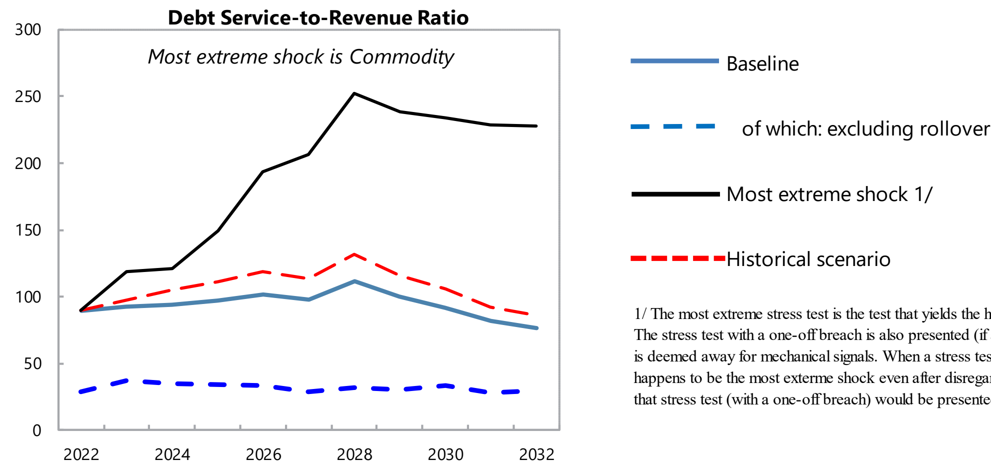
1/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

[11] There is a structural break in 2027-2028 in the debt service to revenue and grants ratio and gross financing needs because the World Bank financing assumption changes from all grants to all loans at that time.

[12] This follows a financing strategy (strategy 2) proposed by a recent Fund/World Bank TA on MTDS (in Oct 2021) which assumes domestic borrowing includes issuing 2-5-year T-bonds over the medium term.

Text Figure 3. Debt-Service to Revenue and Grants Ratio



1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

RISK RATING AND VULNERABILITIES

14. While Sierra Leone is assessed to be at high risk of external and overall public debt distress, its debt is assessed to be sustainable. Setbacks in fiscal adjustment have increased the risks around the baseline, as a bigger and more frontloaded fiscal adjustment is now necessary to achieve program objectives. While the COVID-19 shock worsened the public debt situation by weakening growth, revenue, and exports, the medium- to long-term trajectories of debt ratios remain largely unchanged from the pre-pandemic projection. However, the increasing public debt service-to-revenue ratio over the medium term suggests high liquidity-related vulnerabilities. The stress tests also highlight that debt indicators are sensitive to shocks to exports and commodity price.

15. This DSA underscores the importance of continued fiscal discipline efforts and structural reforms, supported by technical assistance and prudent financing choices. Although the number of indices exceeding the thresholds has decreased compared to the previous DSA, it should be noted that these changes are due to the relaxed thresholds resulting from the changes in the debt carrying capacity, which was driven by exogenous factors including some statistical fluctuations, rather than the shift in the path of debt-to-GDP itself; the overall risk has not changed significantly, and the importance of fiscal effort remain unchanged.

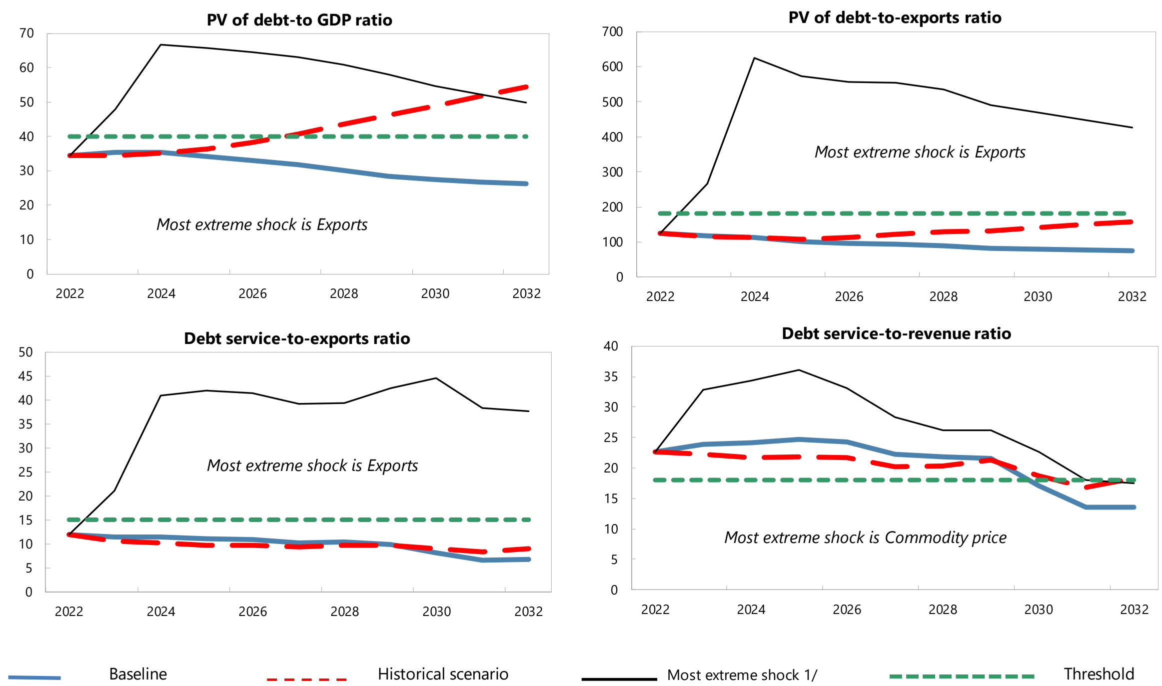
16. It should also be mentioned that the baseline outlook is subject to downside risks mainly due to the Russia-Ukraine war and emergence of new COVID-19 variants. Further increases in fuel, food and fertilizer prices or health shocks could exacerbate the severe burden on the population, deteriorate budget and external balances, increase costs for businesses, prolong fuel subsidies, provoke social discontent, and put debt sustainability at risk. Given these vulnerabilities to exogenous shocks and potential fiscal pressure stemming from upcoming elections, reducing debt and maintaining debt sustainability requires, first and foremost, sustained fiscal adjustment, underpinned by strengthened public financial management, effective expenditure prioritization, and redoubling structural and revenue mobilization reform efforts. However, to achieve a pace of fiscal adjustment that does not imperil the post-pandemic recovery and allows the country to protect critical social and health spending and continue addressing its large development needs, it will be vital to rely on highly concessional financing and ideally grants. In line with the limit imposed under the ECF-supported program and WB SDFP and performance actions (PPAs), Sierra Leone has a zero ceiling on non-concessional external debt.

17. Development of a deeper domestic debt market will be critical in mitigating potential rollover risks. While these risks remain manageable so far given the characteristics of Sierra Leone's market, greater exposure of commercial banks to the sovereign risks that unanticipated future shocks could impact financial stability. This risk is mitigated by the authorities' commitment to limit future domestic borrowing and continued technical assistance in debt management and development of a domestic market, including drawing on recent IMF technical assistance on debt recording and joint World Bank/IMF technical assistance on a medium-term debt strategy. Plans for issuance of medium to long term papers would also be essential in extending the yield curve and reducing rollover risks on bonds held by domestic banks.

AUTHORITIES' VIEW

18. The authorities agreed with the conclusions of the DSA. They concurred with the importance of efforts to ensure sustained fiscal adjustment and highlighted the ongoing reforms to strengthen revenue administration, improve public expenditure management, and further enhance debt management. They committed to continuing to prioritize grants, seeking only highly concessional financing, and ratifying only loans within the agreed annual ceiling under the ECF-supported program to safeguard debt sustainability. The authorities recognized the high rollover risks of T-Bills and would make efforts to issue medium-to-long-term bonds to reduce these risks and support the development of the domestic debt market. The authorities reiterated their commitment to clear domestic arrears and are working to address the challenges of obtaining NPV discounts through an updated arrears clearance strategy.

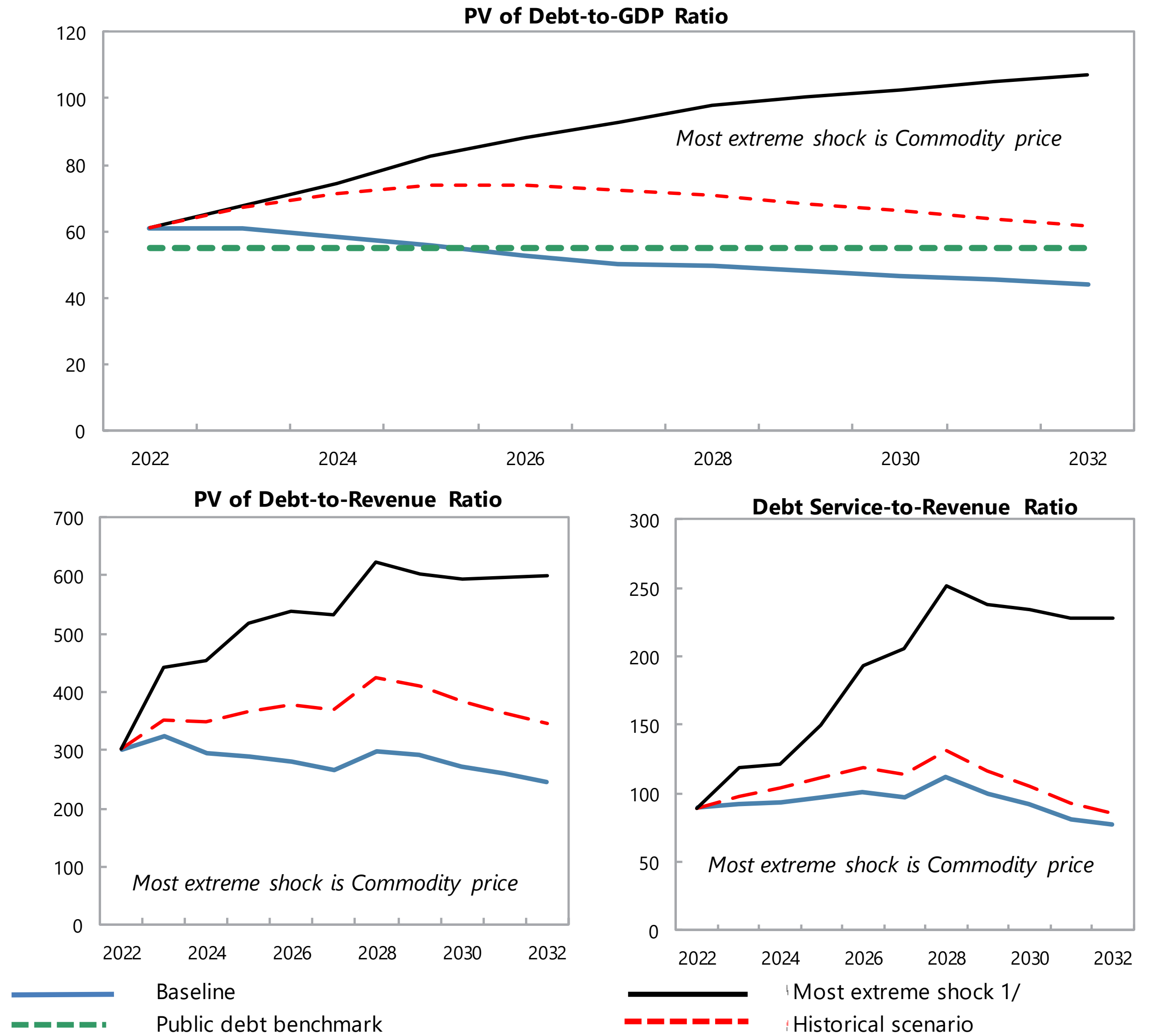
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2022–32



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 2032. The stress test with a one-off breach is also presented (in any), while the one-off 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. 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, 2022–32

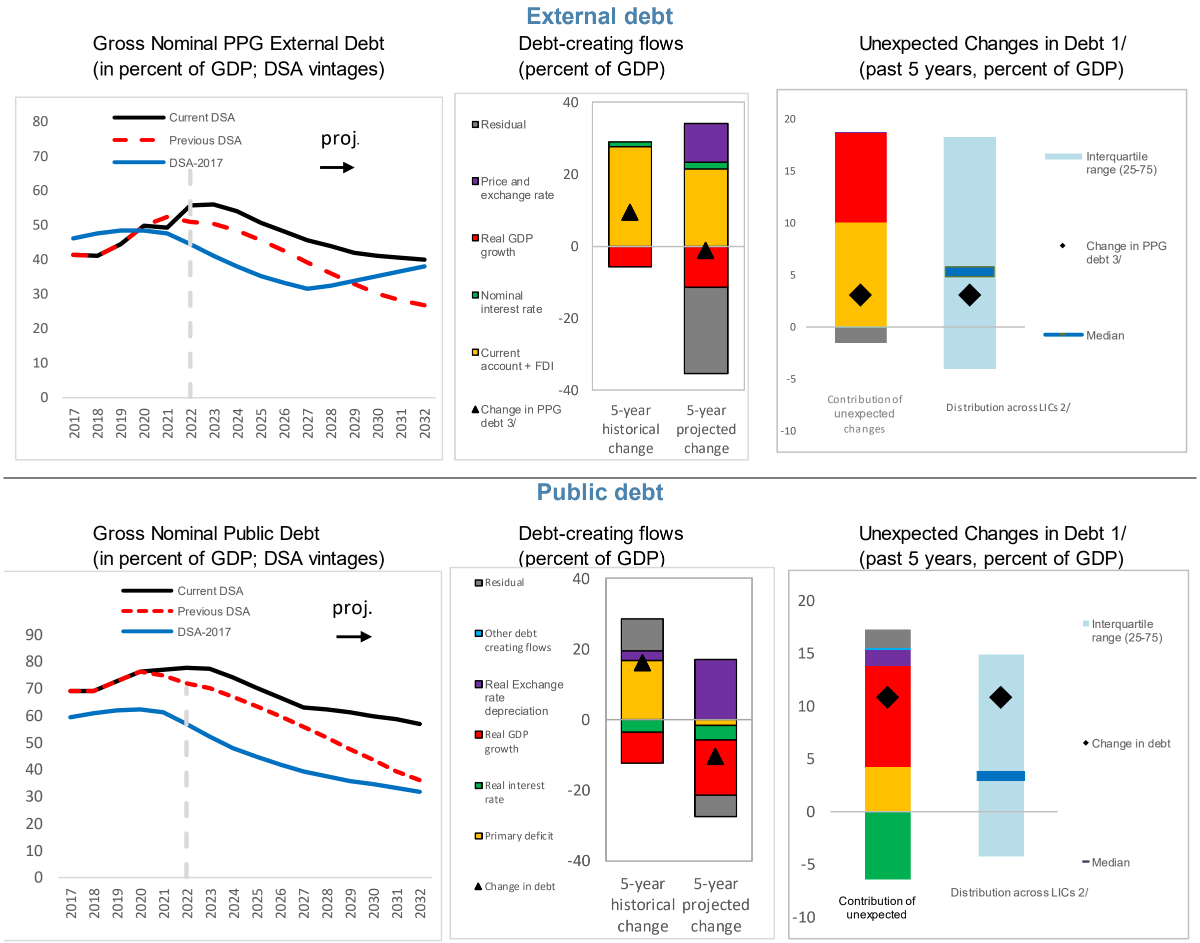


* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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, 2017–32



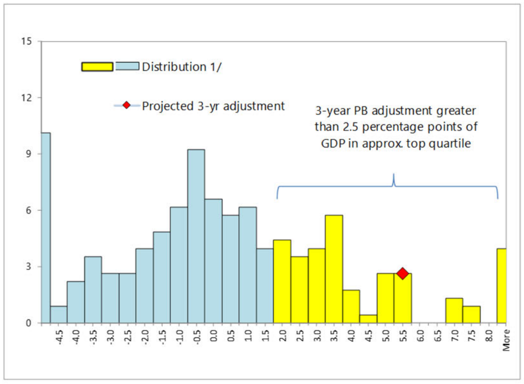
1/ Difference between anticipated and actual contributions on debt ratios.

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.

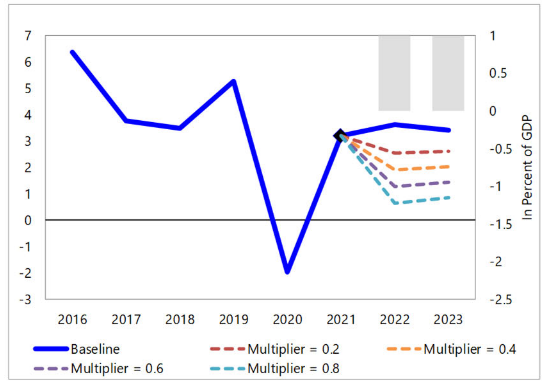
Figure 4. Sierra Leone: Realism Tools

3-Year Adjustment in Primary Balance
(In Percent of GDP)



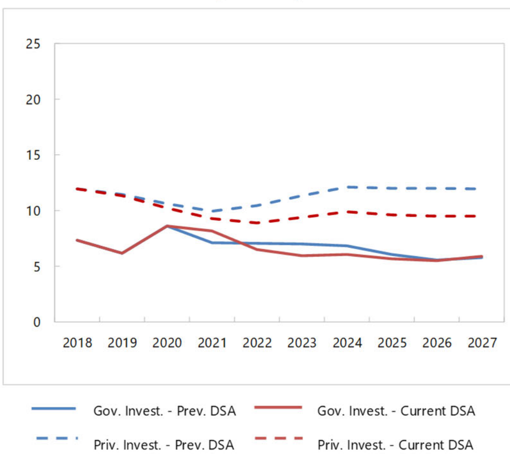
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/
(In Percent)



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).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

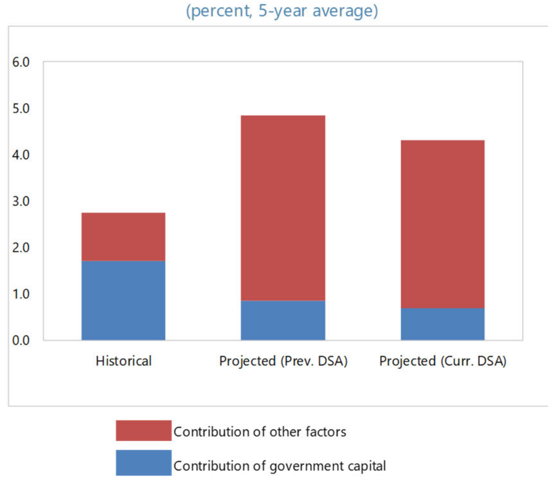
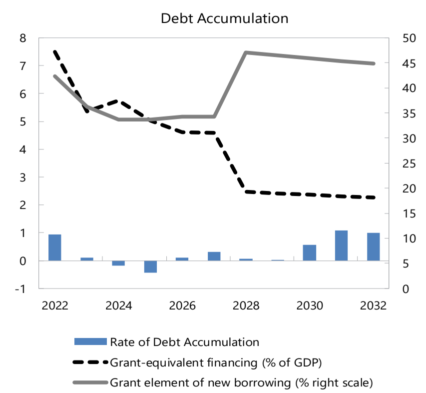


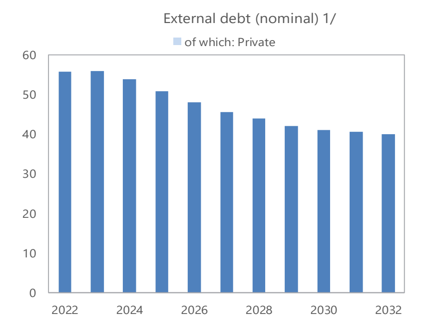
Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2021–42

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	49.2	55.7	55.9	53.9	50.7	48.0	45.6	39.9	38.0	37.0	47.0
of which: public and publicly guaranteed (PPG)	49.2	55.7	55.9	53.9	50.7	48.0	45.6	39.9	38.0	37.0	47.0
Change in external debt	-0.5	6.5	0.2	-2.0	-3.2	-2.7	-2.4	-0.5	0.1		
Identified net debt-creating flows	...	8.4	3.1	0.7	0.0	-0.3	0.1	0.4	-6.5	...	1.0
Non-interest current account deficit	14.0	12.8	10.1	8.1	5.7	5.1	5.0	6.4	5.2	15.0	7.1
Deficit in balance of goods and services	23.9	23.0	20.1	18.7	16.3	15.6	15.3	14.2	11.4	21.6	16.5
Exports	21.1	27.6	30.2	31.5	33.9	34.2	33.5	34.5	34.1		
Imports	45.0	50.6	50.4	50.2	50.2	49.8	48.8	48.7	45.5		
Net current transfers (negative = inflow)	-11.2	-11.5	-11.3	-11.9	-11.9	-11.8	-11.6	-9.2	-7.5	-9.8	-10.7
of which: official	-3.1	-3.2	-2.7	-3.1	-3.0	-2.9	-2.8	-1.2	-0.9		
Other current account flows (negative = net inflow)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	3.2	1.3
Net FDI (negative = inflow)	-8.9	-2.9	-5.4	-4.9	-3.4	-3.6	-3.4	-4.7	-10.5	-7.6	-4.5
Endogenous debt dynamics 2/	...	-1.5	-1.6	-2.4	-2.3	-1.7	-1.5	-1.3	-1.3		
Contribution from nominal interest rate	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.3		
Contribution from real GDP growth	-1.5	-1.8	-1.9	-2.8	-2.7	-2.2	-2.0	-1.7	-1.6		
Contribution from price and exchange rate changes	...	...	...	...	...	...	...	...	...		
Residual 3/	...	-1.9	-2.9	-2.7	-3.2	-2.4	-2.6	-0.9	6.6	...	-1.8
of which: exceptional financing	...	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	32.8	34.4	35.5	35.3	34.1	32.9	31.7	26.2	24.1		
PV of PPG external debt-to-exports ratio	155.5	124.4	117.3	112.0	100.6	96.2	94.6	76.0	70.7		
PPG debt service-to-exports ratio	12.0	12.0	11.4	11.4	11.0	10.9	10.3	6.7	5.4		
PPG debt service-to-revenue ratio	16.0	22.7	23.9	24.2	24.7	24.3	22.2	13.5	9.9		
Gross external financing need (Million of U.S. dollars)	325.7	553.0	333.3	273.7	250.8	224.3	230.9	241.0	-372.8		
Key macroeconomic assumptions											
Real GDP growth (in percent)	3.2	3.6	3.4	5.0	5.1	4.4	4.3	4.5	4.5	4.0	4.4
GDP deflator in US dollar terms (change in percent)	2.2	-5.3	-5.9	-4.9	-2.6	-0.6	0.5	1.5	1.0	0.6	-1.1
Effective interest rate (percent) 4/	0.6	0.6	0.6	0.7	0.8	0.9	1.0	1.1	0.9	0.7	0.9
Growth of exports of G&S (US dollar terms, in percent)	28.7	28.6	6.4	4.2	10.0	4.8	2.7	6.7	6.5	13.5	8.1
Growth of imports of G&S (US dollar terms, in percent)	35.7	10.5	-3.3	-0.4	2.3	3.0	2.9	6.0	0.0	-0.1	4.0
Grant element of new public sector borrowing (in percent)	...	42.4	36.2	33.7	33.7	34.2	34.2	44.8	40.1	...	40.4
Government revenues (excluding grants, in percent of GDP)	15.8	14.6	14.4	14.8	15.1	15.4	15.5	17.1	18.8	12.6	15.6
Aid flows (in Million of US dollars) 5/	191.1	234.6	177.5	200.9	175.7	190.5	196.4	164.8	190.2		
Grant-equivalent financing (in percent of GDP) 6/	...	7.5	5.4	5.7	5.0	4.6	4.6	2.3	2.0	...	4.1
Grant-equivalent financing (in percent of external financing) 6/	...	74.3	75.0	78.0	76.0	67.8	67.7	53.1	48.7	...	64.4
Nominal GDP (Million of US dollars)	4,280	4,200	4,084	4,082	4,177	4,334	4,543	6,063	10,936		
Nominal dollar GDP growth	5.5	-1.9	-2.7	-0.1	2.3	3.8	4.8	6.1	5.6	4.7	3.3
Memorandum items:											
PV of external debt 7/	32.8	34.4	35.5	35.3	34.1	32.9	31.7	26.2	24.1		
In percent of exports	155.5	124.4	117.3	112.0	100.6	96.2	94.6	76.0	70.7		
Total external debt service-to-exports ratio	12.0	12.0	11.4	11.4	11.0	10.9	10.3	6.7	5.4		
PV of PPG external debt (in Million of US dollars)	1403.4	1443.8	1448.1	1440.3	1422.8	1426.9	1440.6	1588.2	2634.0		
(PVt-PVt-1)/GDPt-1 (in percent)		0.9	0.1	-0.2	-0.4	0.1	0.3	1.0	1.4		
Non-interest current account deficit that stabilizes debt ratio	14.5	6.3	9.9	10.1	8.9	7.7	7.5	6.9	5.1		

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.

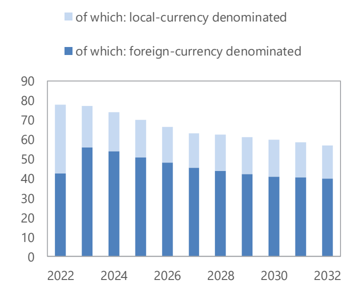
Table 2. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–42

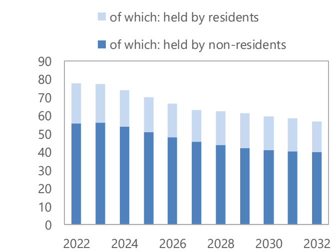
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	76.8	77.7	77.2	74.0	70.1	66.4	63.0	56.9	46.2	57.4	66.1
of which: external debt	49.2	55.7	55.9	53.9	50.7	48.0	45.6	39.9	38.0	37.0	47.0
Change in public sector debt	0.5	0.9	-0.5	-3.3	-3.9	-3.7	-3.3	-1.5	-0.7		
Identified debt-creating flows	2.2	4.2	0.1	-2.3	-3.1	-3.2	-2.7	-1.5	-0.8	2.1	-1.1
Primary deficit	4.3	1.1	0.1	-1.0	-1.0	-0.8	-0.3	0.8	1.1	3.4	0.4
Revenue and grants	20.3	20.2	18.8	19.8	19.3	18.8	19.0	17.8	19.4	16.2	18.3
of which: grants	4.5	5.6	4.3	4.9	4.2	3.5	3.4	0.6	0.6		
Primary (noninterest) expenditure	24.6	21.3	18.9	18.7	18.3	18.0	18.7	18.6	20.5	19.6	18.7
Automatic debt dynamics	-2.1	3.0	-0.1	-1.2	-2.0	-2.4	-2.4	-2.3	-1.9		
Contribution from interest rate/growth differential	-4.1	-6.3	-3.1	-4.0	-3.5	-2.8	-2.5	-2.5	-2.2		
of which: contribution from average real interest rate	-1.7	-3.7	-0.5	-0.3	0.1	0.2	0.2	0.0	-0.2		
of which: contribution from real GDP growth	-2.4	-2.7	-2.6	-3.7	-3.6	-3.0	-2.7	-2.5	-2.0		
Contribution from real exchange rate depreciation	1.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	-1.7	6.1	2.5	1.7	0.6	-0.1	-0.6	0.2	0.4	1.4	0.9
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	62.1	61.0	60.8	58.5	55.7	52.9	50.3	43.8	33.4		
PV of public debt-to-revenue and grants ratio	306.2	302.4	323.7	295.9	288.3	280.7	264.9	246.7	172.0		
Debt service-to-revenue and grants ratio 3/	80.2	89.5	92.6	93.8	97.4	101.5	97.7	76.9	40.1		
Gross financing need 4/	20.6	19.2	17.5	17.5	17.8	18.3	18.3	14.5	8.9		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.2	3.6	3.4	5.0	5.1	4.4	4.3	4.5	4.5	4.0	4.4
Average nominal interest rate on external debt (in percent)	0.7	0.7	0.7	0.8	0.9	1.0	1.1	1.1	1.0	0.7	1.0
Average real interest rate on domestic debt (in percent)	-0.4	-4.1	1.2	3.0	3.6	3.5	3.7	2.0	2.1	0.6	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	4.2	...	...	...	...	...	...	...	...	2.4	...
Inflation rate (GDP deflator, in percent)	11.1	15.8	17.9	15.9	13.4	11.2	8.9	6.6	6.1	9.9	10.7
Growth of real primary spending (deflated by GDP deflator, in percent)	11.9	-10.4	-8.2	4.0	2.7	3.0	8.2	4.9	5.7	6.6	1.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.8	0.2	0.6	2.2	2.9	2.9	3.1	2.3	1.8	-0.1	2.2
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.

Note: Grants include grants for debt service relief under the Catastrophe Containment and Relief Trust (CCRT).

Table 3. Sierra Leone: Sensitivity Analysis, External Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
						PV of debt-to GDP ratio					
Baseline	34.4	35.5	35.3	34.1	32.9	31.7	30.2	28.5	27.3	26.8	26.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	34.4	34.5	35.2	36.2	38.3	**40.6**	**43.5**	**46.1**	**48.9**	**51.8**	**54.3**
B. Bound Tests											
B1. Real GDP growth	34.4	**42.5**	**50.6**	**48.9**	**47.2**	**45.5**	**43.3**	**40.8**	39.2	38.4	37.6
B2. Primary balance	34.4	36.1	37.2	36.9	36.5	35.8	34.7	33.3	32.2	31.7	31.1
B3. Exports	34.4	**47.9**	**66.6**	**65.7**	**64.5**	**62.9**	**60.9**	**57.9**	**54.6**	**52.1**	**49.7**
B4. Other flows 3/	34.4	**42.1**	**49.3**	**48.3**	**47.3**	**46.0**	**44.3**	**42.0**	39.7	38.2	36.6
B5. One-time 30 percent nominal depreciation	34.4	**45.6**	**41.8**	**40.1**	38.7	37.1	35.2	33.0	31.9	31.4	30.9
B6. Combination of B1-B5	34.4	**47.0**	**55.5**	**54.3**	**53.0**	**51.5**	**49.6**	**46.8**	**44.4**	**42.7**	**41.1**
C. Tailored Tests											
C1. Combined contingent liabilities	34.4	36.9	37.8	37.3	36.8	36.0	34.8	33.4	32.4	32.0	31.5
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	34.4	**40.7**	**45.7**	**44.9**	**43.7**	**42.1**	39.7	36.7	34.0	32.0	30.1
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	124.4	117.3	112.0	100.6	96.2	94.6	89.9	81.6	79.4	78.1	76.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	124.4	114.0	111.6	106.9	112.1	121.2	129.7	132.1	142.0	151.0	157.5
B. Bound Tests											
B1. Real GDP growth	124.4	117.3	112.0	100.6	96.2	94.6	89.9	81.6	79.4	78.1	76.0
B2. Primary balance	124.4	119.4	118.1	109.0	106.6	106.8	103.4	95.2	93.6	92.4	90.1
B3. Exports	124.4	**265.7**	**624.6**	**573.0**	**556.7**	**554.6**	**536.2**	**489.7**	**468.5**	**449.0**	**425.8**
B4. Other flows 3/	124.4	139.4	156.4	142.7	138.1	137.2	132.1	120.2	115.4	111.3	106.3
B5. One-time 30 percent nominal depreciation	124.4	117.3	103.0	92.1	87.8	86.0	81.4	73.5	71.9	71.2	69.6
B6. Combination of B1-B5	124.4	**187.5**	150.2	**231.4**	**223.7**	**221.9**	**213.4**	**193.3**	**186.0**	179.7	171.9
C. Tailored Tests											
C1. Combined contingent liabilities	124.4	122.0	119.8	110.2	107.5	107.5	103.8	95.6	94.1	93.2	91.3
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	124.4	176.7	179.1	154.7	143.0	135.2	122.8	109.0	102.4	96.9	90.7
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	12.0	11.4	11.4	11.0	10.9	10.3	10.4	9.8	8.2	6.6	6.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	12.0	10.6	10.2	9.7	9.7	9.3	9.6	9.7	9.0	8.3	9.1
B. Bound Tests											
B1. Real GDP growth	12.0	11.4	11.4	11.0	10.9	10.3	10.4	9.8	8.2	6.6	6.7
B2. Primary balance	12.0	11.4	11.4	11.1	11.1	10.5	10.6	10.1	8.8	7.3	7.5
B3. Exports	12.0	**21.0**	**41.0**	**41.9**	**41.4**	**39.2**	**39.3**	**42.4**	**44.6**	**38.3**	**37.6**
B4. Other flows 3/	12.0	11.4	11.8	11.7	11.6	11.0	11.0	11.7	11.2	9.5	9.4
B5. One-time 30 percent nominal depreciation	12.0	11.4	11.4	10.9	10.8	10.2	10.2	9.7	7.6	6.0	6.2
B6. Combination of B1-B5	12.0	14.8	**20.1**	**19.6**	**19.5**	**18.4**	**18.5**	**20.1**	**18.2**	**15.3**	**15.2**
C. Tailored Tests											
C1. Combined contingent liabilities	12.0	11.4	11.5	11.1	11.1	10.5	10.6	10.0	8.4	6.8	6.9
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	12.0	**15.2**	14.9	14.1	13.6	12.5	12.1	12.4	11.3	9.2	9.0
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	**22.7**	**23.9**	**24.2**	**24.7**	**24.3**	**22.2**	**21.9**	**21.6**	17.1	13.5	13.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**22.7**	**22.2**	**21.6**	**21.8**	**21.6**	**20.2**	**20.3**	**21.3**	**18.7**	16.8	**18.3**
B. Bound Tests											
B1. Real GDP growth	**22.7**	**28.6**	**34.7**	**35.4**	**34.9**	**31.9**	**31.4**	**31.0**	**24.6**	**19.4**	**19.4**
B2. Primary balance	**22.7**	**23.9**	**24.3**	**24.9**	**24.6**	**22.6**	**22.3**	**22.3**	**18.3**	14.9	15.1
B3. Exports	**22.7**	**26.3**	**29.5**	**31.8**	**31.2**	**28.6**	**28.1**	**31.5**	**31.5**	**26.4**	**25.6**
B4. Other flows 3/	**22.7**	**23.9**	**25.0**	**26.3**	**25.8**	**23.7**	**23.3**	**25.6**	**23.4**	**19.3**	**18.9**
B5. One-time 30 percent nominal depreciation	**22.7**	**30.7**	**31.1**	**31.3**	**30.9**	**28.2**	**27.8**	**27.5**	**20.4**	15.8	15.9
B6. Combination of B1-B5	**22.7**	**25.6**	**29.5**	**30.5**	**30.0**	**27.5**	**27.0**	**30.6**	**26.3**	**21.6**	**21.2**
C. Tailored Tests											
C1. Combined contingent liabilities	**22.7**	**23.9**	**24.4**	**24.9**	**24.7**	**22.6**	**22.3**	**22.0**	17.6	13.9	13.9
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	**22.7**	**32.8**	**34.3**	**36.1**	**33.1**	**28.4**	**26.1**	**26.2**	**22.6**	**18.1**	17.5
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	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, Public Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**61.0**	**60.8**	**58.5**	**55.7**	52.9	50.3	49.4	48.3	46.8	45.4	43.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**61**	**67**	**71**	**74**	**74**	**72**	**71**	**69**	**66**	**64**	**62**
B. Bound Tests											
B1. Real GDP growth	**61**	**75**	**90**	**91**	**91**	**92**	**95**	**98**	**100**	**102**	**104**
B2. Primary balance	**61**	**66**	**70**	**66**	**62**	**59**	**58**	**56**	55	53	51
B3. Exports	**61**	**70**	**82**	**79**	**76**	**73**	**72**	**70**	**67**	**64**	**60**
B4. Other flows 3/	**61**	**68**	**74**	**71**	**68**	**65**	**64**	**62**	**59**	**57**	55
B5. One-time 30 percent nominal depreciation	**61**	**62**	**59**	**56**	52	49	47	45	43	41	38
B6. Combination of B1-B5	**61**	**67**	**68**	**60**	**58**	**56**	**56**	**55**	54	53	52
C. Tailored Tests											
C1. Combined contingent liabilities	**61**	**72**	**69**	**65**	**62**	**59**	**58**	**56**	54	53	51
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	**61**	**68**	**74**	**82**	**88**	**93**	**98**	**100**	**103**	**105**	**107**
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	302.4	323.7	295.9	288.3	280.7	264.9	298.6	291.4	272.3	259.7	246.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	302	353	350	367	379	369	425	411	383	364	346
B. Bound Tests											
B1. Real GDP growth	302	382	415	433	453	454	567	581	572	575	575
B2. Primary balance	302	353	352	341	332	313	350	341	318	302	287
B3. Exports	302	372	415	410	404	385	434	421	387	364	340
B4. Other flows 3/	302	363	373	367	360	343	386	375	346	327	307
B5. One-time 30 percent nominal depreciation	302	337	304	293	281	261	285	272	249	233	216
B6. Combination of B1-B5	302	354	340	308	305	292	337	332	314	302	290
C. Tailored Tests											
C1. Combined contingent liabilities	302	384	349	338	329	310	348	339	316	301	286
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	302	444	455	517	540	531	623	604	595	598	599
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	89.5	92.6	93.8	97.4	101.5	97.7	111.9	100.0	92.1	81.7	76.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	89	97	105	111	119	114	132	116	105	92	86
B. Bound Tests											
B1. Real GDP growth	89	105	129	153	176	183	234	229	224	217	217
B2. Primary balance	89	93	114	138	134	125	137	121	110	97	90
B3. Exports	89	93	95	99	103	100	114	105	101	90	85
B4. Other flows 3/	89	93	94	99	103	99	113	104	98	87	82
B5. One-time 30 percent nominal depreciation	89	89	91	93	98	94	107	96	88	77	73
B6. Combination of B1-B5	89	94	99	103	111	110	131	121	114	104	100
C. Tailored Tests											
C1. Combined contingent liabilities	89	93	138	131	130	121	134	118	107	94	87
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	89	119	121	149	193	206	252	238	234	228	228
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

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By
The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2022)

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	298.29	100.00
Holdings	353.94	118.66

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
RCF Loans	138.96	67.00
ECF Arrangements	247.01	119.10

Latest Financial Arrangements :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 30, 2018	Jun 29, 2023	124.44	77.78
ECF	Jun 05, 2017	Nov 29, 2018	161.77	39.17
ECF[1]	Oct 21, 2013	Dec 14, 2016	186.66	186.66

Outright Loans

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Mar 15, 2021	Mar 17, 2021	35.26	35.26
RCF	Jun 03, 2020	Jun 05, 2020	103.70	103.70

Projected Payments to Fund[2]

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	29.69	44.28	46.50	48.50	51.21
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**29.69**	**44.28**	**46.50**	**48.50**	**51.21**

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	March 2002
Assistance committed (NPV terms)	
By all creditors (US$ million)[1]	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[2]	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[3]	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

[1] 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.

[2] 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.

[3] 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.

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
N/A	Apr 13, 2020	13.36	13.36
N/A	Oct 02, 2020	12.22	12.22
N/A	Apr 01, 2021	15.11	15.11
N/A	Oct 06, 2021	6.00	6.00
N/A	Dec 15, 2021	11.55	11.55

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

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. 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 since been implemented, albeit with delays. In recent years, the BSL has implement all but one of the outstanding safeguards recommendations, including (i) amending the BSL Act to strengthen governance, (ii) undergoing joint external audits, (iii) establishing a fraud prevention and whistleblower policy, and (iv) completing an external quality assessment of the internal audit function. Further efforts are needed to ensure annual external audits are completed within the statutory deadline.

Exchange Rate Arrangement:

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. 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’.

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Thursday based on the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous five business days. 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 2021, the BSL mid-rate was Le 11,255.72=US$1, which is also the new Program exchange rate.

Sierra Leone maintains two multiple currency practices, subject to IMF approval under Article VIII, Section 3 of the IMF's Articles of Agreement, due to (i) the use of the BSL Rate, which is not considered a prevailing market rate, due to the manner of its computation (it is calculated weekly and computed based on transactions over the previous five business days), and the BSL Rate has exceeded the prevailing market rate by more than 2 percent at certain points in time, and (ii) the use of an exchange rate for transactions under certain facilities, which is not considered a prevailing market exchange rate, as it is calculated based on commercial banks' weighted average exchange rates on the previous day, and there is no mechanism in place to ensure that the spread between this rate and the prevailing market rate at the time of the transactions does not exceed 2 percent.

Sierra Leone maintains an exchange restriction, subject to IMF approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement, arising from the prioritization of foreign exchange through various BSL facilities, which results in a limitation on the availability of foreign exchange for payments of current international transactions, where there is a shortage of FX in the market.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on April 3, 2020.

Technical Assistance:

See Staff Report, Annex VIII.

Resident Representative:

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

- https://www.worldbank.org/en/country/sierraleone

African Development Bank:

- https://www.afdb.org/en/countries/west-africa/sierra-leone

STATISTICAL ISSUES

(As of May 18, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, with some key data shortcomings in most sector statistics. 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 GDP. Progress has been made on estimating national accounts aggregates from the annual economic survey of establishments. A rebasing project was launched in 2019 with 2018 as the base year, with technical assistance from AFRITAC West II. Progress has been delayed due to the COVID-19 pandemic and competing priorities, and the planned release of the rebased accounts is now scheduled for December 2022. 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.
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. An updated CPI was successfully launched in March 2022, with a revised CPI basket using the 2018 Integrated Household Survey to ensure the CPI is representative of current expenditure patterns. This effort was supported by STA technical assistance. The authorities have not released the producer price index (PPI) in recent years.
Government Finance Statistics (GFS): Sierra Leone reports annual GFS to STA with the institutional coverage of budgetary central government. However, the reporting has been suspended since 2019 data. Improvements can be made by expanding the coverage to general government, including social security funds, local governments, and autonomous agencies, and by implementing the international statistical guidelines set out in the GFS Manual 2014 framework. Sierra Leone does not compile or report public sector debt statistics to the IMF-World Bank Quarterly Public Sector Debt Statistics database. The June 2021 TA mission assisted the authorities in improving recording and reporting of debt liabilities, including legacy commercial debt and arrears and integrating stock and flow data. These improvements are expected to strengthen debt transparency, and increase the authorities' understanding of their debt position and ability to plan strategically to minimize the cost of borrowing in the future.

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 several years, but the authorities are only sharing these bilaterally with the country team and are not publishing these or reporting these to the Fund.
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. However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial corporations. Sierra Leone has not reported data to the Financial Access Survey since 2012.
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 including Customs data 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 weak legal environment and institutional cooperation related to the ESS compilation, as well as resource constrains.

II. Data Standards and Quality	
Sierra Leone is participant in the Enhanced General Data Dissemination System (GDDS) and launched the National Summary Data Page in December 2016.	No data ROSC is available.

Sierra Leone: Table of Common Indicators Required for Surveillance

(As of End-May 2022)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates[2]	May 23, 2022	May 24, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[3]	February 2022	May 2022	M	M	M
Reserve/Base Money	February 2022	May 2022	M	M	M
Broad Money	February 2022	May 2022	M	M	M
Central Bank Balance Sheet	February 2022	May 2022	M	M	M
Consolidated Balance Sheet of the Banking System	February 2022	May 2022	M	M	M
Interest Rates[4]	February 2022	May 2022	M	M	M
Consumer Price Index	April 2022	May 2022	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	March 2022	April 2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	December 2021	March 2022	Q	Q	Q
External Current Account Balance	2020	January 2022	A	A	A
Exports and Imports of Goods and Services	2021	March 2022	A	A	A
GDP/GNP	2020	July 2021	A	A	A
Gross External Debt	2021	March 2022	A	A	A
International Investment Position[5]	2017	October 2019	A	A	A

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

[2] Although the Leone:US$ rate is currently set weekly, exchange rate data is published on a daily basis (including exchange rates with other currencies)

[3]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.

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

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

SIERRA LEONE

June 22, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION, REVISED PROPOSED DECISION, SUPPLEMENTARY LETTER OF INTENT, AND REVISED MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Approved By
Montfort Mlachila (AFR) and Anna Ilyina (SPR)

Prepared by the African Department in consultation with the Legal and the Strategy, Policy and Review Departments

This supplement provides an update to the staff report on the prior actions required for the fifth review. In particular, new information has come to light regarding the prior action on the publication of procedural rules for future tribunals. This supplement does not alter the thrust of the staff appraisal.

1. **Based on new information that staff has only recently received, it has emerged that it will not be practically possible for the authorities to complete the prior action on the publication of procedural rules for future tribunals.** The Attorney General of Sierra Leone informed staff on June 17 that rules of procedure for tribunals can only be published by the Rules of Court Committee established under Section 145 of Sierra Leone's constitution.[1] Establishing general procedural rules for tribunals would be at least a three-month process. Thus, the prior action would not be able to be completed before the scheduled Board date (on June 27).

2. **The authorities have committed to the adoption by the Judicial and Legal Service Commission of Guidelines (Practice Directions) for tribunals by end-December 2022.** These Guidelines (Practice Directions) will be for any Tribunal (under

[1] Since the staff report was issued to the Board, the tribunal set up to try the Auditor General and her Deputy issued procedural rules, and the government issued an indictment against these parties.

Section 137.5(ff) of the Constitution) that may be established in the future. As it is not feasible to implement this measure before the scheduled Board date, the measure is proposed to be set as a structural benchmark for end-December 2022, instead of a prior action (as originally referenced in ¶27 of the Staff Report). This would give the authorities sufficient time to develop and establish general guidelines, following their legal processes. The authorities concur with the end-December 2022 timing.

3. The authorities have completed the other five prior actions required for the completion of the review.

4. Against this backdrop, staff continues to recommend the completion of the review. A revised proposed decision and a supplementary LOI are attached.

Appendix I. Letter of Intent

MINISTRY OF FINANCE **BANK OF SIERRA LEONE**

June 22, 2022

Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.SA.

Dear Madam Georgieva;

1. On behalf of the Government of Sierra Leone, we would like to supplement the Letter of Intent, dated June 10, 2022, that requested the completion of the 5th review under the Extended Credit Facility arrangement.

2. Based on information from the Attorney General about our legal processes, we understand that it is not possible to complete the prior action on the publication of procedural rules for future tribunals. As highlighted by the Attorney General, the rules of procedure for tribunals can only be published by the Rules of Court Committee established under Section 145 of Sierra Leone's constitution. Therefore, establishing general procedural rules for tribunals would be at least a three-month process. Thus, it would not be possible to complete this prior action before the scheduled Board date on June 27.

3. However, we remain committed to adopt, by end-December 2022, Guidelines (Practice Directions) by the Judicial and Legal Service Commission (JLSC). These Guidelines (Practice Directions) will be for any Tribunal (under Section 137.5(ff) of the Constitution) that may be established in the future. We request that the prior action be converted into a structural benchmark for end-December 2022 to allow us to follow our legal processes. Accordingly, we have amended paragraph 85 and Table 2 of the MEFP as per attachment I to this letter.

4. We continue to request the completion of the review. All other commitments and understandings under the June 10, 2022 Letter of Intent remain the same, and the other prior actions have been completed. We also agree to the publication of this letter and its attachments in accordance with Fund procedures for publication.

Very truly yours,

________________/s/____________________	_________________/s/________________
Dennis K. Vandi	Dr. Ibrahim Stevens
Minister of Finance	Deputy Governor, Bank of Sierra Leone

Attachment I. Revised Memorandum of Economic and Financial Policies (MEFP) ECF 5th Review

Freetown, June 2022

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements the one dated July 2021.** It reviews recent economic developments and reports on performance under Sierra Leone's economic and financial programme supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) arrangement. It outlines the key policy and reform measures for the remainder of 2022 and the medium-term. These policies aim to restore macroeconomic stability, reduce debt vulnerabilities, boost resilience of the economy against adverse external shocks and promote broad-based inclusive, green economic growth and poverty reduction over the medium-term.

2. **With support from development partners, Government successively implemented the COVID-19 economic and health response programmes, which mitigated the impact of COVID-19 on the population and paved the way for the recovery of the economy in 2021**. The Russia-Ukraine war, which started in February 2022 is threatening to undo the nascent economic recovery while undermining macroeconomic stability. The shock has added pressure in all areas – to inflation, already highly constrained fiscal space, the balance of payments, and reserves and the exchange rate. In particular, the uncertainty and supply disruptions caused by the war have caused sharp increases in the prices of food, fertilizer and fuel with adverse implications for food security and poverty reduction. To address these challenges and boost the resilience of the economy, Government will continue to implement and sound economic policies, sectoral and structural reforms including governance reforms consistent with our National Development Plan (2019–23 NDP).

RECENT ECONOMIC DEVELOPMENTS

3. **The Sierra Leone economy recovered from the devastating impact of COVID-19 in 2021 but the uncertainty associated with the ongoing war in Ukraine is constraining economic activity in 2022.** The economy grew by 3.2 percent in 2021, reflecting the recovery in agriculture, trade, tourism and travel, manufacturing and the more-than expected increase in mining output. The continued deterioration in the terms of trade, especially the surge in fuel and food import prices arising from the war in Ukraine, is constraining activities in 2022. Against the background of rising food and fuel prices, somewhat lower production prospects in the mining sector and the general uncertainty in the global economy, growth in 2022 has been revised downwards to an estimated 3.6 percent from an earlier forecast of 5.9 percent.

4. **Inflationary pressures surged in 2021 and continued into the first quarter of 2022**. After falling to a single digit of 8.9 percent in March 2021, inflation subsequently rose sharply during

the second half of 2021, reaching 17.9 percent in December 2021 fueled by higher prices of both food and non-food items due to supply bottlenecks and the depreciation of the exchange rate. The Ukraine-Russian war has led to disruptions in the supply of basic commodities (fuel, fertilizer, and food) and a spike in domestic prices in Q1, 2022. The sharp rise in global fuel prices required us to take bold actions by increasing fuel prices by 50 percent in March 2022. This, combined with the depreciation of the exchange rate, contributed to inflationary pressures. Consequently, year-on-year inflation rose to 22.1 percent in March 2022.

5. The current account deficit widened. Despite the recovery in exports, following the resumption of iron ore mining at the Tonkolili mine, higher imports of fuel, food, machinery and transport equipment and intermediate foods combined with the drop in official transfers resulted in widening in the current account deficit, from 6.8 percent of GDP in 2020 to 14.6 percent of GDP in 2021. Gross foreign reserves increased to 5.3 months of imports partly due to the disbursement of the Special Drawing Rights (SDR) allocation of US$282 million allocated to Sierra Leone. The exchange rate depreciated by 16 percent (March 2021 to March 2022).

6. Fiscal challenges were manifested in higher expenditures and moderate domestic revenues in the face of declining grants from development partners. Domestic revenues improved to 15.5 percent of GDP in 2021 after dropping to 13.8 percent of GDP in 2020, partly due to the recovery in economic activities, improved tax administration and payment of one-off royalties on stockpile of iron ore by the Marampa Mines. This notwithstanding, the higher level of recurrent and capital expenditures owing to the need to continue to respond to the lingering COVID-19 resulted in a higher budget deficit in 2021. The budget deficit, including grants, widened to 7.3 percent of GDP from 5.8 percent in 2020.

7. The fiscal situation in 2022 is also expected to be tight and a revised budget needs to accommodate pressures on priority expenditures. Preliminary 2022Q1 budget outturn indicates a shortfall in revenue of about Le 330 billion due to under-collection from excise on petroleum products (undermined by severe shortages in fuel shipments in the aftermath of the war in Ukraine), mineral royalties especially bauxite, which is adversely impacted by economic sanctions on Russia, fisheries, and GST due to global supply disruptions. At the same time, expenditure pressures have emerged including from energy subsidies and goods and services due to the sharp increase in the price of fuel and general increase in price level. The expenditure envelope in the 2022 budget has been revised to accommodate pressures in the energy subsidies (Karpower and CLSG), goods and services, wage awards (lower cadre civil servants, judges, security), and domestic capital spending. The cost of electricity supply from Karpower ship, an IPP that is currently the main source of power supply, has increased beyond programed subsidies and transfers.

8. Reflecting the increase in financing needs, the total public debt increased to US$3.1 billion (76.8 percent of GDP) in 2021 from US$3.0 billion (76.3 percent of GDP) in 2020. Of the total, domestic debt including verified arrears, amounted to US$1.1 billion and external debt, US$2.0 billion. Multilateral creditors accounted for the bulk (79 percent) of external debt followed by bilateral (13 percent) and commercial (8 percent).

9. The banking system appears to have remained largely resilient and stable as banks were profitable and adequately capitalized. The industry recorded an improvement in key financial indicators including total assets, investments, gross loans and advances, and deposits. The return on equity and return on assets for some banks were very low due to high and rising overheads. All but one bank met the statutory capital adequacy ratio requirements. However, the aggregate non-performing loans to gross loans increased to 14.8 percent by December 2021 from 12.4 percent in December 2020. When the two-state banks are excluded, NPL fell to 13.3 percent at the end of December 2021 but three banks recorded zero NPLs as a result of good credit administration and management. A World Bank team is reviewing the two state-owned banks (RCB and SLCB) in order to advise on a long-term strategy and corporate governance framework for the banks.

10. End-2021 debt data and macroeconomic and policy projections suggest that Sierra Leone's risk of debt distress is high but sustainable, the same classification as under the previous Debt Sustainability Assessment. Although Sierra Leone's debt carrying capacity is upgraded compared to the previous WB/IMF DSA report, the external debt service to revenue ratio is projected to continue breaching the threshold due to a large amount of debt service in the coming years, and the public debt to GDP ratio is also above its benchmark. Continued reliance on concessional financing and grants, and an effective debt management and borrowing strategy while creating space for financing key projects are critical for keeping debt sustainability. Adoption of a medium-term fiscal anchor could help credibly guide fiscal policy to reduce debt ratios while taking into account unanticipated macroeconomic shocks and preventing debt levels from returning to and staying below the NDP ceiling of 70 percent of GDP.

PROGRAMME PERFORMANCE

11. Programme performance weakened in 2021 owing to the expenditure overruns reflecting the increase in the price of goods and services, cost overruns on capital projects, unexpected wage pressures coupled with the need to continue to respond to the lingering impact of COVID-19 on the economy.

- We met the quantitative performance criteria and indicative targets on Gross International Reserves and Net Domestic Assets of the Bank of Sierra Leone as at end-September and end-December 2021 but missed the criterion on Net Credit to Government from the banking system at end-December 2021 by a large margin. The increase in Government borrowing and arrears accumulation was dictated by expenditure overruns caused by unexpected expenditures including wage demands, subsidies to EDSA to secure power provision and general increase in the prices of goods and services.

- Preliminary data indicate that we missed the March 2022 indicative targets on Net Domestic Assets of the Bank of Sierra Leone, gross international reserves and Net Credit to Government.

- We complied with the continuous Performance Criteria (PC) on concessional and non-concessional external debt, the continuous PC on external arrears since all new accumulated arrears are domestic and the indicative targets on domestic revenue and poverty related spending for September and December 2021. However, we missed the IT on the domestic primary balance.

12. **We are taking further steps to ensure that the performance criteria and indicative targets under the programme will be met.** Government will refocus on the consolidation of public finances aimed at returning to a sustainable fiscal path and reduced debt vulnerabilities. Fiscal efforts will include improving domestic revenue mobilization by continuing to implement the full pass-through petroleum pricing formula (**continuous Structural Benchmark**), consolidate the automation of tax processes through extensive engagement and training of taxpayers on the ECR and ITAS; intensify field audits of key sectors, reverse the NATCOM floor price instruction for telecommunications Companies, expanding the application of specific export levy on timber to cover all timber and timber related products (Text Table 1), and explore opportunity for carbon financing in the medium-term. We are also proactively seeking additional budget grants and an emergency energy support grant to help address emerging expenditure pressures.

13. **At the same time, Government will embark on expenditure rationalisation and management by improving budget planning and execution and strengthening cash management.** We have reactivated the Expanded Cash and Debt Management Committee, have held four regular meetings since April in line with the committee's terms of references and taken stock of a list of actions to strengthen the committees functioning (**Prior Action**). These include presenting reliable cash forecast and policy options in the meeting, producing minutes of the meeting with recommended policy options, in particular cash shortages, to the Minister to guide budget preparation and budget allotment. The public debt management division (PDMD) has (i) prepared an agreed action plan based on previous TA reports (Budget Execution TA report, Cash Management TA report) for preventing recurrence of new domestic arrears, to be reviewed by FAD; and (ii) published on the Ministry of Finance's website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments (**Prior Action**). Efforts will be made to align quarterly budget allocations with the recommendations from the cash

Text Table 1. Corrective Measures

Total additional revenue and expenditure measures (Revised 2022 Budget)	Amount Le.billions
Additional revenue measures	***186.0***
(in percent of non-iron ore GDP)	***0.4***
PAYE	24.0
GST	43.0
Others	119.0
o/w timber and related products	22.5
o/w TSA	86.0
o/w Digital IDs	10.5
Expenditure containment	***233.2***
(in percent of non-iron ore GDP)	***0.4***
Wage bill	140.2
Goods and services	93.0

and debt management committee on cash projections. In addition, Government will sustain the implementation of the payroll management reforms introduced so far and develop a Payroll Reform Strategy to guide payroll management in the medium-term. Government will also continue to improve the management of capital projects as recommended in the Public Investment Management Assessment (PIMA) Report.

14. *On the basis of these actions and commitments, we request the IMF Executive Board to approve a waiver for the non-observance of the December 2021 Quantitative Performance Criterion (QPC) on Net banking system Credit to Government (NCG).*

15. Significant progress was made in the implementation of structural benchmarks. We met most of the structural benchmarks for the 5th review including the study on High Net Worth Individuals, Stocktaking of Income Tax exemptions, development of an infrastructure appraisal template, and the thematic review of the strategy for non-performing loans. The update of the prudential guidelines in line with the 2019 Banking Act is still pending. The structural benchmark on the publication of the 2021 audited financial statements of the BSL has been delayed beyond April 2022, but the BSL has appointed an audit firm. The audit firm has started the work and we aim to publish the final statements by end-September 2022 **(structural benchmark)**. We temporarily suspended continuous SB on the automatic fuel pricing mechanism since October 2021 to ease the burden on citizens. However, Government increased the pump price of fuel by 50 percent in March 2022 to insulate the budget from the continued increase in global fuel prices, thereby restoring the implementation of the full pass-through fuel pricing formula.

MEDIUM-TERM ECONOMIC OUTLOOK

16. The medium- term outlook remains challenging on account of the deteriorating terms of trade, more uncertain global prospects due to the Ukraine war, and the lingering COVID-19 risks. The on-going Russia-Ukraine war is undermining the growth prospects of the economy. The war has led to disruptions in the supply of basic commodities (fuel, fertilizer, and food), thereby weakening economic activity and causing a spike in domestic prices. Reflecting these developments, the original projected economic growth for 2022 has been revised downwards from 5.9 percent to 3.6 percent. Economic growth is projected to slightly slow down to 3.4 percent in 2023 on concerns of the lingering impact of the Ukraine war and normalization of growth in the mining sector. The economy is projected to grow by an average of 5.0 percent during 2024 to 2025 on the back of the expected ramping up of iron ore mining, increase in agricultural output as the policy shift consolidates, expansion in construction and manufacturing activities, recovery of the tourism sector and improvement in the business environment. The 50 percent increase in the domestic pump price of fuel implemented in March 2022 is expected to add to inflationary pressures during the year. Inflation is therefore forecast to rise to 22.1 percent by end December 2022 compared to the original projection of 12 percent. Annual average inflation is also expected to hover around
21 percent compared to the initial projection of 13 percent. Inflation is projected to decline gradually to 19.6 percent in 2023 and 16.4 percent in 2024.

17. The overall fiscal deficit (including grants) is projected to narrow from 3.8 percent of non-iron ore GDP in 2022 to 2.5 percent in 2023 as Government refocuses on fiscal consolidation. The current account deficit is expected to narrow from 13.6 percent of non-iron ore GDP in 2022 to 8.8 percent of non-iron ore GDP in 2024, on the back of increased iron ore exports. Increased inflows of FDI and project support grants will finance the current account deficit. Gross foreign reserves will average 3.3 months of imports during 2022-2025.

18. The risks to the economic outlook include the uncertainty associated with the Russia-Ukraine war and impact on the global economy; resurgence of COVID-19; inadequate international financial support and sharp rise in the prices of food and fuel and implications for domestic inflation and fiscal and external balances.

PROGRAMME OBJECTIVES AND POLICIES

19. Government's policy objectives remain broadly as originally articulated at the time of requesting the ECF in 2018 and are adapting to new challenges. Our key objectives under this programme are to safeguard macroeconomic and financial system stability, strongly pursue the implementation of structural reforms and promote sustainable, resilient, green and inclusive growth, centered on human capital development. In this context, Government will continue to pursue policies aimed at ensuring fiscal and debt sustainability, strengthen financial sector stability, promote transparency and accountability in the use of public funds, improving the business environment and expand social protection systems. In all of this, we are also reacting to the challenges faced by several severe external shocks over the past few years.

A. Fiscal Policy

20. The key objective of fiscal policy remains the pursuit of sustainable fiscal consolidation through the intensification of domestic revenue collection and prudent expenditure management to provide the fiscal space for priority spending. Given the large expenditure overruns in 2021 due to domestic and external shocks and unexpected wage awards, Government will implement measures to return the fiscal situation to a sustainable path and stabilise the debt situation. This is expected to free up fiscal space for spending on priority social areas. In this context, and on the basis of the uncertainty on the duration of the shock to the economy caused by the Russia-Ukraine war, Government will adopt a combination of revenue enhancing measures and reprioritize expenditures while seeking grant financing to boost the fiscal space for priority spending, and increasing somewhat the use of the SDR allocation for fiscal purposes.

21. The objective is to gradually reduce the fiscal deficit from the high level of 7.3 percent of GDP recorded in 2021 to an average of 2.5 percent during 2023 and 2024, and move into a primary surplus in 2024, in order to stabilize the debt situation. Government is committed to reducing domestic banking financing to the sustainable level of 2 percent of GDP, consistent with our policy objective under the ECF arrangement. In addition, Government will utilise the Le 857 billion equivalent of SDR resources to scale up cash transfers, support to the COVID-19 health response, critical domestic capital expenditures (water supply), programs to address food insecurity and improve educational outcomes (e.g., school feeding program, hygiene and welfare packages for girls) and to support climate mitigating activities to boost social and economic resilience (Text Table 2). The government commits to transparent accounting and use of SDR resources through regular budget monitoring process (**Structural Benchmark for the 6th review**).

Text Table 2. Programmed SDR Allocation and Use (Le. billions)*

Priority Spending (Revised 2022 Budget, Le. billions)	**FY2022 Budget** A	**FY2022 Rev.budget** B
Transfers to NaCOVERC	174.0	174.0
Arrears clearance	100.0	100.0
Other priority expenditures	178.7	582.9
o/w Health	11.9	36.2
National Emergency Medical Services (NEMS)	2.1	26.4
Support to Ambulances services	4.9	4.9
Construction of Cancer and diagnostic medical center	4.9	4.9
o/w Education	80.0	145.0
Welfare and hygiene for school going girls	9.5	14.5
School feeding program	68.8	128.8
Rehabilitation/expansion of boarding facilities	1.7	1.7
o/w Water	48.8	158.8
Water supply services in six district capitals	45.0	155.0
45 industrial boreholes(urban wash supply)	3.8	3.8
o/w Agriculture	18.6	18.6
o/w Energy (Rehabilitation of Goma-Dodo Hydro dam)	5.0	5.0
o/w Energy (subsidies)	0.0	156.9
o/w Fisheries(Support to Artisanal fisheries, including women)	5.2	5.2
o/w Environment (Support Tree Planting and carbon financing)	9.2	37.2
o/w Sierra Leone Social Safety Net (Cash Transfers)	--	20.0
Total (Le.billions)	**452.7**	**856.9**
in percent of non-iron ore GDP	*0.9*	*1.6*

*Note: In 2022, we have reprioritized the allocation for arrears clearance to honour our outstanding obligations to the World Food Program and Plan International, and to procure essential drugs for the government's flagship Free Health Care drugs initiative.

22. On June 15, we have submitted to parliament a revised 2022 budget (prior action) consistent with the agreed fiscal consolidation path that includes specific measures, including the commitment to freeze further payments of legacy arrears until a new arrears clearance plan is in place (Structural Benchmark).

23. Domestic revenue was broadly on target in 2021. The improved revenue performance was attributed mainly to the recovery in economic activities, stricter enforcement of tax laws including the provisions of the Finance Act 2021, which resulted in increased compliance; opening of international trade thus enhancing customs collection and export revenues especially from timber and minerals. Other reasons include the close monitoring of revenue collection through collaboration with stakeholders and weekly revenue meetings, increased taxpayer sensitisation and education through traditional and social media, as well as the roll-out of the Electronic Cash Register for the administration of GST and the Integrated Tax Administration System (ITAS) for the electronic registration, filing and payment of taxes. Finally, one-royalty payments also provided a boost to revenues.

24. However, domestic revenue collection during the first Quarter of 2022 was weak with a shortfall Le 330 billion relative to the quarterly target agreed during the 3rd/4th review under the ECF. The poor revenue performance was driven by many factors including (i) weak tax compliance, (ii) transition challenges to a lower GST threshold to be administered with the electronic cash register; (iii) delays in the payment of mineral and fisheries license fees, (iv) suspension of the implementation of the full pass-through fuel pricing formula, and (v) supply chain challenges in the export of timber logs.

25. Despite the shortfall recorded in Quarter 1, we are hopeful to meet the original annual revenue target for 2022. To this end, Government will implement a combination of tax policy and tax administration measures as outlined below:

Tax Administration

26. We are pursuing the following actions on the tax administration side:

(i) We expect parliament approval of the NRA Act at the latest in 2022Q3.

(ii) Implement the change management strategy to support reforms. Expand taxpayer engagement on the ongoing tax administration reforms to minimise resistance and increase acceptance. This involves current effort by NRA in engaging on a series of taxpayer workshops and meetings to educate and train them on the ECR and ITAS systems.

(iii) Undertake intensive and extensive trainings on ITAS for many of the new taxpayers.

(iv) Dedicate more resources to field and desk audit and intensify the use of data analytics tools – Computer Assisted Audits of financial and petroleum sectors. This will also include undertaking transfer pricing audits for risky companies. DTD staff resources will be refocused towards audit following automation of many transactions and processes.

(v) Close tracking of filing and payment compliance and enforcement for non-compliant taxpayer and non-tax revenue payers.

(vi) Engaging importers and beneficiaries of the QAERP to pay accumulated arrears and encourage importers stocking their goods in warehousing regime to ex-warehouse.

(vii) Maintain the implementation of the policy on full pass-through for domestic fuel pump prices for all products.

(viii) High level Engagement with the Ministry of Fisheries and development partners on revamping collection from marine resources. While still with the objective in mind to prevent overfishing, the EU will be engaged to relax their restriction on licensing of fishing vessels.

(ix) Implementation and enforcement of the Finance Act 2022 (whistle blower policy, differentiated penalty rates for late and non-filers, recovery of overdue arears, minimum floor price for telecommunication data services etc.).

(x) Reverse the NATCOM Floor Price instruction to telecommunication companies.

(xi) Implement the recommendation of the concluded Non-Tax Revenue enhancement study to improve collection of MDAs revenue.

(xii) Engage MOF, MOPED, NaCSA, and NPPA to provide information on contractors and consultants to track the payment of withholding taxes.

(xiii) Enforce collection of GST from EDSA.

(xiv) Implement compliance improvement measures, including:

a. Implementation of the administrative phase of the Block Management System in the Western Area
b. Roll out of mobile payment app for especially the medium and small taxpayers

27. In the medium term (2023-27), a number of tax administration measures are being considered including:

(i) Embarking on the block registration exercise in the provinces to bring more taxpayers into the tax net though formal registration of businesses (June 2023).

(ii) Building capacity in data analytics and risk analysis (through use of AI technology, data warehouse, training in data analytics and econometrics) (March 2023).

(iii) Implementing a strategy for operationalisation of a High Net Worth Individual Taxation regime (September 2024).

(iv) Introduction of an Excise Tax Stamp and fuel marking scheme to combat smuggling of exercisable goods while raising additional revenues in the process (March 2023).

(v) Development and Implementation of Telecoms auditing tool to aid the collection of GST revenues on telecoms sector (June 2024).

(vi) Implementing a centralised tax exemption monitoring and reporting system to better inform policy and streamlining of tax exemptions, including activating the ITAS exemption module (September 2023).

(vii) Initiate and conclude negotiate with Kingho Iron Ore Mining Company to ensure utilisation of the Port and Rail by Marampa Mines when the latter would have commenced their expansion phase (December 2024).

(viii) Continue strengthening and implementing the compliance risk management framework (September 2024).

(ix) Explore opportunity for carbon financing (December 2023)

Tax Policy

28. We are pursuing the following tax policy measures:

(i) Escalate the Duty Waiver Policy approved by Cabinet in March 2022 to a law.

(ii) Implement recommendations of the World Bank Tax Policy mission.

(iii) To improve domestic revenue collection in the medium-term, Government has commenced the process of formulating a Medium-term Revenue Strategy (MTRS), with support from the IMF and the World Bank, that will continue to build revenue administration gains while pursuing tax policy options. We intend to submit a draft MTRS to Cabinet for approval by December 31, 2022 (**structural benchmark**).

Exploring Climate Finance

29. Government will explore the possibility of leveraging climate finance from Sierra Leone's forests, including carbon credits, REDD+ payments, and grants for forest conversation or reforestation. To this end, Government will strengthen the legislative framework around forest protection, endeavour to meet the stringent transparency and verification prerequisites, and building capacity. While Government has already issued 1 million carbon credits, primarily through the GOLA Rainforest (the first REDD+ project in West Africa), the pace of projects has declined in recent years. There is a lot of potential, including through existing reforestation activities (such as #Freetown the TreeTown and the Ministry of Environment's plan to plant 5 million trees), protected areas like the Western Area Peninsula National Park, and renewable energy projects.

Expenditure Management Measures

30. Government remains committed to improving public expenditure management in order to ensure effective and efficient public spending and strengthen budget credibility. We hope to achieve this by continuing to improve budget planning and execution, cash management, sustain efforts to improve the integrity and sustainability of the payroll, and improve the efficiency of public investment.

31. There are large fiscal risks posed by Electricity Distribution and Supply Authority (EDSA). Projected payments to Karpower under the new contract amount to US$70 million in 2022.

To lower energy subsidies, the government will strengthen EDSA revenues generation through measures including: (i) adjustment of the average tariffs; (ii) connecting two mining companies to the grid and upgrade the Bumbuna 161 Line to increase the uptake from the CLSG line into the national grid, and (iii) working with the World Bank to decrease commercial and technical losses, while maintaining the lifeline tariff band (i.e. those who consume less 25kWh per month) to protect the poor. These measures are expected to open up some fiscal space by reducing EDSA's dependence on budget transfers.

32. **Agriculture input subsidy (Tractor, fertilizers, seeds, combined harvesters etc.), given importance of enhancing rice production.** Government has withdrawn from the direct procurement and distribution of agricultural inputs to ensure transparency and efficiency in the process with a view to boosting domestic rice production. Under the Policy Shift adopted by Government, agro-dealers are encouraged to import agricultural inputs such as fertilizer, seeds for sale to farmers. Government subsidy to farmers is provided through an –electronic voucher system domiciled in one of the commercial banks. Under this system, farmers are allocated vouchers, which they will submit to agro dealers for the supply of agriculture inputs. The agro dealers will encash the vouchers at the commercial bank. The e-voucher system is expected to address issues of over-pricing, poor quality and late delivery of inputs to farmers.

Improving Budget Execution

33. **The Ministry of Finance will endeavour to regularly release quarterly budget allocations on time, align these allocations with cash forecasts and implement the principle of "Not in Budget, No Funding"** to ensure the adherence to approved expenditure ceilings. We will seek technical assistance from the Fund to adopt the strategic top-down budgeting approach to ensure that the total level of expenditure is determined before detailed items in the budget are negotiated so that it properly reflects aggregate fiscal policy priorities, hence improving the credibility of the budget.

34. **The Integrated Financial Management System (IFMIS) has been upgraded from version 6.5e to a web-based GRP version 7 application with effect from January 2022 and rolled out to 61 MDAs.** This upgraded version entails an integrated application system that has seamlessly integrated the Payroll, Budget Planning and core Financial Modules all in one with a unified database engine and can be accessed through the internet. The wider coverage ensures that over 80 percent of Government expenditures are processed through the system. It also ensures that MDAs do not exceed their respective budget allocations as they cannot commit expenditures outside the system. The next step is to roll out the IFMIS to additional MDAs and sub-vented agencies in 2023. These include Office of the Chief Minister, Sierra Leone Small Arms Commission, Anti-Corruption Commission, Public Sector Reform Unit, Law reform Commission, Administrator and Registrar General's Office , Law Officers Department, Law Officers Department, Financial Intelligence Unit, National Electoral Commission, National Commission for Democracy, Statistics Sierra Leone, National Commission for Privatization National Public Procurement Authority, National Commission For Human Rights, Right to Access Information Commission, National Civil Registration Authority, National Drugs and Law Enforcement Agency, National Youth Service, Teaching Service Commission,

National Children's Commission, National Children's Commission, National Sports Authority, Pharmacy Board, National Tourist Board, and the National Protected Area Authority.

Improving Cash Management

35. Government is taking steps to strengthen the functioning of the expanded Cash and Debt Management Committee in order to improve the execution of the budget and prevent the accumulation of payment arrears. The Committee will now meet on a weekly basis to review revenue and expenditure performance, arrears accumulated and paid down, prepare and review quarterly cash flow and determine the borrowing requirement of Government. Efforts will be made to reconcile revenue and expenditure issues amongst all parties (AGD, NRA and BSL before the meeting, using a unified data template, present reliable cash forecast and policy options in the meeting, and adopt the use of the cash forecasting tool.

36. Furthermore, Government will prepare an agreed plan that incorporates recommendations from previous TA reports on Budget Execution and Cash Management to prevent the recurrence of arrears. The Public Debt Management Division (PDMD) has published, on MOF's website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments (**Prior Action**). These reports shall provide updates on budget execution and arrears paydown or accumulation. In addition, the quarterly report shall also include an additional statement monitoring the actual performance against quarterly budget allotments. Going forward, we will prepare a quarterly budget out-turn reports that includes i) progress in reduction of unpaid checks, ii) implementation of the ECDMC recommendations, iii) the disbursement and use of SDR-backed resources for fiscal purposes, iv) actual fiscal performance against budget allotments (**structural benchmark**).

37. Government is closely monitoring the operational and financial performance of state-owned enterprises including the state-owned banks in order to enhance financial sustainability, with a view to reducing any potential recourse to the Government budget for support or bail-out. To this end, the Ministry of Finance undertook for the first time a comprehensive review of the aggregate financial position and performance of SOEs in 2020. A similar exercise is being undertaken for the 2021 financial year covering 14 SOEs including the two state-owned banks. In addition, Government has compiled and published all the borrowings and guarantees of 14 state-owned enterprises as part of efforts to identify the contingent liabilities of these enterprises, which are potential fiscal risks. As of end-2021, state-owned enterprises' outstanding loans amounted to 3.4 percent of non-iron ore GDP. Government is also in the process of developing an SOE ownership policy and governance policy (**structural benchmark for September, 2022**).

Improving the Sustainability of the Payroll

38. Several payroll reforms initiated in 2018 have been institutionalized. The implementation of these reforms will therefore be sustained. A Payroll Quality Assurance Team was established to ensure the sustainability of these reforms. These reforms, which have contributed towards improving on the reliability and transparency of the payroll include a) timely retirement of employees that have attained the retirement age, b) adding employees on the payroll only if they have a valid NASSIT Number, National Identification Number (NIN), a unique BBAN and a Date of Birth (DOB) that matches the DOB embedded in the employee's NASSIT Number, c) implementation of the teacher recruitment and retirement policy and d) routinely producing payroll monitoring and payroll audit reports.

39. In order to continue the efforts towards improving on the transparency and sustainability of the wage bill, in line with commitments made in the FY2022 Budget, the following payroll reforms have been implemented during 2022:

(i) Teacher reassessment and promotion to ensure teacher quality. Following a comprehensive reassessment and promotion of 4,158 teachers during 2021, effective April 2022, additional 1,083 teachers have been promoted and reassessed, with a payroll cost of Le 550 million per month and about Le5 billion for FY2022.This reform continues to ensure that teachers are now being paid according to their qualifications and are now in their right scale/grade. This policy action was also taken in line with Government's

(ii) Minimizing manual voucher payments – Government continues to implement reforms that will ensure manual payroll payments are minimized with a view to ultimately automate the entire payroll. To this end, following a pilot with the Military and Police during 2021, effective January 2022, retirees from all categories of the payroll will be paid their gratuity with their last salary directly from the central payroll. In the past, retirees were paid their gratuities manually after the employee's assignment has been ended on the payroll. This policy action has also contributed towards improving on the efficiency of the procedures relating to gratuity payments

(iii) Payroll Policy - With support from the Foreign and Commonwealth Development Office (FCDO), a draft Payroll Policy has been prepared. The Payroll Policy captures statutory provisions and policy instructions impacting the Government Payroll, including the different end of service benefits related laws and computations. The next steps are to conduct consultations with all the relevant stakeholders, following which the document will be finalized. The document will serve as a guide for the management of the Government payroll on daily basis.

40. For rest of FY2022 and the medium-term, the following payroll reforms are planned:

(i) The Health Service Commision will take over a delegated responsibility for the recruitment, including the issuance of PIN Codes, promotion, transfer and managing the personnel files of professional health care personnel. This reform will address the current delays in the recruitment of health workers especially nurses.

(ii) Conduct of a biometric verification of teachers. The objective is to continue to maintain a clean and reliable teacher payroll

(iii) Complete a follow-up verification of Government Pensioners following the initial verification exercise that was conducted during 2021. The objective is to have a clean and reliable pension roll.

(iv) Develop a medium-term payroll strategy to guide payroll reforms in the medium-term. The Ministry of Finance is currently seeking Technical Assistance to prepare the strategy. The establishment of the proposed Wages and Salaries Compensation Commission is expected to support implementation of this strategy. A training on wage bill management is currently ongoing with support by the IMF's Fiscal Affairs department.

Improving the Efficiency of Public Investment Management

41. The Government strives to improve on the efficiency of public investment and quality of public spending and has adopted a National Public Investment Management Policy and an accompanying Investment Guidelines. Going forward, the Technical Investment Committee shall review all new projects and the Ministerial Steering Committee will henceforth consider only projects and programmes that have been vetted for inclusion in the Public Investment Programme (PIP). As part of reforms in the Public Investment Programme, Government will rationalise and streamline existing projects on the basis of their socio-economic benefits. Furthermore, Government will develop public investment regulations to ensure adherence to the PIM cycle and public procurement of investment projects as part of the implementation of the recommendations of Public Investment Management Assessments (PIMA). We will also take measures to avoid late budget releases.

Improving Public Procurement

42. As part of efforts to prevent the accumulation of arrears, Government is strengthening the legal and regulatory framework for public procurement. The Finance Act of 2022 gave the power to the Ministry of Finance to give pre-approval to all MDAs before they go into high value procurement related activities i.e. the Ministry reviews requests for procurement of goods, services and works in relation the budgetary provisions to ensure that the allocations are not exceeded.

43. Furthermore, the Ministry is rolling out an electronic contract profiling system (ECOPS) that will track all outstanding payments for contracts and also capture upcoming procurement expenditure from planning stage unto the payment stage. The process of introducing Electronic Procurement Systems by the National Public Procurement Authority (NPPA) is at an advanced stage. This is expected to improve the efficiency and transparency of public procurement transactions.

Public Debt Management

44. The new global shock from the Russian-Ukraine war has increased public debt vulnerability. Despite this challenging global environment, Government will continue to take additional steps to mitigate the growing public debt landscape by ensuring that future new borrowing and pipeline loan would not worsen the debt distress rating. Total public debt is estimated at US$3.12 billion or 76.8 percent of GDP as at end-December 2021, of which, external debt is estimated at US$2.00 billion and domestic US$1.12 billion as at end-December 2021**.**

45. The overall objective of debt policy is to maintain debt sustainability despite the new Russian-Ukraine war and lingering challenging from the COVID-19 pandemic. Government will continue to implement additional fiscal and external sector adjustments through revenue mobilization, exports diversification to build reserves, and rely on highly concessional external financing (largely grants) from Development Partners, to limit recourse to expensive domestic debt. Government anticipates that public debt-to-GDP ratio will return to below the NDP target of 70 percent in the medium-term.

46. A new Medium-Term Debt Strategy (MTDS) 2021-2025 has been developed in 2021, approved by Cabinet in April 2022 and published on the website of the Ministry of Finance. Cabinet adopted a strategy which assumes concessional external financing and market development aimed at reducing domestic borrowing and lengthening maturities of domestic instruments. The rationale of the strategy is to increase the Average Time to Maturity (ATM) of domestic debt and reduce interest rate costs. The MTDS 2021-2025 will be updated to reflect the borrowing requirements implied under the current fiscal framework.

47. On the external front, Government would continue to prioritise concessional loans and especially grants to finance infrastructure projects in order to lower the risk of unsustainable debt levels under the current difficult global environment. Innovative financing approaches including Public Private Partnership arrangements to implement specific self-liquidating projects would be explored. Government would uphold the yearly conduct of Debt Sustainability Analysis (DSA) by the National DSA team to provide signal on the level of risks of external and public debt sustainability. The result of the last National DSA conducted in December 2021 shows that Sierra Leone is at high risk of debt distress mainly as a result of sustained breach in debt service to revenue and debt service to export ratios.

48. However, the overall debt is assessed to be sustainable predicated on the strong fiscal adjustment and continued reliance on concessional financing and grants, and moderately high growth rates. Sierra Leone's debt carrying capacity has improved from low to medium (CI is 2.75) with recent improvement in the Composite index under the Low Income Countries (LICs) Debt Sustainability Framework.

49. On the domestic front, Government is cognisant of the high rollover risks in the domestic debt portfolio and would issue medium-to-long-term bonds to reduce these risks and support the development of the domestic debt market. Government would develop the domestic debt market to provide the platform to raise medium to long-term resources to implement infrastructure project under the National Development Plan rather than utilising short-term instruments, as in the past, which triggers liquidity and refinancing risks.

50. Implementation of the arrears clearance strategy and principles 2020-2025 commenced in 2020 but application of the full discount outlined in the strategy was rejected by vendors mainly because Government does not have the liquidity to make upfront payment of the discounted amount and contractors/suppliers rejected five-year payment plan of the discounted amount. To avoid litigation, Government pursued section 4.1.1 of the Arrears Clearance Strategy 2020-2025 to make gradual payments under payment plans for contractors who supported: i) economic growth, ii) response to CoVID-19, iii) health-related interventions, iv) agriculture and v) roads. Payments were also made to contractors whose exposure to banks posed challenge to the financial sector in line with 3.1.6 of the strategy.

51. Going forward, Government would update its Arrears Clearance Strategy and commit to transparency in debt management. The new Arrears Clearance Strategy would be consistent with fiscal sustainability and financial stability, to address the challenges of implementing the current strategy. Specifically, the new Arrears Clearance Strategy would include a list of creditors, criteria to prioritize the list of creditors, and amounts to be paid over the next three years (**structural benchmark, October 31, 2022**). On debt transparency, the publication of the liabilities of the biggest State-Owned Enterprises (SoEs), in terms of balance sheet, has been expanded from 5 to 10 to help track contingent liability exposures across SOEs. The publication of SoEs loans and guarantees is a continuous practice to monitor the exposures of all SoEs in line with the provisions of the Public Debt Management Act 2011.

B. Monetary and Exchange Rate Policies

52. The Bank of Sierra Leone (BSL) remains committed to its mandate of price and financial stability, while supporting the Government's economic recovery programme. The BSL continues to implement monetary policy based on monetary targeting framework using indirect policy instruments to achieve its target goal of price and financial stability. The BSL also maintains flexible exchange rate regime, with exchange rate of the Leone against international currencies freely determined by market forces. The BSL intervention in the foreign exchange market is limited to smoothening excessive volatility in the exchange rate.

53. During 2021, monetary policy implementation was challenged by the continued rise in the prices of goods and services triggered by global supply chain disruptions, high freight charges and the uncertainties surrounding COVID-19 pandemic. The situation is exacerbated by supply disruptions caused by the Russia-Ukraine war. The sharp increase in the prices of food and fuel is posing serious challenges to monetary policy implementation in 2022. The 50 percent increase in the retail price of fuel initiated in March will put further pressure on prices in the coming months, as will the accelerating depreciation of the exchange rate (16 percent y-o-y in March) with inflation forecast to average close to 22 percent over 2022.

54. To dampen the inflationary pressures, the BSL raised the Monetary Policy Rate by 75 basis points in April 2022. The BSL will continue to monitor price developments and respond appropriately taking into consideration the need to balance efforts to contain inflation with the need to support economic recovery.

55. The BSL has also introduced two new one-off facilities in April 2022 to provide foreign exchange for the importation of fuel and food, which should help to alleviate supply shortages occasioned by the Russia-Ukraine war. These include the Special Facility for Food in the sum of US$50 million to support the importation of rice, flour and sugar and another Special Facility to the tune of US$36 million to support the importation of fuel announced in the BSL's Monetary Policy Committee statement in April 2022. These two Facilities together with the Agriculture Credit Facility (all temporary and not subject to renewal, except with the consent of the Fund) will enhance the supply of essential commodities and thus help to moderate prices increases and exchange rate pressures going forward.

56. Over the medium term, the BSL will work towards strengthening its monetary policy framework to improve transmission. The BSL maintains an asymmetric corridor around the monetary policy rate with the standing facilities, and the interbank rate has largely been maintained within this corridor. Going forward, the BSL will limit the use of secondary market purchases to support government issuance and consider introducing its own instrument for liquidity management purposes. Monetary policy communication will also be improved to better anchor expectations, by, for example, publishing and clearly explaining the BSL's goal to bring inflation to single digits in medium term. We are also making efforts to improve inflation and liquidity forecasting, with technical assistance from the IMF, and are working on enhancing the composite index of economic activity (CIEA).

57. Exchange rate depreciation began to pick up in the second half of 2021 and has accelerated in 2022, while the parallel market spread appears to be widening. Of particular concern is that commercial banks are not currently able to fully supply the FX needs of importers—reflecting, the limited supply of FX relative to demand as well as market imperfections which impede the FX market from clearing. To help alleviate some of these pressures in the short term, the BSL introduced two facilities to support the importation of basic food items (rice, sugar and flour) and fuel imports as described in the preceding paragraphs.

58. In line with the 2019 BSL Act, all transactions of goods and services should be done in Leones. However, given the high level of demand for FX, the BSL may allow selected companies and international organizations with FX to pay locally for certain imported goods, particularly fuel and electricity, in dollars. They are expected to increase the supply of foreign exchange in the economy given that the demand for fuel from mining companies alone accounts for close to 50 percent of all fuel demand. To meet the FX needs of the wider public and increase financial inclusion, the BSL is also considering to provide a limited amount of FX through the SALPOST.

59. Going forward, Sierra Leone's external position remains weaker than the level implied by fundamentals and desirable policies and reducing overvaluation of the real effective exchange rate is critical to maintain external sustainability. In this regard, market intervention should be limited to reducing excessive volatility. Government will also pursue reforms to improve the competitiveness of the export sector to complement FDI and external official loans in financing the current account deficit. The BSL will retain an adequate reserve buffer to avoid the risk of an even sharper depreciation.

60. We intend to move to a daily calculation and publication of an exchange rate that is based on a one-day lag (structural benchmark, April 30, 2023). This would be an improvement on the current BSL Rate, which is calculated and published weekly. To that end, we are engaging AFRITAC West II on technical assistance, and are working with Reuters (Refinitiv) to automate the reporting by banks.

61. We request a temporary approval from the IMF Executive Board for the exchange restriction and the multiple currency practice under Article VIII. The proposed actions taken under the ECF-supported program will support the removal of the exchange restriction. The prioritization through the facilities discussed above, giving rise to the exchange restriction, is imposed for BOP reasons, necessary and temporary, and the measure related to the multiple currency practice relating to the facilities is imposed for BOP reasons, temporary, does not give the member an unfair competitive advantage over other members or is non-discriminatory. In conjunction with requesting these approvals, we also request waivers of non-observance of the continuous performance criterion on the non-introduction of MCPs and exchange restrictions. We are taking further corrective actions to change the current BSL calculation methodology mentioned above, and commit to capping the total amount of new facilities. We anticipate that the new facilities as well as the ACF will have been wound down before the end of the program.

62. We do not intend to introduce new measures or policies that would compound our balance of payments difficulties. We commit to not imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, introducing or modifying multiple currency practices, concluding bilateral payments agreements which are inconsistent with Article VIII; we will implement public policies under that framework.

63. We continue to strengthen governance at the BSL. The FY 2019 and 2020 audits of the BSL's financial statements were finalized in March 2022 and published on the BSL's website. A reputable external auditor with central banking experience has been appointed for the FY 2021 audit, which is already underway and expected to be finalized by August (**structural benchmark 5th review**). Going forward, we will ensure external audits are completed within the statutory deadline (i.e., end-March). We have developed an action plan to address the recommendations from the external quality assessment conducted of our internal audit function in 2021. In line with the plan, we will appoint a chief internal auditor (**structural benchmark December 31, 2022**) and continue to strengthen the internal audit function's capacity.

C. Financial Sector Policy

64. The Bank of Sierra Leone will continue to provide regulatory and supervisory oversight on the banking system using the Risk Based approach with eventual focus on adopting the Basel 2 and Basel 3 framework over time. The enhanced supervision of the state-owned banks remains in force in order to strengthen their capacity to handle any presenting shocks as and when they come on the basis of adequate and resilient capital. The banks are also subject to regular examinations as well as constant monitoring by the resident supervisors to ensure that the directives issued to the banks are implemented. This will enhance confidence in these banks to perform their intermediation function with prudence and within a risk management culture.

65. The Bank of Sierra Leone is working assiduously to keep the banking sector stable by advancing the regulatory and supervisory framework for the banking system. In this context, the bank started the process to review key banking sector guidelines to include the Prudential Guidelines and the corporate governance guidelines. We aim to finalize the revision of the Prudential Guidelines, in line with the 2019 Banking Act, by September 2022 **(structural benchmark)**. The Bank is also working on introducing Cyber Security guidelines for Financial Institutions.

66. The two state-owned banks continued to be viable with fully constituted Boards, responsible for corporate governance and overall policy formulation. Board members were drawn from various disciplines relating to the banking spectrum. Efforts are underway to assess the performance and effectiveness of the boards and in addition identify ways to improve board efficiency and overall corporate governance. Onsite examinations have been recently concluded and the next round of examinations is slated for late 2022 to early 2023. With technical assistance from the World Bank, Government is developing an updated corporate governance framework for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit. By end-September 2022, we aim to have an action plan ready to address the identified gaps in the corporate governance framework of these banks **(structural benchmark).**

67. The BSL carried out examinations including a thematic review of governance and NPLs. It was observed that high NPLs of the two state-owned banks remains a challenge as they are above the 10% threshold. The high NPLs was driven primarily by the COVID-19 pandemic, which affected most sectors of the economy. The BSL has put forward recommendations with timelines to reduce the NPLs to below the 10% threshold as well as to improve corporate governance. The other recommendations focus on putting in place formidable strategies to boost recoveries, develop sound credit underwriting standards and frameworks for enhancing the quality of risk management. BSL will prepare a document to be shared with the Fund which sets out the BSL's system-wide strategy for bringing down NPLs to the 10 percent prudential limit **(Structural Benchmark, December 15, 2022).**

68. The Bank of Sierra Leone with the technical assistance from the US Treasury Department, is working on setting up a deposit protection fund. A Deposit Protection Bill has been laid in Parliament for legislation and the Bank will set up the fund once the bill is passed. This is in line with the Banks policy of setting up an effective crisis management and resolution framework.

69. The World Bank's Financial Sector Assessment Program (FSAP) team completed its assessment mission in March 2022. The team had presented the draft Aide Memoir to the Bank for comments. The Bank will utilize the findings and recommendations to strengthen financial sector policies, set out action plans for financial sector reforms and build capacity to monitor and safeguard financial stability.

70. We are making progress on AML/CFT and are targeting to further strengthen implementation. The 2020 mutual evaluation by the Inter-Governmental Action Group against Money Laundering (GIABA) identified some challenges. While the legal basis is sound, the regulation of a proliferation of finance and non-profit organizations requires further work. We are planning to take actions to strengthen the effectiveness of the AML/CFT regime, including making beneficial ownership of legal entities available; enhancing risk-based supervision and monitoring of non-bank financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs); and strengthening enforcement against money laundering and financial crimes. If necessary, we will engage in the process of making legal changes, such as amendments to the Companies Act, comprehensive allocation of supervisory powers over all relevant DNFBPs and extending of the sanctioning powers to the Financial Intelligence Unit. We will also work towards the National Risk Assessment and the national AML/CFT strategy reflecting the practical analysis, monitoring, supervisory, and enforcement actions necessary in practice to achieve concrete outcomes.

D. Inclusive Growth and Social Protection

71. Sierra Leone continues to implement policies, programmes, and projects to drive inclusive growth, reduce inequality, and alleviate multidimensional poverty with the support of development partners. The Government's ongoing public financial management stance and reforms continue to focus on ensuring a stable macroeconomy and creating the fiscal space needed to drive investments in human capital development, economic diversification, adapting to the impact of climate changes and expanding social protection systems.

72. The ongoing crises, COVID-19 and the Ukraine-Russia war continue to affect economic fundamentals, public service delivery and the socio-economic life of citizens, especially through high food and fuel prices. Sierra Leone is yet to recover completely from the economic contraction brought on by the COVID-19 pandemic. The Government proactively implemented the Quick Action Economic Response Programme (QAERP) alongside the COVID-19 Health Response to maintain macroeconomic stability and mitigate the impact of COVID-19 on businesses and households. However, the Ukraine-Russian crisis has worsened the pass-through effect of global fuel prices and supply chain disruptions on domestic prices. These two crises have exacerbated existing socio-economic challenges and increased uncertainties like in other countries.

73. Sierra Leone continues to sustain efforts to return to a growth path within the context of the Medium-Term National Development Plan for an inclusive, resilient but green recovery.

Given current domestic and global economic conditions, in order to enhance inclusive growth and social protection, the Government will:

- Continue to pay tuition fees for all children in Government-owned and Government-assisted schools;
- Expand school feeding for Government-owned and Government-assisted pre-primary and primary schools in impoverished communities;
- Continue to improve the efficiency of the school bus services and provide assistive devices for special needs children;
- Develop a new national basic and senior secondary education policy focusing on radical inclusion;
- Expand the provision of accelerated learning to out of school girls and scale-up efforts for their reintegration into school as well as teenage mothers;
- Provide sanitary hygiene kits for school going girls;
- Continue to construct classrooms, schools and boarding schools;
- Continue the Cost Recovery Initiative for the provision of drugs and encourage private sector participation through public-private partnerships;
- Continue efforts to establish the Sierra Leone Social Health Insurance Scheme (SLeSHI);
- Expand the National Emergency Services (NEMS) to all districts;
- Expand the unconditional cash transfer scheme for the extremely poor and vulnerable households, including Persons Living with Disabilities (PWDs);
- Develop a Social Protection Register and rollout the economic inclusion project;
- Enact the Social Protection Bill;
- Implement the National Street Children Project, which will re-integrate street children with their families;
- Continue to implement the Gender Equality and Women's Empowerment Policy and the Women's Economic Empowerment Fund for female entrepreneurs;
- Invest in the productivity of youths through entrepreneurship and job creation; and
- Sustain capital expenditures to address macro-critical infrastructure bottlenecks and improve business competitiveness

E. Business Environment and Economic Diversification

74. Government recognizes that improving the business environment is critical to attracting new investments and expansion of existing businesses to promote economic growth and create jobs. To this end, Government has been implementing several regulatory reforms to improve the ease of doing business in the country. These include efforts to improve business registration, tackling obstacles to trading across borders and streamlining the processes for registering properties. Even though the country's overall score of 47.5 percent in 2020 was below the sub-Saharan average of 51.8 percent in 2020, the score for starting a business and trading across borders improved in 2020. In particular, the score for starting a business of 91.3 and overall global ranking at 58 was above the Sub-Saharan average of 80.1 for this indicator.

75. With support from the World Bank funded Economic Diversification Project, Government continues to implement reforms to improve business registration. A One-Stop-Shop for business registration has been established and the efforts to automate the process by electronically linking all the relevant stakeholders including the Corporate Affairs Commission, National Revenue Authority, National Social Security and Insurance Trust and the Office of the Administrator-and Registrar General is underway. The review of the Companies Act, the Companies Amendment Act and the accompanying Regulations is in progress. Nationwide consultations on the revised Companies Act will start in June 2022.

76. The project has also been supporting reforms to improve access to finance for businesses in the country. The Collateral Registry at the Bank of Sierra Leone has been upgraded to include the use of moveable assets, individual search and e-payment services. The upgraded online collateral registry was launched in December 2021. Efforts are also underway to upgrade the Credit Reference Bureau. The Regulations for the revised Borrowers and Lenders Act has also been developed. Discussions are also ongoing with the Ministry of Lands and Country Planning and the Office of the Administrator and Registrar-General to determine how the processes for property registration and construction permits can be streamlined and automated. A National Switch, which will facilitate interoperability among commercial banks is being installed with support of the World Bank funded Financial Inclusion Project

77. In pursuit of Government's economic diversification strategy, Government has adopted a major policy shift in the agriculture sector. The new policy focuses on encouraging the private sector to take the lead in procurement and distribution of agricultural inputs such as fertiliser and improved seeds to farmers in order to boost agriculture productivity. To operationalize the policy shift, Government establishment an Electronic Voucher (E-Voucher) system domiciled at the Rokel Commercial Bank through which agricultural inputs are provided to farmers in an efficient and transparent way. Government also established Machine Rings at the district level, which are managed by the private sector to prepare large tracts of land for cultivation. The Bank of Sierra Leone also established an Agricultural Credit Facility to provide credit to agro-dealers for the importation and distribution of agricultural inputs.

78. In the fisheries sector, Government is sustaining efforts to combat illegal, unregulated and illegal fishing practices through routine surveillance patrols and remote monitoring of fishing vessels. Government also continues to observe the "Closed Season" which is a resting period to ensure conservation and preservation of fish stock.

79. In the tourism sector, Government with support from the World Bank will embark on the upgrading of tourist destination sites in Freetown, starting with the Leceister Peak, Tacugama Sanctuary and Bureh Beach in 2022.

F. Improving Governance

80. Combating corruption remains a top priority of Government as part of efforts to improve the governance of the State with a view to reducing opportunities for corrupt practices, increase efficiency in the use of scarce public resource, increase equity and fairness in the dispensation of justice and reduce red tape in the delivery of public services. Sierra Leone continues to make significant progress in the fight against corruption as demonstrated by recent commitment to strengthen the laws and the legal framework governing graft. To enhance integrity in the public sector, Government enacted the Anti-Corruption Act 2019 (an amendment of the Anti-Corruption Act 2008) to provide a more robust legal framework in the fight against corruption. The Anti-Corruption Amendment Act of 2019, increases the minimum punishment for major corruption offences, introduced a robust asset declaration regime for all public servants- which has since move to web-based from paper-based, with an over 90 percent response from public servants. The Amendment to the law also made provisions for the creation of special division of the high courts with its own registrar and five dedicated judges to expedite corruption cases. The Anti-Corruption Commission (ACC) also adopted a new Anti-Corruption Strategy in accordance with the Anti-Corruption Act 2019 and the United Nations Convention Against Corruption 2005, which defines the focus of the fight against corruption. The new strategy shifts the focus on fighting corruption to enforcement whilst corruption prevention remains an important component. As a result, the ACC has recovered over Le35 billion from corrupt officials and institutions in the past three years.

81. The efforts of the ACC in the fight against corruption have been recognised by international organizations and compilers of international corruption indices such as the Control of Corruption by the US based Millennium Challenge Corporation and the Corruption Perception Index (CPI) by Transparency International. Since 2019, Sierra Leone continue to make steady but noticeable progress in the fight against corruption; moved to 81 percent in 2020, from 49 percent in 2019 in the MCC control on corruption ranking, which secured the country a compact with MCC. In the CPI score, we moved by 12 places, from 129 in 2018 to 117 in 2020

82. Going forward, the Government with support from development partners will continue to support programmes and policies that will strengthen and deepened the institutional independence of the ACC by further strengthen the laws and legal framework that underpinned the operations of the commission and align these laws and regulations with international best practices including international conventions and protocols.

83. While many good governance efforts have continued, additional reforms to strengthen the operational functionality and independence of the Audit Service Sierra Leone (ASSL) are necessary to reinforce safeguards over the use of public resources. To strengthen the audit process, Government will amend the Audit Service Act 2014 and implementing regulations with a view to strengthen the implementation of ASSL recommendations and compliance during the audit process. The amendments will include a detailed provision which will oblige auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act) (**structural benchmark**). The amendments will also include a provision to extend the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014) (structural benchmark). Government is also developing Standard Operating Procedures (SOPs) that place responsibilities and sanctions on auditees in the implementation of audit recommendations in relation to public sector entities that are issued by either the Auditor-General or its Internal Audit Directorate. The approval of the SOPs will pave way for incorporation in the amendments of the Public Financial Management Act, 2016 and Audit Service Act, 2014.

84. We remain committed to good governance and transparency in our crisis response. Earlier in the COVID-19 crisis, the Government had published the unaudited financial statements of the NaCOVERC as well as key details of large procurement contracts related to crisis mitigation. Even though, NaCOVERC's activity is expected to wind down, the publication of the quarterly report and details of procurement details in the NPPA remains critical. In line with our commitments under the Rapid Credit Facility Letter of Intent, Government has published the second audit of the COVID-19 response (covering July to December 2020) (**Prior Action**).

85. We are also committed to strengthening the ASSL's independence. We are committed to a time-bound and transparent tribunal for the suspended auditor general and her deputy. To ensure an efficient and transparent functioning of future tribunals more generally, we will adopt practice directions for tribunal proceedings (**Structural Benchmark**). ASSL commits to pay all salaries and allowances (including any overdue, unpaid claims) that are legally due to the persons holding the positions listed in the "Management Profile" section of ASSL's website (as of May 31, 2022) in accordance with the Sierra Leone Constitution, the Audit Service Act 2014, and the ASSL Conditions of Service 2014, as amended in 2018. We are working on strengthening preparation, follow-up, and implementation of audit recommendations, and have developed a set of standard operating procedures to guide an effective follow-up on audit recommendations. By mid-October 2022, will amend the 2014 ASSL Act to strengthen ASSL's powers to follow-up and enforce audit recommendations (**Structural Benchmark**) and develop a roadmap to enhance ASSL's budgetary autonomy (**Structural Benchmark**). We also commit to jointly (through the ASSL, AGO and MOF) publish a roadmap by November 30, 2022, in consultation with IMF staff, which enacts the currently dormant statutory provisions on surcharges with an implementing regulation (Section 12 Audit Service Act 2014), to strengthen compliance to audit recommendations by the ASSL. The roadmap will include proposals on the safeguards related to such surcharges, the appropriate body/instrument through which such regulation should be issued, and the timing for the key steps.

G. Strengthening Statistics

86. The compilation and dissemination of credible and timely data is critical to informed policy design, analysis and implementation. In the current absence of quarterly GDP estimates, our work with IMF technical assistance brought increased attention to high frequency indicators of economic activity. It will improve the ability to monitor the reform process and refine monetary and fiscal policies in response to shocks or changed circumstances. With support from the IMF and other development partners, efforts continue to improve statistics in core areas. With support from the IMF Headquarters and AFRITAC West 2, Stats SL has now fully rebased the CPI to a more recent period, December 2021; updated the CPI basket and revised the weights based on the 2018 Sierra Leone Integrated Household Survey. The AFRITAC West 2 continued to provide technical support to Stats-SL in improving the compilation of economic statistics including the rebasing of the estimates, improving the data collection instruments, production of Quarterly National Accounts and development of Supply and Use tables. The IMF is also providing technical assistance to the Ministry of Finance to improve debt recording and to the Bank of Sierra Leone to improve balance of payments statistics and financial soundness indicators.

87. Statistics Sierra Leone has carried out the Mid-term Population and Housing Census and is in the processing of analyzing the data. Stats-SL, in collaboration with partners, is planning to carry out the Labour force survey in 2022; a costed proposal has already been developed.

88. Stats-SL is also teaming up with partners such FAO, WFP and the Ministry of Agriculture and Food Security to conduct an agriculture census in 2022, which has not been conducted for over 40 years. Going forward, with support from the World Bank under the Harmonizing and Improving Statistics Project in West Africa (HISWA), Stats-SL will continue to improve the quality of economic statistics using harmonized methodologies through:

(i) Designing and implementation of coherent system of enterprise statistics using electronic platforms and conducting of related data collection;

(ii) Design and implementation of comprehensive collection of agricultural statistics; and

(iii) Modernization of National Accounts using enterprise and agriculture statistics and additional data to be collected;

(iv) Adopt the use of international standards on administrative data processing. The project will also support the improvement of the statistical Infrastructure of Stats-SL and enhance data accessibility through the creation of national data bases and development of or update web-based apps and platforms.

(v) Furthermore, Stats-SL will continue to partner with organizations across the country to bring timely, accurate, and useful information about Sierra Leone,

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

(vii) 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.

(viii) 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.

(ix) 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.

H. Building Climate Resilience

(i) Sierra Leone is highly vulnerable to the adverse impacts of climate change, with a growing number of people at risk to extreme events, and significant impacts on the economy. Like other vulnerable countries, Sierra Leone has gradually experienced high temperatures, inconsistent weather patterns, recurrent storms, floods, mudslides, rising sea levels, coastal erosion, poor water quality and scarcity, changes in ecosystems, and biodiversity loss, among others. Sierra Leone ranks 47th among 181 nations recording high scores for vulnerability, susceptibility and lack of coping capacities on the World Risk Index 2021. In August 2017, mudslides and flooding in Freetown and its outskirts affected thousands of people resulting in multiple deaths. The floods caused widespread destruction of at least 1,245 properties with over 300 houses being destroyed. Over 11,000 people were displaced and their livelihoods were completely destroyed.

(ii) The Government is deeply concerned with the impacts of environmental degradation and climate change on its citizens and is therefore committed to ensuring effective protection of the environment and the sustainable utilization of its natural resources through efficient climate-resilient and low-emission development pathways for a sustainable future. To achieve this, Government embarked on the following;

(iii) Adopted its National Climate Change Policy (NCCP) and National Climate Change Strategy and Action Plan (NCCS&AP). Sierra Leone's policy response to climate change is driven by the need to urgently address the adverse impacts of climate change on the country's economy and society as well as its physical environment. This entails efforts to reduce vulnerabilities and strengthen adaptation to climate change in all sectors and at all levels, as well as to develop and implement mitigation initiatives for a low-carbon and high growth development path.

(iv) Established a Ministry of the Environment for the first time as a separate entity in November, 2019 to consolidate Climate Change and overall Environmental Governance in the country. The Ministry of Environment is mandated to formulate and facilitate the implementation of appropriate policies and programmes for sustainable management of the Environment

(v) Reviewed 6 (six) key environmental legislations to strengthen environmental coordination and governance and improve on enforcement and compliance. These include Wildlife Act of 1972; Environment Protection Agency Act of 2008 as amended in 2010; Environment Protection Agency Act of 2008 as amended in 2010; National Protected Area Authority and Conservation Trust Fund Act of 2012; Sierra Leone Meteorological Agency of 2017; Nuclear Safety and Radiation and Protection Authority of 2012; and the Forestry Act of 1988

(vi) Established the Environmental Court to prosecute environmental offenders throughout the country.

(vii) Established an inter-Ministerial Committee on Water Catchment, Mangroves and Forest Reserves in the Western Area to facilitate quick response to the challenges faced by the Environment and Water Resources Sectors and to develop a long-term strategy for conservation of water and land resources in Sierra Leone for increased environmental protection and sustained water availability;

(viii) Government has also taken concrete actions to mitigate the impact of climate Change and reduce environmental risks. Some of these include:

(ix) Government through the Sierra Leone Meteorological Agency conducted a Vulnerability Impact Assessment within 10 disaster prone communities to ascertain the level of impact erected at each of the vulnerable communities capturing the typical climate impact that the selected assessed areas are prone to. The diverse sign posts (as per particular climate risk) will help people in the various communities to put in place safeguard measures to either mitigate and/or adapt to the identified climate risk.

(x) Government has also embarked on a massive reforestation programme to address the crucial challenge of deforestation, targeting the planting of five million trees in four years. The main objective of the project is to plant and maintained five (5) million trees on approximately 13,500 hectares of degraded lands and coastal areas all over Sierra Leone from 2020 to 2023 to minimize the impacts of climate change and in fulfilment of the commitments in the country's Medium-Term National Development. In 2020, the Ministry through Service Providers (NGOs and CBOs) and Communities planted approximately, 1.2 million assorted tree crop seedlings in degraded community lands in all the sixteen (16) districts of the country. The Ministry aims to plant another 1.6 million in 2022 and the remaining 2.2 million in 2023.

(xi) Sierra Leone's updated Nationally Determined Contribution (NDC, 2021) underscores that climate change mitigation is particularly crucial for the country in terms of adaptation, being ranked one of the least able countries to adapt to climate change in the world. The NDC proposes sector-based measures for both adaptation and mitigation (as project and policy actions) to deal with current and emerging vulnerabilities, as well as contribute to the reduction of Greenhouse Gas (GHG) emissions.

(xii) The NDC envisions to achieve long-term goals for mitigation: a reduction in CO2 emission levels by 10% by 2030 from about 74,655 Gg of CO2 in 2020 with a transformational shift toward a low-emission development pathway, by targeting priority sectors, implementing REDD+ (Reducing Emissions from Deforestation and Forest Degradation) as well as promoting innovation and technology transfer for sustainable breakthroughs in energy, waste management, transport, agriculture, etc. Technology transfer through private sector partnerships will create new markets, provide jobs, and support economic growth, while reducing GHG emissions. Given the low electricity access rate of about 25%, investment in green energy generation infrastructure remains a top priority.

(xiii) To facilitate green economic recovery, the Government committed in Budget 2022 to invest in low-cost renewable energy such as hydro-power, Liquefied Petroleum Gas and solar mini-grids to reduce carbon emissions while stimulating economic activities.

PROGRAMME MONITORING

89. **The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks (Table 3, Table 4).** Quantitative targets for end-June 2022 and end-December 2022 are performance criteria. Those for end-March 2022 and end-September 2022, and end-March 2023 are indicative targets. The sixth review of the program will take place on or after December 1, 2022; the seventh and final review on or after June 1, 2023.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021								2022										2023
	Sep. IT				Dec. PC				Mar. IT (Preliminary) 1/				Jun. PC		Sep. IT		Dec. PC		Mar. IT
	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog	Est.	Status	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	Proposed
Performance criteria																			
Net domestic bank credit to the central government (ceiling) 2/	1858	602	1920	Not met	1775	482	2255	Not Met	259	656	837	Not met	757	1762	681	2498	1366	1362	651
Unadjusted target (ceiling)		1858				1775				259									
Adjustment for the shortfall in external budget support		0				9				0									
Adjustment for the excess (shortfall) in unpaid checks and other outstanding payments		-516				-634				372									
Adjustment for the excess (shortfall) in leone value of net issuance of government securities to non-bank private sector		-740				-668				25									
Adjustment for the cumulative net flow of non-tradeable securities issued to the non-bank sector for regularizing the stock of legacy arrears		0																	
Net domestic assets of the BSL (ceiling)	1170	-1860	-2532	Met	995	-1829	-2493	Met	291	424	572	Not met	723	2112	612	2993	1328	2220	405
Unadjusted target (ceiling)		1170				995				291									
Adjustment for the shortfall (excess) in external budget support		0				9				0									
Adjustment for exchange rate depreciation (appreciation)		-29				-117				100									
Adjustment for SDR allocation		-3002				-3131				0									
Adjustment for the Special Credit Facility		0				414				33									
Gross international reserves of the BSL, US$ millions (floor)	-84	195	265	Met	-25	216	268	Met	-56	-61	-78	Not met	-78	-222	-85	-304	-120	-243	-44
Unadjusted target (floor)		-84				-25				-56									
Adjustment for the shortfall (excess) in external budget support		0				-1													
Adjustment for the shortfall (excess) in the US$ value of IMF disbursement		0				0													
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities		-7				-7				-2									
Adjustment for SDR allocation		286				286													
Adjustment for Special Credit Facility		0				-38				-3									

1/ Data is preliminary and subject to change

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

3/ These apply on a continuous basis.

4/ Poverty-related spending is defined in paragraph 24 of the TMU.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets, 2021-23 (Concluded)

(Within-year cumulative change – Le billions, unless otherwise indicated)

	2021								2022										2023
	Sep. IT				Dec. PC 6/				Mar. IT (Preliminary) 1/				Jun. PC		Sep. IT		Dec. PC		Mar. IT
	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog.	Est.	Status	CR No. 21/183	Adj. Prog	Est.	Status	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	CR. No. 21/183	Prop.	Proposed
Performance criteria (cont,)																			
New concessional external debt with original maturity of one year or more contracted or guaranteed by the public sector, US $ millions (annual ceiling) 3/	130		87	Met	130		104	Met	70		65	Met	70	115	70	115	70	115	100
New non-concessional external debt contracted or guaranteed by the public sector, US$ million (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Outstanding stock of external debt with maturities of less than one year contracted or guaranteed by the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Indicative targets																			
Total domestic government revenue (floor)	4848		4969	Met	6642		6917	Met	1951		1620	Not met	3939	3571	5642	5518	7637	7787	2356
Poverty-related spending (floor) 4/	1585		1740	Met	2034		2565	Met	421		451	Met	965	1141	1562	1841	2165	2496	572
Domestic primary balance (floor)	-981		-1480	Not met	-965		-2213	Not met	202		-204	Not met	356	-932	112	-1271	158	-1153	-43
Memorandum items:																			
External budgetary assistance (in $ million)	27		26		102		101												
Exchange rate (Leones/US$)																			
Program	10486				10939				11832				11966	13282	12184	14085	12614	14805	15164
Actual			10571				11256				11889								

1/ Data is preliminary and subject to change

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

3/ These apply on a continuous basis.

4/ Poverty-related spending is defined in paragraph 24 of the TMU.

	Table 2. Sierra Leone. Prior Actions and Structural Benchmarks		
	Prior Actions for 5th Review		
1.	Prior action for the Public Debt Management Division (PDMD) to: (i) prepare an agreed action plan based on previous TA reports (Budget Execution TA report, Cash Management TA report) for preventing recurrence of new domestic arrears before the Board meeting, to be reviewed by FAD; and (ii) publish on the Ministry of Finance's website, the quarterly report for 2022Q1 and an annual report for 2021 on actual performance against actual budget allotments. These reports shall provide updates on budget execution and arrears paydown or accumulation of due payables during the quarter.		**Corrective actions for fiscal overruns in 2021 that led to breach of NCG. Actions include enhanced monitoring of budget allocations and cashflows to strengthen PFM controls.**
2	Submit to Parliament a revised 2022 budget consistent with agreed fiscal consolidation path and including specific measures (no further pre-April 2018 domestic arrears payments until a new arrears clearance plan is in place) that are necessary for a fully financed budget in line with program targets.		**To correct for fiscal overruns and revert to medium-term fiscal consolidation path.**
3.	MoF has reactivated the Expanded Cash and Debt Management Committee and held at least four meetings between April 15 to June 15 in line with the committee's terms of references. Submit to the IMF a note with a list of actions to improve the functioning of the cash management committee.		**Corrective action to enhance cash management in the face of tight liquidity.**
4.	Publish all quarterly unaudited financial statements of NACOVERC up to March 2022 on the Ministry of Finance's website.		**As per RCF commitments.**
5.	Publication of the second audit report on the COVID-19 response, covering July-December 2020, on ASSL's website, in compliance with the commitments in the 2021 RCF Letter of Intent.		**As per RCF Commitments.**
	Benchmarks for 5th Review		
6.	Undertake a stock-take and prepare a report on existing income tax exemptions.	December 31, 2021	**Met.**

7.	Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	December 31, 2021	**Not met.** Following an MCM review of the draft prudential guidelines, TA is currently being provided to help the authorities finalize the guidelines. The authorities are expected to, and should be able to, issue the revised prudential guidelines for consultation to the industry before the Board meeting. The SB is reset to September 2022 (see 21 below)
8.	Conduct a study on effective ways to identify and tax High Net Worth Individuals (HNWI), including to determine whether to establish a dedicated HNWI unit at the NRA; share the study with IMF staff.	March 31, 2022	**Met.**
9.	Develop infrastructure project appraisal templates and guidelines, as recommended in the recent FAD PIMA.	March 31, 2022	**Met.**
10.	Conduct a thematic review of NPL strategy and management in the two state-owned banks and share a summary of the actionable recommendations with the Fund.	March 31, 2022	**Met.**
11.	Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	April 30, 2022	**Not met.** The FY2019 and FY2020 accounts have been published. The SB is proposed to be reset to September 2022 (see 17 below)
12.	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	**Not met.**
	Benchmarks for 6th Review		
13.	Develop updated corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b)	September 30, 2022	**Proposed to be modified (see #16 below).** The World Bank is currently undertaking an assessment of their

	operational management; (c) risk management; (d) compliance with regulations; (e) internal audit; (f) external audit.		corporate governance frameworks, which will allow refinement of the program objectives in this area going forward. Given that the WB report will only be ready by June 2022, more time will likely be needed (beyond the end-September due date) for the various elements of updated corporate governance frameworks to be in place.
14.	Develop and publish an action plan on corporate governance frameworks for the two state-owned banks, with a focus on (a) Board and Senior management oversight; (b) operational management; (c) risk management; (d) compliance with regulation (e) internal audit; (f) external audit	September 30, 2022	**Proposed.**
15.	Publish on the website of the BSL the BSL's FY 2021 financial statements audited by a reputable audit firm with experience in central banking.	September 30, 2022	**Proposed.**
16.	Develop an SOE Ownership Policy that outlines the rationale and objective for state ownership, which would help guide further reforms of SOEs and the SOE framework.	September 30, 2022	**In progress.**
17.	Develop a Medium-Term Revenue Strategy (MTRS) approved by Cabinet.	September 30 , 2022	Proposed to be modified (see #20 below). The FAD is currently assisting authorities to develop an MTRS. A roadmap has been agreed but more time (beyond the end-September due date) is needed to prepare and submit a draft for cabinet approval.
18.	A draft Medium-Term Revenue Strategy (MTRS), developed with stakeholder inputs, submitted to Cabinet for approval.	December 31, 2022	**Proposed.**
19.	Prepare a quarterly budget out-turn report that includes i) progress in reduction of unpaid checks, ii) implementation of the ECDMC recommendations, iii) the disbursement and use of SDR-backed resources for fiscal purposes, iv) an additional statement monitoring the actual	September 30, 2022	**Proposed.** Corrective action for the NCG breach.

	performance against quarterly budget allotments, and provide corrective policy options in case of budget overruns (in line with PA#1)		
20.	Prepare a document to be shared with the Fund which sets out the BSL's supervisory strategy and approach to address high system-wide NPLs and gradually realize compliance on a bank-by-bank basis with to the 10 percent prudential limit	December 15, 2022	**Proposed.**
21.	Update and issue revised prudential guidelines for banks in line with the 2019 Banking Act, to strengthen the regulatory framework for capital adequacy, loan classification and provisioning as well as for credit, market and operational risks.	September 30, 2022	**Proposed.**
22.	Appoint a Chief Internal Auditor at the Bank of Sierra Leone	December 31, 2022	**Proposed.**
23.	With the aim to strengthen the audit process, adopt by parliament a statutory amendment of the Audit Service Act 2014 and implementing regulations, as follows: (i) to strengthen the implementation of ASSL recommendations with a detailed provision which includes the obligation of auditees to provide justification or explanation, issue a timeline, assign staff and agree to an ongoing engagement process with the ASSL. (Section 93 Audit Service Act) (ii) to strengthen compliance during the audit process by extending the power to withhold salaries of vote controllers for non-submission of financial statements to the verification and explanation stage (Sections 11 & 12 Audit Service Act 2014).	October 15, 2022	**Proposed.**
24.	The MoF and the ASSL will jointly publish a roadmap, in consultation with FAD, which aims to enhance the budgetary autonomy of the ASSL. The roadmap will make statutory amendment proposals on three issues, as follows: the process of setting and approving the ASSL budget, the timely and complete disbursement of the budget for mandatory spending of the ASSL, and the processing of the audit fees.	September 30, 2022	**Proposed.**

25.	Update the legacy arrears clearance strategy, consistent with debt sustainability, in consultation with FAD, that includes a list of creditors, criteria to prioritize the list, and amounts to be paid over the next three years	October 31, 2022	**Proposed.**
26.	Adoption by the Judicial and Legal Service Commission (JLSC) of Guidelines (Practice Directions) for any Tribunal under Section 137 5(ff) of the Constitution that may be established in the future. These guidelines shall be reflective of general principles in the Constitution including (i) Ensuring a fair hearing, (ii) with the procedure conducted in public, (iii) with reasonable timelines by an independent and impartial Tribunal; and (iv) with the announcement of the decisions in public.	December 31, 2022	**Proposed.**
	Benchmarks for 7th Review		
27.	Move to daily calculation and publication of an exchange rate that is based on a one-day lag, in consultation with AFRITAC West II.	April 30, 2023	**Proposed.**
28.	The Government will establish a high-level steering committee on the MTRS which will meet quarterly and be led by the Ministry of Finance with representation from the NRA, development partners, civil society and other relevant government departments and agencies.	March 31, 2023	**Proposed.**

Statement by Ms. Mannathoko and Mr. Ekeocha on Sierra Leone
June 27, 2022

Introduction

1. Our Sierra Leonean authorities appreciate the constructive engagement with Fund Staff during the recent mission on the fifth review under the Extended Credit Facility (ECF) and the Article IV consultation. They broadly agree with the staff's assessment of policy challenges and key priorities. We also thank staff for the backing analysis in Selected Issues Papers, particularly on climate adaptation, education and youth, scarring from COVID, digitalization and debt.

2. The economy of Sierra Leone is beginning to recover from the negative repercussions of the COVID-19 shock with support from the IMF and other development partners. Effective pandemic response measures mitigated the fallout from the shock and enabled the recovery that is currently underway. Nonetheless, spillovers from the Russia-Ukraine war, alongside supply disruptions, have fueled international energy, food and fertilizer prices, and freight costs, heightening risks to price and financial stability as well as the nascent recovery. The geo-political shock has increased pressures, reflected in inflation, and weaker fiscal and external balances.

3. The authorities, however, remain determined to attain the objectives of the ECF program, having managed to keep broadly on-track in a very challenging environment. They reiterate their commitment to solid economic policies, sectoral and structural reforms, and governance measures, in accordance with the National Development Plan (NDP) 2019–23. The ongoing ECF program continues to guide policy and budgeting in Sierra Leone as the authorities refocus on delivering agreed benchmarks. To this end, the authorities seek Directors' support for the completion of the fifth review under the ECF arrangement, alongside waivers for missed performance criteria given robust corrective measures taken, as well as for modifications of performance criteria, and the financing assurances review.

Recent Economic Developments and Outlook

4. Real GDP is estimated to have recovered from -2.0 percent in 2020 to 3.2 percent in 2021, closer to pre-pandemic levels, supported by the resumption of activity in the mining sector, agriculture, manufacturing, trade, tourism, and travel. Looking ahead the economy is expected to grow by 3.6 and 3.4 percent in 2022 and 2023, respectively, with growth momentum partially moderated by weakening external demand arising from the Russia-Ukraine war, and lingering effects from the COVID-19 pandemic.

5. Inflation surged dramatically during the second half of 2021, reaching 17.9 percent in December 2021 compared to 10.4 percent at the end of 2020, fueled by rising prices of goods and services triggered by global supply chain disruptions and high freight charges, alongside depreciation of the exchange rate. It is projected to peak in 2022, reflecting spillover impacts from the Russia-Ukraine war, while tapering off in the medium term.

6. The current account deficit worsened from -6.8 percent of GDP in 2020 to -14.6 percent of GDP in 2021. The deterioration reflects a higher import bill on the back of firming prices for fuel and other commodities, as well as lower official transfers. Going forward, the current account balance is projected to improve to -10.9 percent of GDP in 2023 as external demand improves. Gross official reserves increased from 4.2 months of import cover in 2020 to 5.3 months in 2021, buoyed by the general SDR allocation.

7. While vaccination rates are still relatively low with just 21 percent of the adult population fully vaccinated, Sierra Leone has however kept COVID-19 case numbers low, remaining at Level-1 which indicates low risk with an incidence rate at 0.1 per 100,000 population. The authorities recognize that resurgence of COVID-19 remains a risk and are committed to improving the vaccination rate.

Program Performance

8. Program performance was mixed amidst lingering COVID-19 pandemic challenges, social instability risks and the effects of the war in Ukraine. Indicative targets (ITs) on domestic revenue and poverty-related spending were met but the IT on the domestic primary balance was missed. The slippage was due to spending overruns resulting from rising prices of goods and services, capital project cost overruns, and unexpected social and wage pressures, as well as the necessity to continue to respond to the economy's lingering effects of COVID-19.

9. All quantitative performance criteria (QPCs) and ITs in 2021 were met for gross international reserves and net domestic assets, but the criterion for net credit to government was missed. Unexpected expenditures, such as wage demands, subsidies to the Electricity Distribution and Supply Authority to secure electricity supply, and general increases in the pricing of goods and services drove up government borrowing and arrears. For March 2022, the authorities, met the continuous performance criteria (PC) on the concessional and non-concessional external debt ceiling with no external arrears accumulation, but missed the continuous PCs on new multiple currency practices (MCPs) and exchange rate restrictions.

10. With regard to the latter, the Sierra Leone Central Bank (BSL) introduced two new temporary one-off facilities in April 2022 to provide foreign exchange for the importation of fuel and food. The government was compelled to alleviate supply shortages

occasioned by the war in Ukraine and avert renewed social unrest over the cost of living and deterioration in welfare conditions. As noted by staff in their recommendations, the BSL facilities for food and fuel are necessary measures to alleviate pressures in the short term but should remain temporary given still vulnerable levels of international reserves. The authorities therefore have requested waivers of non-observance of these performance criteria. On corrective actions they commit to (i) cap the total amount of these facilities and the non-renewal of these facilities, except with the consent of the Fund, and (ii) move to calculating the official exchange rate with a one-day lag. On the PC for net credit to government, measures will strengthen budget planning, and cash and debt management, as well as payroll management.

11. The authorities have taken other steps to guarantee that the program's performance requirements and indicative targets are met. They intend to refocus on the consolidation of public finances aimed at returning to a sustainable fiscal path and reducing debt vulnerabilities. This includes reviewing GST collection from telecoms and the energy sector, reversing the national telecommunication commission's floor price instruction for telecommunication companies, strengthening tax administration including stricter enforcement of tax laws, carrying out field audits of large taxpayers, continuing the roll-out of the electronic cash register and integrated tax administration system, and extending the Block Management Registration System to other parts of Freetown. At the same time, they are consolidating the automation of tax processes through extensive engagement and training of taxpayers on the Electronic Cash Register and integrated tax administration system and expanding the application of a specific export levy on timber and related products.

12. While the authorities have comprehensive energy sector reforms underway to lower subsidies and contingent liabilities, and they also commit to continuing to implement the full pass-through petroleum pricing formula, our Office appeals to the Board to accommodate a phased approach to fuel pricing changes if the need arises, as allowance for such flexibility was instituted in the Fund's FCS strategy. Given the disconcerting youth unrest images seen in Sierra Leone just prior to the pandemic, following fuel price hikes when subsidies were lifted, the timing of fuel price measures at this time carries significant risk, with activists already threatening unrest in 2022 over fuel price hikes. We would appeal for the authorities to be allowed flexibility if needed to avoid recurrence of such unrest, consistent with the FCS strategy. We also urge the donor community to provide more support towards targeted measures to mitigate the impact of the fuel price shock, to facilitate support to vulnerable SME firms, especially among the youth, while also expanding the social safety net.

13. Corrective measures planned by the authorities also include enhancing budget planning and implementation, as well as strengthening cash management. In that regard, they have revived the Expanded Cash and Debt Management Committee, leading to the preparation of an action plan to prevent recurrence of new domestic arrears. Efforts will be made to align quarterly budget allocations with the recommendations from the cash and debt management committee. Government will also continue to implement payroll management reforms introduced so far and develop a Payroll Reform Strategy to guide payroll management. As recommended in the Public Investment Management

Assessment report, the government will also continue to strengthen capital project management.

Fiscal Policy

14. Beyond the program's fiscal reform measures outlined above, the authorities are working to increase domestic revenue collection and adopt smart expenditure management to reduce debt and free up funds for priority spending. The government aims to implement a combination of revenue-enhancing initiatives and reprioritization of expenditures, while also seeking grant funding to increase fiscal room for priority spending. The authorities plan to gradually reduce the fiscal deficit in the medium term, targeting a primary surplus in 2024. The government remains committed to lowering its reliance on domestic banks' financing to a level that can be sustained at 2 percent of GDP, consistent with the policy objective under the ECF arrangement.

15. Given the importance of safeguarding social welfare and social stability, the government will scale up cash transfers, support for the COVID-19 health response, critical domestic capital expenditures (water supply), programs to address food insecurity and climate mitigation activities to boost social and economic resilience, while improving educational outcomes. Through a regular budget monitoring procedure, the government is also committed to transparency and accountability, including in the use of SDR resources.

16. The authorities have submitted a revised 2022 budget to Parliament that is consistent with the agreed fiscal consolidation path. In addition, the government will implement a series of tax policy and administration measures to address the deficiency in the first quarter of 2022 and satisfy the appropriate structural benchmark. The government will also consider pursuing carbon credits for carbon sinks such as Sierra Leone's forests, and the reduction of deforestation and forest degradation (REDD+), and grants for forest conservation and reforestation.

17. The government remains dedicated to strengthening public expenditure management while bolstering budget credibility. This includes enhancing budget planning and execution, strengthening cash management, and improving the integrity and sustainability of the payroll as well as increasing the efficiency of public investment and public procurement. The Ministry of Finance is committed to delivering quarterly budget allocations on schedule, matching these allocations with cash forecasts, and enforcing the policy of restricting funding only to items in the budget, to ensure adherence to agreed-upon expenditure restrictions. The government will also reduce energy subsidies and enhance the Electricity Distribution and Supply Authority's (EDSA) revenue collection, including with steps that adjust average pricing, connect two mining businesses to the grid, and upgrade the Bumbuna 161 Line. This should help to lower EDSA's reliance on budget transfers and free up fiscal space. The government has refrained from direct acquisition, disbursement, and distribution of agricultural inputs, in its plans to enhance local rice output.

18. Curbing public debt expansion is also a goal, including by ensuring that potential new borrowing and pipeline loans do not worsen the debt burden, avoiding expensive domestic debt, and reliance on highly concessional external finance (mainly grants) from

development partners. In the medium term, the government expects the public debt-to-GDP ratio to fall below the NDP target of 70 percent. The cabinet has approved a strategy that prioritizes concessional foreign financing and market development with the goal of lowering government's domestic borrowing and lengthening maturities for domestic instruments. Instead of relying on short term instruments, the debt market will provide a platform for raising medium to long-term bonds. The authorities will also revise the medium-term debt strategy 2021-2025 to match the current fiscal framework's borrowing requirements. The government has announced a series of measures, including the publication of liabilities of the biggest State-Owned Enterprises and their loans and guarantees. The Government will also update its arrears clearance strategy and commit to transparency in debt management.

Monetary and Exchange Rate Policies

19. The Sierra Leone Central Bank (BSL) hiked the monetary policy rate by 75 basis points in April 2022 to counteract inflationary pressures and will continue to monitor pricing movements and respond appropriately, balancing efforts to curb inflation with the need to support the recovery. The BSL aims to strengthen its monetary policy framework in the medium term, to boost policy transmission. In the future, the BSL will limit the use of secondary market purchases to support government issuance and may introduce its own instrument for liquidity management. Monetary policy communication will also be strengthened to better anchor expectations, including announcing and properly explaining the BSL's medium-term inflation target. The authorities are also working with the IMF to improve inflation and liquidity predictions and are striving to improve the composite index of economic activity.

20. BSL maintains exchange rate flexibility, with its foreign exchange (FX) market interventions confined to smoothing excessive market volatility. The BSL also strives to maintain adequate reserve buffers to help cushion against sharp exchange rate depreciation. On the issue of external sector policy and FX shortages, the authorities indicate that they will move from weekly to daily calculation of the BSL exchange rate to limit departures from the 2 percent limit on deviation allowed from market rates, though they worry about volatility. It is important to note that unlike in advanced economies, the BSL contends with shallow financial markets that not only constrain effective monetary policy transmission but also amplify exchange rate movements and yield excessive volatility. In the current context, there is significant potential for FX depreciation to be a shock amplifier, de-anchoring and fueling inflation given high pass-through, and eroding monetary policy credibility, leading to second round effects; at the same time that it magnifies debt service costs. Already, 2022 inflation is projected at double the levels seen in 2020 – which were already over 10 percent. The authorities understand these risks from experience and are likely to be cautious when it comes to excessive FX volatility, a consideration noted by the IMF Financial Counselor in his April 4, 2022, blog "How Africa Can Navigate Growing Monetary Policy Challenges" that cites the importance of flexibility for LICs like Sierra Leone to use tools in the integrated policy framework.

Financial Sector Policy

21. The BSL is strengthening the regulatory and supervisory framework to help ensure the stability of the banking sector. In this context, the central bank initiated a review of

important banking sector guidelines, including prudential and corporate governance guidelines. The authorities expect to have completed the amendment of the prudential guidelines in accordance with the 2019 Banking Act by September 2022. The BSL is also developing cyber security standards for financial institutions.

22. The authorities continue to supervise and regulate the banking system under a risk-based approach, with the goal of eventually adopting Basel 2 and Basel 3 frameworks. Heightened supervision of state-owned banks continues with efforts to boost their capacity to deal with unexpected shocks as they arise, based on appropriate and resilient capital. Regular examinations and monitoring by resident supervisors ensure that orders issued are followed, promoting the ability of these institutions to carry out intermediation functions prudently and within a risk management culture. The authorities are continuing with efforts to evaluate the performance and effectiveness of the two state owned banks' boards, while improving board efficiency and overall corporate governance. The government is updating the corporate governance structure for the two state banks with technical support from the World Bank. Onsite exams were just completed, and the next round of exams is scheduled for late 2022 to early 2023.

23. BSL plans are underway for a system-wide strategy for reducing NPLs to the 10 percent prudential limit, which will be communicated to the IMF. The BSL is also working to establish a deposit protection fund with technical assistance from the US Treasury Department. To that end, a Deposit Protection Bill has been sent to Parliament for consideration, and the fund will be established after the bill is passed. The BSL aims to establish a robust crisis management and resolution structure.

Structural Reforms

24. Combating corruption remains a priority for the government as it works to enhance state governance. The authorities are making notable progress in this regard, as reflected in recent commitments to enhance the laws and legal framework governing graft. Over the last three years, the Anti-Corruption Commission has also recovered almost Le35 billion from corrupt officials and institutions.

25. Work continues to improve good governance and transparency. The second audit of COVID-19 spending has been published. Even though the National COVID-19 Emergency Response Center's activities are scheduled to wind down, the government remains committed to publishing quarterly reports and purchase details via the National Public Procurement Authority. Similarly, they are committed to increasing the independence of the audit service Sierra Leone (ASSL) and establishing a time-bound and transparent tribunal for the suspended auditor general and her deputy.

26. With the assistance of development partners, Sierra Leone continues to pursue reforms and measures to promote inclusive growth, reduce inequality, and alleviate poverty. This includes creating fiscal space to support investments in human capital development, economic diversification, climate change adaptation, and social protection expansion. The government intends to strengthen the legal framework on forest conservation and try to meet demanding transparency and verification requirements to access climate credits and resources, from forest conservation and reforestation measures. Government has also been implementing regulatory reforms to enhance the ease of doing

business in the country. This includes efforts to improve business registration, remove barriers to cross-border trade, and streamline property registration processes.

27. The authorities continue to strengthen implementation of the AML/CFT framework. While the legal foundation for AML/CFT remains solid, the authorities recognize the need for additional measures to regulate finance and non-profit organizations and to implement initiatives that increase the regime's effectiveness, including those relating to beneficial ownership of legal companies and improved risk-based supervision and monitoring of non-bank financial entities, as well as modifications to the Companies Act, if necessary.

Conclusion

28. Our Sierra Leonean authorities reiterate their commitment to prudent macroeconomic policies needed to achieve the ECF program's objectives and support their National Development Plan 2019-2023. They are grateful to the Board, Management and Staff for support throughout the ECF engagement, where the authorities have made steady reform progress despite lingering pandemic effects and the impact of the war in Ukraine. They anticipate close Fund engagement and technical assistance going forward to bolster successful implementation of reforms under the ECF program.