

**Sierra Leone: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criteria and Extension of Arrangement, and Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone**

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of performance criteria and extension of arrangement, and additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of performance criteria and extension of arrangement, and additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **November 7, 2003**, 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 February 5, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the **views of the Executive Board as expressed during its February 20, 2004 discussion** of the staff report that completed the review and requests.
- a statement by the Executive Director for Sierra Leone.

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

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

\*May also be included in Staff Report

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

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SIERRA LEONE

**Fourth Review Under the Three-Year Arrangement  
Under the Poverty Reduction and Growth Facility and Requests for  
Waiver of Performance Criteria and Extension of Arrangement,  
and Additional Interim Assistance Under the Enhanced Initiative for  
Heavily Indebted Poor Countries**

Prepared by the African Department

(In consultation with the External Relations, Finance, Fiscal Affairs, Legal, Monetary  
and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by A. Tahari and J. Hicklin

February 5, 2004

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## EXECUTIVE SUMMARY

**Economic activity remained robust in 2003**, as real GDP is estimated to have increased by 6.5 percent, explained in part by the improved security situation and growing confidence in the country as well as by the progress achieved in resettling people displaced by the civil war. Annual average inflation is, however, estimated to have risen to 6.6 percent, reflecting higher fuel prices, an expansionary monetary policy, and the pass-through of the exchange rate depreciation. Mainly as a result of the shortfalls in foreign disbursements in 2003, external reserves are estimated to have fallen to about 1.5 months of import cover by year-end.

**Performance under the PRGF arrangement during 2003 was mixed.** The end-June quantitative performance criteria on net bank credit to the central government and the government primary balance were not observed. Other end-June quantitative performance criteria were met. As at end-June, the implementation of structural measures under the program had not been satisfactory, but steps have since been taken to correct the slippages. **Through fiscal adjustments and action to expedite the implementation of structural measures** in the course of the year, the authorities **moved closer to the original program objectives.** For the year as a whole, the overall fiscal deficit and the domestic primary deficit, as proportions of GDP, are envisaged to remain below programmed levels, but the large shortfall in foreign finance will need to be partially compensated for through increased domestic borrowing. The missed structural measures have been implemented as prior actions to this review.

**The program for 2004 projects real GDP growth of 6.8 percent, owing mainly to continued expansion in agriculture, mining, and manufacturing.** Inflation is projected at 4.8 percent. The external current account deficit (excluding grants) is expected to remain at a high level, reflecting Sierra Leone's sizable import needs, but is expected to narrow to 23.3 percent of GDP (11 percent of GDP including grants) following the resumption of the exportation of rutile and other minerals. The overall fiscal deficit (including grants) is expected to decline to 7.5 percent of GDP in 2004 from 9.1 percent in 2003. The program aims at a significant **reduction in bank financing of the budget**, given the inflationary developments in the second half of 2003. **Broad money** in 2004 is projected to grow at 11 percent, less than originally programmed, **to assist in containing inflation.**

The staff appraisal stresses that the **acceleration of growth** will require that the authorities **pursue actively a broad agenda for structural reforms** within the program period and beyond. The 2004 program measures pertaining to the strengthening of public sector delivery will need to be implemented on schedule, and other reforms, especially those relating to governance and to legal and judicial aspects to promote the private sector, will need to be seriously pursued. The importance of a **timely medium- to long-term framework to guide the development of Sierra Leone's sizable natural resources is stressed.** The appraisal also points to the urgent need for a more systematic and timely **reconciliation of fiscal and monetary data.**

It is envisaged that the fifth review will be conducted no later than end-June 2004, based on end-March 2004 quantitative performance criteria, and on structural performance criteria through end-May 2004. The final review will be conducted by end-December 2004 based on end-September 2004 quantitative performance criteria.

## I. INTRODUCTION

1. Discussions on the fourth review under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement in support of Sierra Leone's medium-term program, approved on September 20, 2001, took place in Freetown during September 1-15, 2003 and were concluded in Washington during November 3-7, 2003.<sup>1</sup>

2. On April 21, 2003, the Executive Board concluded the third review under the PRGF arrangement and granted waivers for the end-September 2002 performance criteria that were not observed on net domestic bank credit to the government and the government primary budget deficit. All quantitative performance criteria for end-December 2002 were met. On that occasion, Executive Directors observed that performance under the program during 2002 had been generally satisfactory, despite significant delays in the disbursement of external budgetary assistance. They noted the critical social situation, with high unemployment, particularly among the youth and ex-combatants, and inadequate availability of social services. While Executive Directors considered the authorities' objectives and policies for 2003 to be appropriate, they stressed that in order to achieve these objectives they needed to strengthen fiscal discipline, foster governance, alleviate the capacity constraints of government ministries, and deepen and accelerate structural reforms. Executive Directors also urged the authorities to ensure a tight monetary stance to guard against inflation and maintain an adequate level of external reserves in light of rising government expenditure and growing private sector credit demand. They noted that continued donor support, delivered in a timely and predictable fashion, would be crucial to Sierra Leone in the task of capacity building.

3. In March 2002, the Executive Boards of the IMF and the World Bank considered the decision point document under the enhanced HIPC Initiative for Sierra Leone (EBS/02/30; 2/19/02). The Boards concluded that Sierra Leone was eligible for assistance under the enhanced HIPC Initiative. On March 21, 2002, the IMF Executive Board approved SDR 23.64 million as interim HIPC assistance to Sierra Leone, and on March 20, 2003 the Board approved the disbursement of SDR 23.64 million as additional interim HIPC assistance. While the government has made further progress in implementing the HIPC completion point triggers, the preparation of the poverty reduction strategy paper (PRSP) has been delayed by administrative and capacity constraints. The date of completion of a full PRSP is now set for mid-2004. Since the current interim HIPC assistance will run out on March 20, 2004, the Sierra Leonean authorities are requesting additional interim assistance in an amount

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<sup>1</sup> The staff team comprised Messrs. Rwegasira (head), Kpodar, Kovanen, and Haacker (all AFR), Mr. Gottschalk (PDR), and Ms. Pereira-Isaev (Administrative Assistant—AFR). The mission met with the Minister of Finance, Mr. Joseph B. Dauda, the Minister of Education, Science, and Technology, Dr. Alpha T. Wurie, the Minister of Labor, Industrial Relations, and Social Security, Mr. Alpha O. Timbo, the Deputy Defense Minister, Mr. Joe C. Blell, the Governor of the Bank of Sierra Leone (BSL), Dr. J.D. Rogers, and other senior government officials, as well as representatives of the private sector and the donor community.

equivalent to SDR 14.75 million under the enhanced HIPC Initiative for the twelve-month period starting March 21, 2004, which will cover 93.8 percent of each principal repayment obligation falling due to the Fund during the twelve month period from March 21, 2004.<sup>2</sup>

4. In the attached letter to the Managing Director, dated February 3, 2004, and the accompanying memorandum of economic and financial policies (MEFP), which complements the one issued in April 2003, the authorities review performance under the program during January-September 2003 and present estimates to year-end. The MEFP further spells out the government's macroeconomic objectives and policies for 2004, including key elements of the 2004 budget (Appendix I). A request for waivers and for a six-month extension of the arrangement is also made; the latter based on the delay in concluding the discussions on the fourth review. Sierra Leone's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively. Statistical issues are discussed in Appendix IV.

## II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

5. **Progress continues to be made in consolidating peace in Sierra Leone.** The government aimed at completing the disarmament, demobilization, and reintegration (DDR) program for ex-combatants by end-December 2003. The Sierra Leone Special Court, set up under the auspices of the UN, has issued indictments against rebel, military, and militia leaders accused of war crimes. These developments, together with the improved security situation in the country, are having a positive impact on economic activity. The crisis in neighboring Liberia has had some spillover effects on Sierra Leone, as Liberian rebel groups have occasionally crossed the border. The forces of the United Nations Mission in Sierra Leone (UNAMSIL),<sup>3</sup> which currently total 12,300 troops, are expected to be withdrawn by end-2004, at which time the government will assume the cost of maintaining internal and border security. This will have an impact on fiscal spending and the economy as a whole.<sup>4</sup>

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<sup>2</sup> With the provision of this additional amount the interim assistance to Sierra Leone will reach 63 percent of the total assistance committed. Staff is of the view that there are exceptional circumstances that warrant the provision of interim assistance to Sierra Leone under the enhanced HIPC Initiative in excess of the normal limit of 60 percent, but well within the exceptional limit of 75 percent. This is mainly due to the need to front load the delivery of the interim assistance, in light of Sierra Leone's profile of debt service falling due to the Fund.

<sup>3</sup> In September 2003, the UNAMSIL announced that an 850-strong Bangladeshi battalion would be deployed in Liberia once it had finished its assignment in Sierra Leone.

<sup>4</sup> A significant share of expenditure is expected to be devoted to developing infrastructure (housing, police stations, etc.), acquiring vehicles, and scaling down the size of the military (including through retirement schemes).



6. **Economic activity in Sierra Leone remained robust in 2003**, reflecting healthy increases in agricultural and mining production. Real GDP expanded by 6.3 percent in 2002 and is projected to have increased by 6.5 percent in 2003 (Table 1). Annual average inflation accelerated to 4.3 percent in September 2003 from – 3 percent in 2002 (Figure 1). This was mainly due to a combination of higher fuel prices (and the impact on the cost of transportation), the expansion in broad money, and the pass-through impact of the exchange rate depreciation against the U.S. dollar on domestic prices. The currency depreciation has also resulted from a number of factors (apart from monetary expansion), notably the reduced supply of foreign exchange, which in part reflected the scaling down of the activities of the UNAMSIL ahead of its withdrawal from Sierra Leone.

7. **The external current account deficit, excluding official transfers, is expected to widen to about 30 percent in 2003 from 26 percent in 2002 (Table 2 and Figure 2).** Import growth has been driven by higher costs of imported fuel and by strong demand for manufactured goods for reconstruction activity. Export growth has also been strong, but starting from a small base. Officially recorded diamond exports have benefited from the international adoption of the Kimberley Process Certification Scheme and are expected to increase by more than 80 percent in 2003. Agricultural exports have expanded strongly but continue to account for only a small share of total exports. As of end-September 2003, the real effective exchange rate depreciated by about 12 percent from the end-2002 level (Figures 3 and 4). Gross official reserves of the Bank of Sierra Leone (BSL) fell to US\$83 million at end-September, slightly below the level at end-2002.

8. **Performance under the PRGF arrangement during 2003 was mixed** (Appendix I, Table 1). All indicative targets at end-March 2003 were met, except for the ceiling on net credit to the government, and the floors on domestic primary budget balance and domestic government revenue. The end-June quantitative performance criteria on net bank credit to the central government and the government primary balance were not observed, reflecting for the most part higher-than-programmed domestic development and interest outlays (also see para. 9), as well as the clearance of unprogrammed domestic wage and public utility arrears<sup>5</sup> by the government. Other end-June quantitative performance criteria were met. The end-June indicative target for poverty-related expenditure was not observed. For end-September, all indicative targets were met, except for the floor on government primary budget balance and the ceiling on the government wage bill.

9. **As at end-June 2003, the implementation of structural measures under the program had not been satisfactory, but steps were subsequently taken to correct the slippages** (Appendix I, Table 2). The two performance criteria for end-June 2003, notably the issuance of identification cards for all verified teachers, as well as two structural benchmarks, were not observed. The authorities explained to the staff that the implementation of measures relating to photo verification had been slowed, mainly because

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<sup>5</sup> See para. 6 and para. 36 of the MEFP for further details about domestic wage and public utility arrears, respectively.

of the delayed receipt of needed equipment. However, the slippages on the end-June performance criteria have, by and large, been corrected. The verification process was completed by end-October, and the issuance of identification cards is well under way. The staff underscored the importance of ensuring that the individual cards are received in person by each certified teacher. Furthermore, the financial audit of the Ministry of Education—a structural benchmark for end-September 2003—was launched in the second week of September and was completed at end-October (see Box 1).<sup>6</sup> There has also been some progress in implementing other structural benchmarks, as outlined in the MEFP. In particular, the government has started to pay teachers' salaries through the banking system by using accounts set up for individual schools, rather than paying teachers via their private accounts. The authorities explained that this was in part because of the paucity of banking services in rural areas and the high transaction costs relative to the low salaries of individual teachers.

10. **For the first six months of 2003, the overall fiscal deficit (excluding grants) was 8.5 percent of GDP, which was below the programmed level of 11.5 percent (Table 3).** Domestic revenues were better than programmed, owing mainly to a strong performance in customs revenues. Foreign-financed development expenditure was lower than projected because of shortfalls in external project grants and borrowing. Current expenditure was broadly in line with the original program, with domestic interest outlays higher than programmed, due in part to higher-than-envisaged domestic borrowing.<sup>7</sup> Poverty-related expenditures were significantly below the programmed level partly owing to organizational and capacity constraints (Table 4). The domestic primary deficit in the first half of 2003, at 2.3 percent of GDP, was greater than programmed, to some degree reflecting higher-than-programmed domestically financed development expenditure, some of it due to the HIPC Initiative carryover from 2002 (not included in the program for 2003).

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<sup>6</sup> A table attached to the earlier staff report (EBS/03/45) had incorrectly listed the measure as a structural performance criterion.

<sup>7</sup> The government had large HIPC balances at the BSL, which earned no interest, while the BSL charged interest on the treasury borrowing. As of September 2003, the HIPC and Treasury accounts were merged, reducing government's net borrowing cost.

### **Box 1. Structural Conditionality**

#### **Coverage of structural conditionality under the PRGF arrangement**

The structural conditionality under the current program (Table 4 of Appendix I) is aimed at completing those measures already under way, as well as implementing new measures to strengthen public service delivery and the management of the public sector. The PRGF arrangement for 2004 has four performance criteria: the Ministry of Finance guidelines for double signature in operating school bank accounts will be issued by end-February 2004; the issuance of identification cards for all teachers will be completed by mid-March 2004; the reconciliation of fiscal and monetary data for earlier program years will be completed by end-May 2004; and new personnel guidelines for the civil service will be introduced by end-May 2004. With regard to structural benchmarks, an action plan will be formulated on the basis of the audit of the Ministry of Education that was completed in the fall of 2003; the Ministry of Education will set employment ceilings for individual schools as a way of controlling the number of teachers; diagnostic studies and reforms for six key ministries will be completed in 2004; identification cards will be issued for all civil servants by mid-2004; and a medium-term budgetary framework incorporating all major mineral revenues will be formulated and discussed with development partners by mid-2004.

#### **Status of structural conditionality**

During the period January – September 2003 (see Table 2 of Appendix I), there were significant delays in the implementation of structural performance criteria and benchmarks. The structural performance criteria, related to the photo verification of all existing teachers with valid appointment letters, issue of identification cards to all teachers by the Ministry of Finance, and a structural benchmark related to the financial audit of the Ministry of Education have been elevated to prior actions for the fourth review.

#### **Structural areas covered by World Bank lending conditionality**

Under the World Bank's Economic Rehabilitation and Recovery Credit (ERRC), Public Sector Management Support Project (PSMS), and the Community Reintegration and Rehabilitation Project (CRRP), reforms are being implemented, comprising the creation of a plan for the divestiture of public enterprises, the enactment of an acceptable investment code, the enactment of local government legislation, the strengthening of the financial management system, the development of a program for procurement reform, including enacting a new legislation and regulatory framework, the completion of a study on the impact of the Common External Tariff, including an action plan, the establishment of a cadastre for mining rights, and the creation of mining sector extension services (Appendix III).

#### **Status of areas covered by the HIPC Initiative floating completion point**

Sierra Leone has been making further progress toward meeting the HIPC Initiative completion point triggers. Table 11 provides an update on the status of implementation of the triggers.

11. The level of “unaccounted items” recorded in the government fiscal account swelled to 0.7 percent of GDP in the first half of 2003, which the authorities attribute to floats arising from outstanding checks issued and the funding of development projects, as well as misclassifications in government deposit accounts in commercial banks included in monetary data. During the reconciliation of fiscal and monetary data, the misclassification (by banks) of government deposits accounts emerged as a significant issue for purposes of program

reporting. The matter has since been resolved for 2003, after considerable work by the authorities and the banks. Technical assistance has been requested from STA to reconcile the data for the earlier program years, and to bring out any implications for technical reporting on the program to the attention of Executive Directors.

12. **For the year as a whole, the overall fiscal deficit was projected to remain below the original program, but domestic borrowing would increase to compensate partially for the large shortfall in foreign budgetary support (Table 5 and Figure 5).** Domestic revenue collection is projected to reach 15.2 percent of GDP in 2003, about 0.6 percent of GDP higher than programmed, reflecting higher customs and excise tax revenues. Total expenditure and net lending is projected at 35 percent of GDP, which is well below the 40 percent level in the program. The government has reduced the outlays of goods and services and slowed the pace of implementation of domestically-financed development expenditure. The wage bill, which was kept within the programmed level during the first half of 2003, would slightly exceed the programmed level for the year as a whole; the authorities explained that this was in part due to the clearance of wage arrears during the third quarter of 2003. The overall fiscal deficit (excluding grants) is projected at 19½ percent of GDP, which is almost 6 percent of GDP below the program target, mainly reflecting the optimistic foreign-financed expenditure assumed in the program (Figure 5). However, the overall deficit would be only slightly below the program target if grants are included.<sup>8</sup> The domestic primary deficit for 2003 is expected to have been contained at about 6½ percent of GDP, which is slightly below the programmed level. Domestic financing of the budget is projected to have exceeded the program level by 2.1 percent of GDP, in order to partially offset the shortfall in foreign grants and borrowing (Table 3).

13. The shortfall in foreign financing arose in part because of an administrative delay in conducting an audit that constituted part of EU grant conditionality. Provided the findings of the audit are satisfactory to the EU, disbursement of the grant is expected in the first quarter of 2004. Another cause of the shortfall was a delay in a loan disbursement from the African Development Fund (AfDF). The Board of the AfDF approved the second Economic Rehabilitation and Recovery Loan for Sierra Leone in December 2003, and disbursement is expected for early 2004.

14. **Monetary policy was more relaxed than programmed (Table 6 and Figure 6).** Broad money increased by 16 percent in the first three quarters of 2003, compared with 7 percent under the program. Reserve money rose by 8½ percent during the same period. The rapid increase in broad money can be attributed to the faster-than-programmed expansion in bank domestic assets. Net bank credit to the private sector grew rapidly, reflecting continued expansion in real activity from low post-conflict levels. Net credit to the government increased only modestly by end-September, owing to a loan disbursement from the World

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<sup>8</sup> The combined shortfall in external program grants and borrowing vis-à-vis the program is expected to be over 4 percent of GDP.

Bank. Nominal interest rates remained flat during the period, resulting in a substantial decline in real interest rates from over 20 percent at end-2002 to about 3 percent in September 2003. The ratio of nonperforming to total bank loans declined to about 11 percent at end-September 2003 from 18 percent at end-2002, in part due to the repayment of government arrears to enterprises. The BSL, with technical assistance from MFD, has strengthened its capacity to license banks, enforce bank regulations, and conduct on- and off-site examinations; further MFD technical assistance will focus on strengthening banks' ability to assess credit quality.

### III. REPORT ON THE DISCUSSIONS AND THE PROGRAM FOR 2004

15. In addition to reviewing program implementation as of end-September 2003, the discussions with the authorities focused on policies and measures to keep the 2003 overall fiscal outturn close to program objectives and to correct the slippages in structural reforms. Given the shortfalls in grant financing and external borrowing as well as other pressures leading to government domestic borrowing and the fiscal adjustments made in the course of the year, the authorities are requesting waivers on the end-June quantitative performance criteria on net domestic bank credit to the government and the domestic primary budget balance. On the missed structural measures, the authorities agreed to implement the performance criteria related to the completion of payroll photo verification for all existing teachers with valid letters of appointment and the issuance of identification cards by the Ministry of Finance for these verified teachers as prior actions to the Executive Board's consideration of the fourth review. The authorities are also requesting waivers for the nonobservance of these structural performance criteria. Furthermore, given the likely timing of the completion of the fourth review, the authorities have requested that the fifth review with the Fund be based on end-March 2004 quantitative performance criteria, and on structural performance criteria through end-May 2004.

16. The discussions further focused on the medium-term objectives, the 2004 government budget, and other policies and measures for the program period. The MEFP provides details of economic and structural measures included in the program (Appendix I, Tables 3 and 4).

#### A. Medium-Term Objectives

17. **The medium-term economic outlook to 2005 remains broadly unchanged (Table 1).** Real output is still projected to rise from 6.5 percent in 2003 to about 7.1 percent by 2005, reflecting increased activity in agriculture, mining, manufacturing, and services, as well as expansion in investment related to infrastructure projects. The average rate of inflation, estimated at 6.6 percent in 2003, is projected to decline to low single digits over the medium term, in part supported by monetary policy and an improved domestic primary fiscal position of the central government. The current account deficit (excluding grants), which is projected to widen to 30 percent of GDP in 2003 (from 26 percent in 2002), is not expected to narrow significantly in 2004; however, it would decline in 2005 when rutile and other mineral exports enter the merchandise account (Table 2).

18. **The government will need to accelerate its poverty reduction efforts and focus on developmental issues over the medium term.** The preparation of a full poverty reduction strategy paper (PRSP) will play a crucial role in the process, as this would provide a road map for the government's medium-term efforts. The authorities are mindful of the slippages in the original schedule of the PRSP preparations, caused in part by administrative and capacity constraints; they now expect it to be ready by end-June 2004. Furthermore, in order to sustain a high level of real growth, critical for the poverty reduction drive, the government will need to enhance its capacity and efficiency in public service delivery, and promote the private sector activities necessary to boost incomes and employment creation.

19. **Sierra Leone's poverty reduction efforts would be significantly assisted by a medium- to long-term framework to develop the mineral sector.** The granting of tax concessions for the mining of rutile, bauxite, and kimberlite has so far been rather ad hoc without an overall guiding framework for medium-term revenue mobilization objectives and desirable developments and social expenditures. Progress on this matter needs to be made in the coming months (see para. 30).

#### **B. Fiscal Policy and the Budget for 2004**

20. The **2004 government budget** aims at promoting a continued **high output growth**, while contributing to **macroeconomic stability** by significantly reducing bank financing of the budget. The specific context for the latter is the economic developments in the second half of 2003, showing a rising rate of inflation and a weakening in the foreign reserve position. Government domestic revenue in 2004 is projected at 16 percent of GDP. Total expenditure and net lending is budgeted at 36 percent of GDP, owing to the increase in foreign-financed development expenditure; current expenditure is expected to fall slightly to 26 percent of GDP. The domestic primary fiscal balance is expected to remain at about the 2003 level of 6½ percent of GDP, slightly below the program level. Although the overall budget deficit (excluding grants) will widen in 2004 by about 1 percent of GDP to 20 percent (narrowing to 7.5 percent, including grants), this will be financed for the most part from reasonably confirmed external sources (the AfDB, EU, U.K. Department for International Development (DfID), and World Bank) (Table 3).<sup>9</sup>

21. In order to support the fiscal policy objectives in 2004, the government will accelerate the implementation of reforms aimed at improving tax administration, strengthening the capacity of government ministries, and raising the efficiency of public service delivery. Furthermore, the government has agreed not to put into effect all the reductions in income and corporation tax rates announced in the 2004 Budget Speech until satisfactory revenue trends are established in the context of the fifth review under the PRGF-supported arrangement.

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<sup>9</sup> The AfDB approved on December 10, 2003 the second Economic Rehabilitation and Recovery Loan (ERRL-II) to Sierra Leone.

22. The government will increasingly assume the responsibility for internal and border security, with the withdrawal of UNAMSIL toward the end of 2004. Careful prioritization of expenditure will therefore be required. Further increases in poverty-related expenditure will also be budgeted in 2004. The government will clear any arrears to the National Power Authority and take steps to avoid future arrears.<sup>10</sup> The resurfacing of arrears in 2003 is in part explained by inadequate budgetary allocations to line ministries in that year.

23. The government has sent a draft Government Budgeting and Accounting Act to parliament, which is expected to be enacted in the coming months.<sup>11</sup> The law is intended to streamline the budgeting process and clarify relationships between the central and local governments. Legal efforts to harmonize the Customs Act, Sales Tax Act, and Income Tax Act with the National Revenue Authority Act have stalled pending the provision of technical assistance. Moreover, a project to establish an automated system for customs data (ASYCUDA) has not yet been completed, due to a shortage in external financing.

24. **The reform of the public sector is ongoing.** Diagnostic studies, financed by the DfID, for key Ministries of Health, Education, and Agriculture, as well as local governments, have already been undertaken. Furthermore, the United Nations Development Program (UNDP) has funded a project aimed at revamping personnel management, including a review of the code of ethics and the performance appraisal system. In order to enhance staff training, the government is establishing a Civil Service Training College, and the World Bank has provided funding for the Institute of Public Administration and Management, which focuses on capacity building. The DfID and the World Bank are also jointly funding the Institutional and Capacity Building Project, which aims at supporting decentralization and strengthening local government. In addition, the DfID is funding a project to transform the Establishment Secretary's Office (ESO) into a staff management unit that would handle ESO's records.

### C. Financial Sector Policies

25. **Monetary policy will aim at containing inflationary pressures and rebuilding foreign reserves.** In light of the increase in government bank borrowing in 2003, as well as the depreciation of the exchange rate, the monetary authorities are aiming at containing broad money growth at a rate of 11 percent in 2004, less than originally programmed and much lower than the rate projected in 2003 of 20 percent. Growth in private sector credit is projected to rise by about 15 percent in 2004, compared with 36 percent in 2003. With the relatively strong expansion in private sector credit continuing during the year, the BSL needs to remain vigilant in supervising banks and ensuring high credit standards. **The exchange rate will remain market determined through weekly auctions.** Official reserves are projected to rise from 1.5 months of import cover in 2003 to 2.2 months cover at end-2004.

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<sup>10</sup> See paragraph 36 of the MEFP for further details.

<sup>11</sup> The staff forwarded to the authorities comments on the draft by the Fiscal Affairs Department.

26. **The staff discussed with the authorities how best to achieve the monetary targets under the program.** It was proposed that, given the relatively rapid pace of monetary expansion in the second half of 2003, the BSL consider a more active use of interest rates to complement existing controls. The authorities accepted the idea in principle but underscored the point that interest rates were dominated by the government's financing needs. Furthermore, commercial banks were holding relatively high liquidity. The BSL is developing an electronic book entry system for government securities that would facilitate secondary market trading in government securities (which, in turn, could affect interest rates).<sup>12</sup> The staff also proposed that the authorities consider the introduction of a reserve requirement on bank foreign currency deposits, which are currently excluded from this requirement, in order to harmonize the treatment of bank deposits. The authorities noted that the matter would require careful analysis and requested technical assistance from the Fund.<sup>13</sup> MFD is already discussing this potential instrument with the authorities.

27. The BSL is implementing the recommendations of the 2002 Safeguards Assessment Report. In particular, the BSL is committed to strengthening its external audit framework through the appointment of new auditors that would combine a local and an internationally reputable firm. The BSL is also improving its system of internal controls by computerizing its checks payments system. The external auditor will be asked to review controls over domestic payments to ensure that these are appropriate to avoid a repetition of the recently discovered check recycling incidents.

#### **D. External Sector Policies**

28. **As earlier indicated, a significant improvement in the external current account balance in 2004 is unlikely.** Reconstruction needs will continue to drive import growth while declining fuel prices will exert a dampening effect. The overall export growth will depend on further expansion in diamond mining, but production of diamonds is close to prewar levels, thus implying a limited overall expansion. For 2005, a resumption of rutile and bauxite exports is projected, which would contribute to a significant reduction in the current account deficit.

29. As an inducement for restarting rutile mining operations, the authorities have granted significant tax concessions to a mining investor. It is estimated that the cumulative revenue losses resulting from these concessions will be US\$98 million over the period 2004-16; in return, the authorities will acquire an equity stake in the rutile mining project that

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<sup>12</sup> The BSL is planning to introduce sometime in 2004 an electronic settlement arrangement that will facilitate secondary market trading of securities. A master repurchase agreement contract has already been sent to banks for signature. Technical assistance is being provided through the Financial Sector Strengthening and Reform (FIRST) Initiative.

<sup>13</sup> Foreign currency deposits of oil companies, nongovernmental organizations (NGOs), and UN agencies with deposit money banks increased during the first half of the year.



accumulates over time and is projected to reach 30 percent when proven reserves are exhausted.<sup>14</sup> Given the lack of a comprehensive mineral policy framework that could provide guidance on the appropriate level of tax incentives, it was agreed that the authorities would postpone any agreements on bauxite, kimberlite, petroleum, and other minerals until such a framework had been put in place.

30. The authorities have been encouraged to cooperate closely with the World Bank on the fiscal and related issues for the mining sector. Fund staff would also be consulted, in the context of the PRGF-supported program, on any commitments to be made in this area. Technical assistance from FAD has been requested for broadly assessing fiscal incentives to investors. This will follow a mission from the Foreign Investment Advisory Service (FIAS) and the World Bank to develop an acceptable investment code, which will govern nonmineral investments. The authorities also agreed to develop a comprehensive medium-term budget framework, in time for the fifth review under the PRGF arrangement, that would incorporate expected revenue streams from the mineral sector. It is expected that the resulting framework and the new mineral policy being developed will be made consistent with the recommendations from FAD and the World Bank on appropriate fiscal incentives.

31. **The authorities agreed to eliminate the special foreign-exchange window by end-2003.** For most of 2003, the BSL allowed oil companies to obtain foreign exchange, amounting to about one-third of the total auction supply, through a special window. The window uses the exchange rates determined at the weekly auctions. The staff pointed out, however, that the approach raises a concern about the integrity of the foreign exchange auctions; although, in the view of staff, this has not yet caused an exchange restriction. The authorities indicated that the arrangement had been a temporary measure in response to oil shortages earlier in the year and is, therefore, to be terminated.

32. **Further progress has been achieved in completing negotiations with bilateral creditors on debt relief.** The government has signed debt-rescheduling accords on Naples terms with ten out of eleven Paris Club bilateral creditors and on Cologne terms with six bilateral creditors.<sup>15</sup> The government also reached rescheduling agreements on arrears with two of its official bilateral non-Paris Club creditors (the Saudi Fund for Development and OPEC Fund). Regarding commercial creditors, the government is engaging them with a view to rescheduling the verified arrears over a long period, but so far it has met with only limited success.

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<sup>14</sup> The staff is not in position to assess to what extent the equity stake to be acquired would provide an adequate compensation for the forgone revenues. The assessment would require expertise in mineral valuation.

<sup>15</sup> The Paris Club countries agreed on July 10, 2002 to top up the debt relief from Naples to Cologne terms.

33. **The outlook for debt sustainability has improved relative to the HIPC Initiative decision point projections.** The net present value (NPV) of debt-to-exports ratio is projected to decline by 35 percentage points to 124 percent at end-2003, compared with the projection at the decision point; this outcome is explained to a large extent by lower borrowing, in particular for development projects. The debt service-to-exports ratio is also projected to decline significantly over the period 2003-07, to 7.2 percent, compared with the level of almost 11 percent at the decision point; this is explained by the improved outlook on exports over the medium term and higher-than-expected debt relief from Paris Club creditors.

34. **The government is moving forward with the implementation of the common external tariff (CET) of the Economic Community of West African States (ECOWAS).** The tariff reform is expected to address government concerns over tax evasion and lower the cost of administering the country's external tariffs.<sup>16</sup> At present, the government is assessing the impact of the CET on fiscal revenues, which could be significant. In this context, the authorities noted that, in order to compensate for the implied revenue loss, the government needed to expand the scope of other revenue sources, including the introduction of a value-added tax.<sup>17</sup>

#### **E. Structural Reforms and Governance**

35. **The program of structural reforms to be undertaken focuses on actions to ensure completion of those measures already under way and on the outstanding reforms under the PRGF-supported program (Appendix I, Table 4).** The timetable for the implementation of structural measures related to the securitization of the stock of verified domestic arrears, the issuance of personnel management regulations for civil servants, and the conversion of the ESO into a personnel management office, originally scheduled to be completed by end-2003 has, at the request of the authorities, been shifted to 2004. The new schedule reflects the availability of the requisite technical assistance from donors. Other specific measures have been included in the program, with a particular emphasis on strengthening public sector service delivery and management.

36. To give further momentum to the reforms to convert the ESO into a personnel management office, the issuance by the government of new personnel management regulations for all civil servants has been upgraded to a performance criterion for end-May 2004. In order to strengthen the oversight related to the payment of teachers' salaries, which are paid through accounts established for schools, a performance criterion has been added mandating the Ministry of Finance to issue guidelines by end-February 2004 on the use of double signatures in operating school bank accounts. Furthermore, to address the weaknesses in the fiscal and monetary data, as discussed above, a new performance criterion has been

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<sup>16</sup> The National Revenue Authority has established a preventive unit to reduce smuggling.

<sup>17</sup> A study of the modalities of a value-added tax system is a structural benchmark for 2004.

included in the program, requiring reconciliation of these data for earlier program years by end-May 2004. New benchmarks have also been added to strengthen the audit of government accounts, to implement the recommendations of the financial audit of the Ministry of Education, to issue identification cards to all other civil servants, to formulate a medium-term budgetary framework incorporating all major mineral revenues, and to restructure six key ministries after completing diagnostic studies on them.

37. **While progress has been made in Sierra Leone in addressing governance issues, the fight against corruption has been frustrated**, in part, by the slowness of the courts in handling cases and the ineffectiveness of the civil service in dealing with corrupt civil servants. In order to speed up the legal process of bringing corruption cases to their final completion, the DfID is financing, for two years, two special judges and a special prosecutor to work on these cases.

#### **F. Program Monitoring**

38. The implementation of the program will continue to be monitored on the basis of the quantitative and structural performance criteria and benchmarks indicated in Appendix I, Tables 3 and 4 of the MEFP. The indicative target for the reduction in the stock of verified domestic arrears has been eliminated, in view of the authorities' intention to eliminate these arrears during 2004, in part by making cash payments to small claimants while securitizing the remaining arrears by end-March 2004. The fuel price adjuster, which was introduced in the context of the third review, and permitted adjustments in the program targets for gross reserves and the BSL net domestic asset in response to the higher cost of imported fuel, has been eliminated, as the international supply situation has since normalized. There will be two reviews under the arrangement during 2004 (Table 8). The fifth review will be conducted by no later than end-June 2004, based on end-March 2004 quantitative performance criteria and on structural performance criteria for end-February, mid-March, and end-May 2004. The final review will be concluded by end-December 2004, based on end-September 2004 quantitative performance criteria.

#### **IV. STAFF APPRAISAL**

39. **Increasing confidence and the progress made in resettling people in their communities have contributed to the rise in aggregate activity.** Real GDP growth has continued to accelerate and inflation, though rising, has been contained. With the improvement in macroeconomic conditions, however, there remains a difficult social situation, which, as reflected in high unemployment and widespread poverty, calls for a strong medium-term strategy to reduce poverty.

40. **Performance under the program was mixed through June 2003; however, significant steps have been taken subsequently to correct the slippages.** The authorities have to be commended not only for maintaining macroeconomic stability in a difficult postwar social situation, but also for their commitment to bring the overall annual performance within program objectives.

41. The staff was keen to ensure that the implementation of one of the missed structural performance criteria—the issuance, by the Ministry of Finance, of identification cards for all verified teachers—would not be rushed, so that bona fide possession could be adequately controlled. For this reason, the staff recommends that the implementation of this measure be phased as follows: as for the completion of the fourth review prior actions, issue the identification cards for at least 80 percent of all verified teachers; and as a performance criterion, issue the identification cards for the remaining 20 percent of verified teachers by March 15, 2004.

42. With sustained efforts on macroeconomic and structural policies, the overall objectives under the PRGF-supported programs are likely to be achieved. Medium-term economic prospects would also be encouraging for addressing the various social concerns. A timely completion of the full PRSP should assist the authorities in placing these concerns in proper policy and resource contexts. Beyond this, five areas need the specific attention of the authorities.

43. **First, fiscal policy needs to continue to support macroeconomic stability and noninflationary growth.** The authorities should build on the gains made in enhancing revenue mobilization to make further progress, especially through the strengthening of the National Revenue Authority. Increased revenue should support much-needed poverty-related spending and the evolving domestic security demands. The staff welcomes the decision of the government to delay putting into effect the reductions in income and corporate tax rates announced in the 2004 Budget Speech until revenue trends are agreed in the context of the fifth review under the PRGF-supported program. Expenditures should benefit from better prioritization and from envisaged improvements in public service delivery. The budgeting for external grants and borrowing should be made more realistic and adequately coordinated with donors, so as to avoid shortfalls and unplanned recourse to government borrowing from the banking system. Furthermore, the staff emphasized that given the resource constraints and associated risks, increased vigilance will be required to prevent the recurrence of wage and utility arrears in the future.

44. **Second, a strong monetary policy will be needed to contain inflation in the context of rising government expenditure and the increasing demand by the private sector for domestic bank credit.** The authorities should work on expanding the menu of instruments for monetary policy to include a more active use of interest rates and the application of reserve requirements on commercial bank foreign currency deposits. The BSL should continue to seek technical assistance from MFD in these areas and build the required capacity.

45. **Third, the acceleration of growth will require that the authorities pursue actively a broad agenda of structural reforms.** The outstanding reforms under the PRGF-supported program, notably those relating to strengthening public sector delivery and the management of the public sector, will need to be implemented on schedule. Other reforms, including those pertaining to governance and to legal and judicial aspects for the promotion of the private sector, will need to be seriously pursued with the support of other donors.

46. **Fourth, a comprehensive and coherent medium- to long-term policy framework** should, as a matter of priority, be put in place, with external assistance, to **guide the development of Sierra Leone's mineral and other natural resources**. Such a framework should also ensure that all mineral- and petroleum-related revenues accrue to the consolidated fund. Protection of the tax revenue potential of this sector will be essential for sustained increases in development and poverty-related expenditures. The staff is encouraged by the commitment the authorities have made to develop a mining sector policy and to prepare a medium-term budgetary framework in time for the fifth review under the PRGF arrangement. The staff expects to be consulted before any commitments are made in this area. The staff has urged the authorities to adhere to the principles laid out in the Extractive Industry Transparency Initiative. To protect revenue, the government has been encouraged to consider seeking one or more additional investors who could purchase its equity stake in the project and provide needed additional financing. Also, as a long-term strategy, the government is encouraged to avoid equity holding in favor of greater private sector participation and larger revenue flows.

47. **Fifth, systematic and timely reconciliation of fiscal and monetary data needs to be established as a matter of urgency**, both for program-monitoring and broad macroeconomic management purposes. The technical assistance requested from the Fund should help the authorities' on going efforts to solve the outstanding problems fully by the time of the fifth review.

48. On the basis of the measures taken by the authorities during the second half of 2003 to deal with the slippages in meeting the quantitative performance criteria for end-June 2003 and in implementing the prior actions subject to the fourth review under the PRGF arrangement, the staff recommends that the Executive Board grant waivers for the nonobservance of the end-June 2003 performance criteria on net domestic bank credit to the government and on the government domestic primary budget balance, as well as for the nonobservance of the structural performance criteria on the payroll photo verification for all existing teachers with valid appointment letters and the issuance of identification cards for all verified teachers. Based on the commitments made in the attached letter of intent and the accompanying MEFP, the staff recommends completion of the fourth review under the PRGF arrangement and extension of the arrangement for a six-month period. For the same reasons and based on satisfactory assurances provided by other creditors of their continued assistance to Sierra Leone, the staff supports also the authorities' request of an advance of additional interim HIPC assistance under the enhanced HIPC Initiative for the twelve-month period starting March 21, 2004.

Table I. Sierra Leone: Selected Economic and Financial Indicators, 2001-05

|  | 2001<br>Act. | 2002<br>Prog. | 2002<br>Est. | 2003<br>Prog. | 2003<br>Proj. | 2004<br>Prog. | 2004<br>Rev.Prog. | 2005<br>Proj. |
|--|--------------|---------------|--------------|---------------|---------------|---------------|-------------------|---------------|
| (Annual percentage change, unless otherwise indicated)         |              |               |              |               |               |               |                   |               |
| Income and expenditure   |              |               |              |               |               |               |                   |               |
| Real GDP 1/  | 5.4          | 6.6           | 6.3          | 6.5           | 6.5           | 6.8           | 6.8               | 7.1           |
| GDP deflator   | 6.1          | 4.6           | 3.9          | 6.4           | 6.6           | 4.8           | 4.6               | 2.9           |
| Nominal GDP  | 11.8         | 11.5          | 10.5         | 13.4          | 13.6          | 11.9          | 11.7              | 10.2          |
| Consumer prices (end of period)                                | 3.4          | 4.8           | -1.0         | 7.2           | 9.8           | 3.5           | 4.0               | 3.5           |
| Consumer prices (annual average)                               | 2.2          | 4.7           | -3.1         | 7.4           | 6.6           | 3.5           | 4.8               | 3.5           |
| Money and credit   |              |               |              |               |               |               |                   |               |
| Broad money  |              |               |              |               |               |               |                   |               |
| (including foreign currency deposits)                          | 33.7         | 17.2          | 30.1         | 14.0          | 20.3          | 14.1          | 10.8              | 10.0          |
| (excluding foreign currency deposits)                          | 30.8         | 9.5           | 32.0         | 14.0          | 17.1          | 13.6          | 10.8              | 10.0          |
| Velocity (level; excl. foreign currency deposits)              | 6.1          | 6.2           | 5.1          | 5.2           | 4.9           | 5.1           | 5.0               | 5.0           |
| Velocity (level; incl. foreign currency deposits)              | 5.1          | 4.9           | 4.3          | 4.4           | 4.1           | 4.3           | 4.1               | 4.1           |
| Domestic credit 2/   | 22.5         | 8.1           | 7.9          | 8.0           | 15.2          | 14.7          | 3.0               | -0.6          |
| Government 2/  | 19.4         | 4.8           | 0.2          | 7.3           | 9.1           | 8.1           | 0.3               | -2.3          |
| Private sector 2/  | 3.2          | 3.3           | 7.5          | 3.0           | 5.4           | 3.1           | 2.6               | 1.7           |
| (annual percentage change)                                     | 24.6         | 27.7          | 62.3         | 19.8          | 35.8          | 19.2          | 15.4              | 9.8           |
| Reserve money  | 29.4         | 20.7          | 24.9         | 11.3          | 14.2          | 11.5          | 12.8              | 11.2          |
| Interest rate 3/   | 14.7         | 14.0          | 15.0         | 14.0          | ...           | 13.0          | ...               | ...           |
| External sector  |              |               |              |               |               |               |                   |               |
| Exports (U.S. dollars)   | 2.8          | 11.8          | 34.4         | 8.7           | 31.7          | 34.5          | 18.5              | 36.5          |
| Imports (U.S. dollars) 4/                                      | 19.5         | 36.4          | 39.1         | 34.3          | 26.8          | 27.0          | 13.2              | 0.9           |
| Terms of trade (- deterioration)                               | 1.5          | 0.5           | 0.0          | -2.2          | -0.2          | 3.2           | 0.5               | 1.7           |
| Real effective exchange rate (- depreciation; end of period)   | -15.8        | ...           | -10.0        | ...           | ...           | ...           | ...               | ...           |
| (In percent of GDP)  |              |               |              |               |               |               |                   |               |
| Gross domestic investment                                      | 6.1          | 17.2          | 10.0         | 19.8          | 17.1          | 19.5          | 24.2              | 16.3          |
| Gross national saving  | -2.8         | 4.3           | -0.1         | 4.6           | 2.4           | 5.8           | 7.3               | 5.2           |
| Current account balance, including official transfers          | -8.9         | -12.9         | -10.1        | -15.2         | -14.8         | -13.7         | -16.9             | -11.1         |
| Current account balance, excluding official transfers          | -19.2        | -27.4         | -25.6        | -33.6         | -30.6         | -27.8         | -32.5             | -23.8         |
| Goods and nonfactor services (net)                             | -17.2        | -25.9         | -22.6        | -30.8         | -27.7         | -24.6         | -29.8             | -21.3         |
| Unrequited private transfers and factor services (net)         | -2.0         | -1.5          | -3.0         | -2.8          | -2.9          | -3.2          | -2.7              | -2.5          |
| Overall balance of payments                                    | 3.1          | -3.4          | -0.3         | 1.2           | -6.0          | 0.5           | -4.6              | -5.1          |
| Government domestic revenue                                    | 14.0         | 14.3          | 14.5         | 14.6          | 15.2          | 15.3          | 16.0              | 16.7          |
| Total expenditure and net lending                              | 29.8         | 40.7          | 34.2         | 39.9          | 34.6          | 39.5          | 36.1              | 34.7          |
| Of which: current expenditure                                  | 24.9         | 27.5          | 28.9         | 27.2          | 26.9          | 25.3          | 25.8              | 23.8          |
| Overall fiscal balance   |              |               |              |               |               |               |                   |               |
| (commitment basis, excluding grants)                           | -15.8        | -26.3         | -19.7        | -25.3         | -19.4         | -24.2         | -20.1             | -18.0         |
| (commitment basis, including grants)                           | -9.4         | -16.1         | -9.9         | -9.4          | -9.1          | -9.3          | -7.5              | -6.6          |
| Domestic primary fiscal balance 5/                             | -5.4         | -9.8          | -7.4         | -6.6          | -6.5          | -6.7          | -6.5              | -4.9          |
| Domestic primary fiscal balance (excl. HIPC)                   | -5.4         | -5.4          | -4.5         | ...           | ...           | ...           | ...               | ...           |
| Domestic financing   | 3.5          | 2.2           | 1.1          | 2.8           | 4.9           | 2.9           | 1.2               | 0.1           |
| Domestic financing (excluding HIPC resource use)               | 3.5          | 2.2           | 2.8          | 2.2           | ...           | 2.2           | ...               | ...           |
| (In percent of exports of goods and nonfactor services)        |              |               |              |               |               |               |                   |               |
| Debt service due (incl. to the Fund) after debt relief 6/      | 82.1         | 16.6          | 14.7         | 10.4          | 12.0          | 14.6          | 11.6              | 5.5           |
| Debt service due (incl. to the Fund) before debt relief        | 96.7         | 55.1          | 56.6         | 70.2          | 54.1          | 49.5          | 43.1              | 25.8          |
| Net present value of debt-to-exports ratio 7/                  | 784.0        | 626.6         | 590.6        | 542.7         | 501.7         | 134.4         | 120.7             | 111.5         |
| Net present value of debt-to-exports ratio 7/8                 | 154.4        | 167.9         | 146.0        | 146.1         | 124.3         | 134.4         | 120.7             | 111.5         |
| (In millions of U.S. dollars, unless otherwise indicated)      |              |               |              |               |               |               |                   |               |
| Memorandum items:  |              |               |              |               |               |               |                   |               |
| External current account balance, excluding official transfers | -143.8       | -218.7        | -200.5       | -294.1        | -241.1        | -268.9        | -260.4            | -207.1        |
| Gross international reserves                                   | 51.9         | 75.6          | 84.6         | 87.0          | 59.2          | 100.0         | 93.5              | 113.5         |
| (in months of imports) 9/                                      | 1.8          | 2.0           | 2.4          | 2.2           | 1.5           | 2.4           | 2.3               | 2.6           |
| GDP (billions of leones)                                       | 1,487.7      | 1,658.7       | 1,643.3      | 1,863.0       | 1,866.4       | 2,085.0       | 2,085.4           | 2,298.3       |
| GDP (millions of U.S. dollars)                                 | 749.0        | 797.8         | 782.9        | 876.1         | 794.9         | 967.1         | 802.1             | 871.1         |

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

1/ Based on the trend in growth of real GDP, nominal GDP is not expected to reach the prewar 1996 level of US\$941.7 million until 2005.

2/ Changes as a percentage of beginning-of-period money stock (including foreign currency deposits).

3/ Treasury bill rate (end of period); in percent.

4/ Includes imports purchased with bilateral aid, those related to rehabilitation and reconstruction programs, and imports of embassies and the UN peacekeeping force (UNAMSIL).

5/ Domestic revenue minus total expenditure and net lending, excluding interest payments, and externally financed capital expenditure and disarmament, demobilization, and reintegration (DDR) program.

6/ As percent of exports of goods and services; after Naples (2001) and Cologne flow reschedulings (2002-04), and delivery of possible HIPC initiative assistance.

7/ Net present value (NPV) of debt relative to backward-looking three-year average of exports of goods and services.

8/ Assumed unconditional delivery of enhanced HIPC initiative assistance in 2000.

9/ In months of imports of goods and services of subsequent year.

Table 2. Sierra Leone: Balance of Payments, 2001-05  
(In millions of U.S. dollars, unless otherwise indicated)

|   | 2001      | 2002    | 2002   | 2003   | 2003      | 2004      | 2005     |
|---|-----------|---------|--------|--------|-----------|-----------|----------|
|   | Est.      | Prog.   | Est.   | Prog.  | Proj.     | Proj.     | Proj.    |
| Current account balance                               | -66.5     | -103.2  | -79.1  | -133.1 | -114.6    | -130.1    | -95.7    |
| Balance on goods and services                         | -128.7    | -206.8  | -177.0 | -269.6 | -216.3    | -228.8    | -180.8   |
| Balance on goods                                      | -86.2     | -137.0  | -123.6 | -192.4 | -150.5    | -157.4    | -105.2   |
| Exports, f.o.b.                                       | 77.1      | 86.0    | 103.7  | 112.9  | 136.5     | 161.8     | 220.9    |
| Rutile  | 0.0       | 0.0     | 0.0    | 0.0    | 0.0       | 1.0       | 25.5     |
| Diamonds 1/   | 74.3      | 80.4    | 96.7   | 102.5  | 125.1     | 143.9     | 168.4    |
| Other   | 2.9       | 5.6     | 7.0    | 10.4   | 11.4      | 16.9      | 13.1     |
| Imports, f.o.b.                                       | -163.4    | -223.0  | -227.3 | -305.3 | -287.1    | -319.2    | -326.1   |
| Petroleum   | -29.0     | -39.2   | -38.5  | -47.0  | -56.9     | -58.3     | -57.5    |
| Rice  | -23.8     | -27.1   | -23.4  | -17.6  | -25.0     | -22.5     | -23.7    |
| Other 2/  | -110.6    | -149.4  | -161.9 | -236.9 | -196.9 3/ | -234.4 3/ | -236.0   |
| Balance on services                                   | -42.5     | -69.7   | -53.4  | -77.3  | -65.8     | -71.4     | -75.6    |
| Receipts  | 38.2      | 40.5    | 38.9   | 44.3   | 41.9      | 45.3      | 48.1     |
| Payments  | -80.7     | -110.3  | -92.3  | -121.6 | -107.7    | -116.7    | -123.6   |
| Income  | -21.1     | -21.7   | -31.2  | -32.5  | -31.5     | -30.4     | -31.6    |
| Interest payments due before debt relief 4/           | -15.3     | -13.4   | -26.3  | -26.0  | -23.2     | -21.6     | -16.5    |
| Investment income (net)                               | -5.8      | -8.3    | -4.9   | -6.6   | -8.4      | -8.8      | -15.2    |
| Current transfers                                     | 83.4      | 125.3   | 129.1  | 169.1  | 133.3     | 129.0     | 116.7    |
| Official  | 77.3      | 115.5   | 121.4  | 161.0  | 124.8     | 119.7     | 106.5    |
| Of which: HIPC grants:                                | 0.0       | 38.5 5/ | 35.8   | 45.8   | 44.2      | 33.9      | 22.7     |
| Private transfers (net)                               | 6.1       | 9.8     | 7.7    | 8.1    | 8.5       | 9.3       | 10.3     |
| Current account balance, excl. official transfers     | -143.8    | -218.7  | -200.5 | -294.1 | -239.4    | -249.8    | -202.1   |
| Capital and financial account                         | 67.7      | 114.9   | 76.3   | 97.3   | 67.2      | 92.4      | 48.2     |
| Capital account                                       | 6.6       | 26.4    | 5.5    | 30.0   | 9.2       | 16.8      | 36.4     |
| Of which: capital transfers                           | 6.6       | 26.4    | 5.5    | 30.0   | 9.2       | 16.8      | 36.4     |
| Financial account                                     | 61.1      | 88.4    | 70.8   | 67.3   | 58.0      | 75.6      | 11.8     |
| Direct investment                                     | 2.2       | 2.4     | 3.9    | 4.4    | 7.9       | 26.2      | 4.3      |
| Other investment                                      | 58.9      | 86.0    | 66.9   | 62.9   | 50.0      | 49.4      | 7.5      |
| Public sector capital                                 | 36.0      | 83.9    | 43.9   | 27.1   | 9.0       | 19.0      | 6.6      |
| Long-term borrowing                                   | 56.7      | 106.7   | 66.8   | 78.5   | 47.8      | 63.6      | 51.0     |
| Of which: balance of payments loans                   | 33.8      | 39.5    | 40.9   | 22.2   | 16.6      | 27.6      | 16.0     |
| Amortization due before debt relief                   | -20.8     | -22.7   | -22.9  | -51.4  | -38.8 6/  | -44.5     | -44.4    |
| Private sector capital                                | 22.9      | 2.1     | 23.1   | 35.8   | 41.0 7/   | 30.3 7/   | 0.9      |
| Long-term borrowing (net)                             | 0.0       | 6.8     | 0.0    | 25.0   | 21.8      | 20.0      | 0.0      |
| Drawings  | 0.0       | 6.8     | 0.0    | 25.0   | 21.8      | 20.0      | 0.0      |
| Amortization  | 0.0       | 0.0     | 0.0    | 0.0    | 0.0       | 0.0       | 0.0      |
| Short-term capital 8/                                 | 22.9      | -4.7    | 23.1   | 10.8   | 19.3      | 10.3      | 0.9      |
| Overall balance                                       | 1.2       | 11.6    | -2.7   | -35.9  | -47.4     | -37.8     | -47.5    |
| Financing   | -1.2      | -11.6   | 2.7    | 35.9   | 47.4      | 37.8      | 47.5     |
| Change in arrears (+ increase)                        | -239.1    | 0.0     | 6.7 9/ | -14.2  | -20.1 9/  | 0.0       | 0.0      |
| Debt relief 10/                                       | 255.9 11/ | 7.3 5/  | 23.9   | 48.2   | 57.1      | 31.7      | 31.9     |
| Change in net foreign assets (- increase)             | -18.0     | -42.6   | -27.9  | 1.9    | 10.4      | 6.0       | -28.1    |
| Net Fund credit                                       | -15.8     | -18.9   | 4.8    | 4.3    | -15.0     | 37.6      | -8.1     |
| Disbursements   | 59.6      | 11.8    | 36.3   | 37.3   | 19.5      | 60.0      | 0.0      |
| Repayments  | -75.4     | -30.7   | -31.4  | -33.0  | -34.6     | -22.5     | -8.1     |
| Reduction of arrears                                  | 0.0       | 0.0     | 0.0    | 0.0    | 0.0       | 0.0       | 0.0      |
| Gross reserves (- increase)                           | -2.2      | -23.7   | -32.7  | -2.4   | 25.4      | -31.6     | -20.0    |
| Financing gap   | 0.0       | 23.7    | 0.0    | 0.0    | 0.0       | 0.0       | 43.6     |
| Possible sources of financing                         |           |         |        |        |           |           |          |
| IMF   | ...       | 23.6    | 0.0    | 0.0    | 0.0       | 0.0       | ...      |
| Other   | 0.0       | 0.0     | 0.0    | 0.0    | 0.0       | 0.0       | 43.6 10/ |
| Memorandum items:                                     |           |         |        |        |           |           |          |
| Current account balance (in percent of GDP)           | -8.9      | -12.9   | -10.1  | -15.2  | -14.6     | -16.3     | -11.0    |
| Excluding official transfers                          | -19.2     | -27.4   | -25.6  | -33.6  | -30.4     | -31.3     | -23.3    |
| Gross official reserves                               | 51.9      | 75.6    | 84.6   | 87.0   | 59.2      | 90.7      | 110.7    |
| Gross official reserves (in months of imports) 13/    | 1.8       | 2.0     | 2.4    | 2.2    | 1.5       | 2.2       | 2.6      |
| Debt-service ratio (incl. Fund) after debt relief 14/ | 82.1      | 16.6    | 14.7   | 10.4   | 12.0      | 11.1      | 5.4      |
| Debt-service ratio (incl. Fund) before debt relief    | 96.7      | 52.8    | 56.6   | 70.2   | 54.1      | 42.8      | 25.7     |
| Debt-service ratio (excl. Fund) after debt relief 14/ | 14.4      | 15.2    | 13.5   | 9.6    | 10.4      | 9.6       | 4.4      |
| Debt-service ratio (excl. Fund) before debt relief    | 29.0      | 27.9    | 34.0   | 48.6   | 34.3      | 31.5      | 22.3     |
| Nominal GDP   | 749.0     | 797.8   | 782.9  | 876.1  | 786.7     | 798.7     | 868.7    |

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

1/ Include unrecorded diamond exports estimated from partner-country data.

2/ Includes imports purchased with bilateral aid and those related to rehabilitation and reconstruction programs.

3/ Imports surge due to the rehabilitation of rutile mining facilities. In 2005, following the completion of the rehabilitation project, imports of capital equipment are expected to drop.

4/ Official interest payments due, including Fund charges.

5/ Program numbers have been revised to show multilateral HIPC initiative grants as current transfers.

6/ Amortization due increases in 2003 and beyond because of arrear payments falling due. The downward revision relative to program numbers for 2003 is due to an update of the arrear payment schedule based on recently concluded arrear rescheduling agreements.

7/ Assumes that investment increases in rutile mining, financed by foreign loans, foreign investment, and government on-lending of an EU grant.

8/ Includes capital outflows associated with unrecorded diamond exports, change in trade credit, and errors and omissions.

9/ The arrears accumulation in 2002 is due to technical arrears that accumulated while negotiations with bilateral creditors on rescheduling were not yet concluded and do not constitute a breach of the performance criteria on the nonaccumulation of external arrears; they have been cleared in 2003.

The arrears reduction in 2003 includes payments of about US\$8 million to the European Investment Bank (EIB) in accordance with the agreement on clearance of arrears reached in January 2002 among the government of Sierra Leone, the EIB, and the European Commission.

In addition, the arrears reduction in 2003 reflects agreements reached with the Saudi Fund for Development and the OPEC Fund on the rescheduling of arrears.

10/ This reflects a rescheduling on Naples terms following the agreed minute with the Paris Club from October 2001.

Cologne flow rescheduling for 2002-04 agreed by the Paris Club at the decision point in February 2002, and comparable relief by other creditors.

11/ Includes rescheduling of arrears of \$239.1 million following the agreed minute with the Paris Club from October 2001, and assumes comparable treatment by other creditors.

12/ Currently unidentified financing.

13/ In months of imports of total goods and services of subsequent year.

14/ After Naples (2001) and Cologne flow reschedulings (2002-04), and delivery of possible HIPC Initiative assistance.

Table 3. Sierra Leone: Central Government Financial Operations, 2001-05 1/

|   | 2001     | 2002     | 2003    |         |          |         |          |          |          |          | 2004     |          |           |           |           |           | 2005     |       |           |       |           |
|---|----------|----------|---------|---------|----------|---------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|----------|-------|-----------|-------|-----------|
|   |          |          | Q1      |         | Q2       |         | Q3       |          | Q4       |          | Q1-Q4    |          | Q1        |           | Q2        |           |          | Q3    |           | Q4    |           |
|   |          |          | Act.    | Act.    | Act.     | Act.    | Prog.    | Prei.    | Prog.    | Proj.    | Prog.    | Proj.    | Rev.Prog. | Rev.Prog. | Rev.Prog. | Rev.Prog. |          | Proj. | Rev.Prog. | Proj. | Rev.Prog. |
| (In millions of leones, unless otherwise indicated) |          |          |         |         |          |         |          |          |          |          |          |          |           |           |           |           |          |       |           |       |           |
| Total revenue and grants                            | 302,692  | 400,027  | 106,235 | 126,733 | 172,635  | 129,554 | 125,585  | 113,895  | 566,938  | 476,417  | 177,991  | 140,589  | 122,743   | 155,032   | 629,139   | 596,355   | 644,441  |       |           |       |           |
| Domestic revenue                                    | 207,669  | 238,691  | 60,887  | 77,817  | 66,513   | 72,776  | 68,815   | 72,262   | 271,678  | 283,743  | 82,642   | 83,325   | 82,528    | 84,662    | 318,205   | 333,157   | 383,372  |       |           |       |           |
| Income Tax Department                               | 54,395   | 62,881   | 15,676  | 21,622  | 18,382   | 18,488  | 18,385   | 19,250   | 73,785   | 73,036   | 23,484   | 23,518   | 23,479    | 23,226    | 94,010    | 93,707    | 116,454  |       |           |       |           |
| Customs and Excise Department                       | 138,181  | 160,589  | 41,059  | 49,482  | 43,386   | 50,075  | 45,558   | 48,900   | 176,439  | 189,516  | 52,658   | 53,753   | 52,658    | 55,931    | 200,185   | 215,000   | 234,442  |       |           |       |           |
| Mines Department                                    | 1,196    | 2,034    | 1,024   | 620     | 199      | 1,085   | 1,034    | 402      | 4,402    | 3,131    | 1,679    | 1,232    | 1,570     | 685       | 4,926     | 5,166     | 12,111   |       |           |       |           |
| Other departments                                   | 7,712    | 6,262    | 793     | 3,934   | 2,749    | 1,000   | 1,893    | 1,460    | 9,540    | 7,187    | 2,212    | 2,212    | 2,212     | 2,210     | 10,677    | 8,846     | 8,873    |       |           |       |           |
| Road user charges                                   | 6,185    | 6,925    | 2,334   | 2,160   | 1,797    | 2,129   | 1,945    | 2,250    | 7,512    | 8,872    | 2,609    | 2,609    | 2,609     | 2,609     | 8,407     | 10,438    | 11,492   |       |           |       |           |
| Grants  | 95,023   | 161,336  | 45,348  | 48,916  | 106,122  | 56,778  | 56,770   | 41,633   | 295,261  | 192,675  | 95,349   | 57,264   | 40,215    | 70,370    | 310,934   | 263,198   | 261,069  |       |           |       |           |
| Program   | 57,268   | 118,199  | 29,294  | 37,657  | 75,561   | 53,666  | 33,833   | 18,697   | 165,395  | 139,314  | 75,349   | 37,264   | 20,215    | 50,370    | 179,035   | 183,198   | 159,425  |       |           |       |           |
| Of which: HIPC                                      | 0        | 75,326   | 29,294  | 18,551  | 33,506   | 36,862  | 15,427   | 21,305   | 89,354   | 106,012  | 32,241   | 10,068   | 20,215    | 25,514    | 82,150    | 88,038    | 59,877   |       |           |       |           |
| Projects  | 37,756   | 43,137   | 16,054  | 11,259  | 30,560   | 3,112   | 22,936   | 22,936   | 129,866  | 53,361   | 20,000   | 20,000   | 20,000    | 20,000    | 131,899   | 80,000    | 101,644  |       |           |       |           |
| Total expenditure and net lending                   | 472,263  | 562,252  | 134,812 | 162,195 | 201,945  | 164,340 | 190,293  | 185,132  | 742,870  | 646,479  | 204,010  | 183,898  | 185,871   | 178,516   | 823,485   | 752,295   | 797,180  |       |           |       |           |
| Recurrent expenditure                               | 397,186  | 474,811  | 104,659 | 122,187 | 143,045  | 140,504 | 131,693  | 135,472  | 507,571  | 502,822  | 150,512  | 130,400  | 132,373   | 125,018   | 527,953   | 538,303   | 546,662  |       |           |       |           |
| Wages and salaries                                  | 111,856  | 142,769  | 33,760  | 42,265  | 38,525   | 40,630  | 38,525   | 39,038   | 154,100  | 155,693  | 43,023   | 43,023   | 43,023    | 43,023    | 164,601   | 172,090   | 183,876  |       |           |       |           |
| Of which: social security payments                  | 0        | 15,300   | 0       | 3,720   | 2,663    | 1,751   | 2,663    | 2,663    | 10,652   | 8,134    | 2,845    | 2,845    | 2,845     | 2,845     | 11,378    | 11,378    | 12,223   |       |           |       |           |
| Goods and services                                  | 136,734  | 154,606  | 25,110  | 43,254  | 57,934   | 54,927  | 61,662   | 56,586   | 191,179  | 179,877  | 64,985   | 54,985   | 49,985    | 49,985    | 224,739   | 219,940   | 241,897  |       |           |       |           |
| Of which: security-related expenditures             | 54,620   | 51,446   | 10,169  | 15,914  | 18,004   | 16,147  | 22,506   | 25,563   | 64,303   | 67,793   | 17,175   | 17,175   | 17,175    | 17,175    | 68,151    | 68,700    | 73,212   |       |           |       |           |
| Of which: defence                                   | 37,868   | 33,371   | 5,622   | 10,915  | 11,928   | 9,659   | 14,910   | ...      | 42,600   | ...      | 10,750   | 10,750   | 10,750    | 10,750    | 45,503    | 43,000    | 48,882   |       |           |       |           |
| Democratization and DDR                             | 28,566   | 33,736   | 1,189   | 4,966   | 7,824    | 3,357   | 0        | 12,250   | 39,120   | 21,762   | 0        | 0        | 0         | 0         | 0         | 0         | 0        |       |           |       |           |
| Of which: domestic contribution                     | 16,751   | 18,075   | 0       | 0       | 6,076    | 1,000   | 7,596    | 7,000    | 1,000    | 8,000    | 0        | 0        | 0         | 0         | 22,648    | 0         | 24,330   |       |           |       |           |
| Grants to educational institutions                  | 13,141   | 14,041   | 4,750   | 4,750   | 5,150    | 4,750   | 4,292    | 4,750    | 17,168   | 19,000   | 5,451    | 5,451    | 5,451     | 5,451     | 19,214    | 21,804    | 21,181   |       |           |       |           |
| Transfers to Road Fund                              | 6,180    | 6,925    | 2,334   | 2,160   | 1,797    | 2,129   | 1,945    | 2,866    | 7,512    | 9,489    | 2,609    | 2,609    | 2,609     | 2,609     | 8,407     | 10,438    | 11,492   |       |           |       |           |
| Socially oriented outlays (soc. safety net)         | 1,365    | 0        | 3,000   | 0       | 0        | 7       | 0        | 0        | 0        | 3,007    | 1,125    | 1,125    | 1,125     | 1,125     | 4,500     | 4,597     | 4,597    |       |           |       |           |
| Elections   | 495      | 17,937   | 0       | 0       | 0        | 0       | 0        | 750      | 750      | 750      | 3,000    | 3,000    | 0         | 0         | 6,000     | 0         | 0        |       |           |       |           |
| Interest payments                                   | 72,796   | 104,797  | 34,516  | 24,793  | 31,815   | 34,705  | 25,268   | 19,231   | 97,742   | 113,244  | 30,319   | 20,208   | 30,180    | 22,825    | 110,992   | 103,532   | 83,619   |       |           |       |           |
| Domestic  | 44,263   | 51,020   | 14,484  | 18,077  | 10,983   | 17,496  | 10,983   | 10,928   | 43,931   | 60,985   | 12,500   | 12,500   | 12,500    | 12,500    | 50,031    | 50,000    | 42,755   |       |           |       |           |
| Foreign   | 28,533   | 53,777   | 20,032  | 6,716   | 20,832   | 17,209  | 14,286   | 8,303    | 53,811   | 52,259   | 17,819   | 7,708    | 17,680    | 10,325    | 60,961    | 53,532    | 40,864   |       |           |       |           |
| Capital expenditure and net lending                 | 75,077   | 87,441   | 30,154  | 40,007  | 58,900   | 23,836  | 58,600   | 49,660   | 235,299  | 143,658  | 53,498   | 53,498   | 53,498    | 53,498    | 295,532   | 213,992   | 250,518  |       |           |       |           |
| Development expenditure                             | 71,144   | 85,768   | 30,240  | 39,999  | 58,775   | 23,586  | 58,475   | 49,410   | 234,799  | 143,236  | 53,498   | 53,498   | 53,498    | 53,498    | 290,532   | 213,992   | 250,518  |       |           |       |           |
| Foreign   | 56,542   | 65,227   | 26,707  | 23,362  | 53,075   | 16,715  | 53,075   | 47,824   | 212,299  | 114,608  | 45,000   | 45,000   | 45,000    | 45,000    | 253,840   | 180,000   | 216,704  |       |           |       |           |
| Loans   | 43,823   | 53,827   | 11,842  | 17,070  | 30,138   | 15,960  | 30,138   | 30,138   | 120,553  | 75,010   | 25,000   | 25,000   | 25,000    | 25,000    | 121,941   | 100,000   | 116,061  |       |           |       |           |
| Grants  | 12,719   | 11,400   | 14,865  | 6,292   | 22,936   | 755     | 22,936   | 17,686   | 91,746   | 39,598   | 20,000   | 20,000   | 20,000    | 20,000    | 131,899   | 80,000    | 101,644  |       |           |       |           |
| Domestic  | 14,602   | 20,541   | 3,533   | 16,637  | 5,700    | 6,871   | 5,400    | 1,586    | 22,500   | 28,627   | 8,498    | 8,498    | 8,498     | 8,498     | 36,692    | 33,992    | 32,814   |       |           |       |           |
| Subsidies   | 3,449    | 450      | 0       | 0       | 125      | 250     | 125      | 250      | 500      | 500      | 0        | 0        | 0         | 0         | 0         | 0         | 0        |       |           |       |           |
| Lending minus repayments                            | 484      | 1,223    | -86     | 8       | 0        | 0       | 0        | 0        | 0        | -78      | 0        | 0        | 0         | 0         | 0         | 0         | 0        |       |           |       |           |
| Overall balance (commitment basis)                  |          |          |         |         |          |         |          |          |          |          |          |          |           |           |           |           |          |       |           |       |           |
| Excluding grants                                    | -264,594 | -323,561 | -73,925 | -84,377 | -135,431 | -91,564 | -121,477 | -112,870 | -471,193 | -362,737 | -121,368 | -100,574 | -103,343  | -93,854   | -505,280  | -419,139  | -413,808 |       |           |       |           |
| Including grants                                    | -169,571 | -162,225 | -28,577 | -35,461 | -29,309  | -34,786 | -64,708  | -71,237  | -175,932 | -170,062 | -26,019  | -43,310  | -63,128   | -23,484   | -194,346  | -155,941  | -152,739 |       |           |       |           |



Table 3. Sierra Leone: Central Government Financial Operations, (concluded) 2001-05 1/

|  | 2001      | 2002      | 2003      |           |           |           |           |           |           |           | 2004      |           |           |           |           |           | 2005      |       |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|-----------|
|  |           |           | Q1        |           | Q2        |           | Q3        |           | Q4        | Q4        | Q1-Q4     | Q1-Q4     | Q1        | Q2        | Q3        | Q4        |           | Q1-Q4 | Q1-Q4     |
|  |           |           | Act.      | Act.      | Act.      | Act.      | Prog.     | Prel.     | Prog.     | Proj.     | Prog.     | Proj.     | Rev.Prog. | Rev.Prog. | Rev.Prog. | Rev.Prog. |           | Proj. | Rev.Prog. |
| (In millions of leones, unless otherwise indicated)          |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |       |           |
| Total financing  | 169,571   | 162,225   | 28,577    | 35,461    | 29,309    | 34,786    | 64,708    | 71,237    | 175,932   | 170,062   | 26,019    | 43,310    | 63,128    | 23,484    | 194,346   | 155,941   | 152,739   |       |           |
| Foreign  | 624,766   | 143,734   | 21,289    | 11,041    | 55,706    | 57,118    | 43,455    | 17,625    | 160,809   | 107,073   | 52,087    | 13,978    | 61,860    | 10,448    | 136,535   | 138,373   | 151,578   |       |           |
| Borrowing  | 95,370    | 141,605   | 12,328    | 17,070    | 62,280    | 53,147    | 45,138    | 30,138    | 167,695   | 112,683   | 57,708    | 25,000    | 64,000    | 25,000    | 175,851   | 171,708   | 184,642   |       |           |
| Project  | 43,823    | 53,827    | 11,842    | 17,070    | 30,138    | 15,960    | 30,138    | 30,138    | 120,553   | 75,010    | 25,000    | 25,000    | 25,000    | 25,000    | 121,941   | 100,000   | 116,061   |       |           |
| Program  | 51,547    | 87,778    | 486       | 0         | 32,142    | 37,187    | 15,000    | 0         | 47,141    | 37,673    | 32,708    | 0         | 39,000    | 0         | 53,911    | 71,708    | 68,581    |       |           |
| Amortization 2/  | -38,515   | -48,284   | -18,532   | -13,722   | -53,189   | -34,227   | -28,843   | -26,081   | -110,125  | -92,562   | -44,056   | -16,794   | -33,938   | -21,025   | -135,037  | -115,812  | -117,247  |       |           |
| Change in foreign arrears                                    | ...       | ...       | -18,974   | -10,188   | ...       | -22,359   | ...       | 6,095     | ...       | -45,427   | 0         | 0         | 0         | 0         | ...       | 0         | ...       |       |           |
| Debt relief obtained 2/ 3/                                   | 567,911   | 50,413    | 46,468    | 17,881    | 46,615    | 60,556    | 27,160    | 7,473     | 103,239   | 132,378   | 38,455    | 5,771     | 31,798    | 6,472     | 95,721    | 82,477    | 84,183    |       |           |
| Domestic   | 51,791    | 18,600    | 26,928    | 25,022    | -16,086   | -14,381   | 24,902    | 53,613    | 51,920    | 91,182    | -24,444   | 30,957    | 2,893     | 14,662    | 59,945    | 24,068    | 3,296     |       |           |
| Of which: bank   | 42,844    | -5,603    | 21,304    | 11,378    | -21,605   | -27,104   | 15,714    | 28,900    | 27,188    | 34,479    | -25,000   | 20,000    | 3,000     | 3,500     | 35,600    | 1,500     | -11,704   |       |           |
| Privatization receipts                                       | 2,060     | 472       | 46        | 81        | 0         | 94        | 1,500     | 0         | 1,500     | 221       | 0         | 0         | 0         | 0         | 0         | 0         | 0         |       |           |
| Change in arrears  | -533,199  | -3,586    | -3,522    | -3,967    | -10,357   | -6,099    | -5,184    | 0         | -38,433   | -13,498   | -1,625    | -1,625    | -1,625    | -1,625    | -2,135    | -6,500    | -2,135    |       |           |
| Unaccounted (- = overfinancing of the budget)                | 24,152    | 3,004     | -16,163   | 3,284     | ...       | -2,036    | ...       | 0         | ...       | -14,916   | 0         | 0         | 0         | 0         | ...       | 0         | 0         |       |           |
| Financing gap  | 0         | 0         | 0         | 0         | 46        | 0         | 33        | 0         | 136       | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |       |           |
| Memorandum items:  |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |       |           |
| Nominal GDP  | 1,487,724 | 1,643,332 | 1,862,967 | 1,862,967 | 1,862,967 | 1,868,178 | 1,862,967 | 1,868,178 | 1,862,967 | 1,868,178 | 2,085,910 | 2,085,910 | 2,085,910 | 2,085,910 | 2,084,965 | 2,085,910 | 2,298,448 |       |           |
| Total HIPC initiative interim assistance                     | 0.0       | 75,326    | 29,294    | 18,551    | 33,506    | 36,862    | 15,427    | 21,305    | 89,354    | 106,012   | 32,241    | 10,068    | 20,215    | 25,514    | 82,150    | 88,038    | 59,877    |       |           |
| Total HIPC initiative interim assistance (as percent of GDP) | 0.0       | 4.6       | 1.6       | 1.0       | 1.8       | 2.0       | 0.8       | 1.1       | 4.8       | 5.7       | 1.5       | 0.5       | 1.0       | 1.2       | 3.9       | 4.2       | 2.6       |       |           |
| Total poverty expenditures (percent of tot. expenditures)    | 15.4      | 21.4      | 20.5      | 21.3      | 20.1      | ...       | 18.8      | ...       | 18.7      | ...       | ...       | ...       | ...       | ...       | ...       | ...       | ...       |       |           |
| (In percent of GDP, unless otherwise indicated)              |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |       |           |
| Domestic revenue   | 14.0      | 14.5      | 3.3       | 4.2       | 3.6       | 3.9       | 3.7       | 3.9       | 14.6      | 15.2      | 4.0       | 4.0       | 4.0       | 4.1       | 15.3      | 16.0      | 16.7      |       |           |
| Total expenditure and net lending                            | 29.8      | 34.2      | 6.1       | 8.3       | 10.8      | 8.8       | 10.2      | 9.9       | 39.9      | 34.6      | 9.8       | 8.8       | 8.9       | 8.6       | 39.5      | 36.1      | 34.7      |       |           |
| Of which: current expenditure                                | 24.9      | 28.9      | 4.7       | 6.4       | 7.7       | 7.5       | 7.1       | 7.3       | 27.2      | 26.9      | 7.2       | 6.3       | 6.3       | 6.0       | 25.3      | 25.8      | 23.8      |       |           |
| Overall fiscal balance (commitment basis)                    |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |       |           |
| Including grants   | -9.4      | -9.9 4/   | -1.5      | -1.9      | -1.6      | -1.9      | -3.5      | -3.8      | -9.4      | -9.1      | -1.2      | -2.1      | -3.0      | -1.1      | -9.3      | -7.5      | -6.6      |       |           |
| Excluding grants   | -15.8     | -19.7     | -4.0      | -4.5      | -7.3      | -4.9      | -6.5      | -6.0      | -25.3     | -19.4     | -5.8      | -4.8      | -5.0      | -4.5      | -24.2     | -20.1     | -18.0     |       |           |
| Domestic primary balance 5/                                  | -5.4      | -7.4      | -0.6      | -1.7      | -2.3      | -2.0      | -2.3      | -2.2      | -6.6      | -6.5      | -2.2      | -1.7      | -1.4      | -1.2      | -6.7      | -6.5      | -4.9      |       |           |
| Domestic financing   | 3.5       | 1.1       | 1.4       | 1.3       | -0.9      | -0.8      | 1.3       | 2.9       | 2.8       | 4.9       | -1.2      | 1.5       | 0.1       | 0.7       | 2.9       | 1.2       | 0.1       |       |           |
| Total wages and salaries                                     | 7.5       | 8.7       | 1.8       | 2.3       | 2.1       | 2.2       | 2.1       | 2.1       | 8.3       | 8.3       | 2.1       | 2.1       | 2.1       | 2.1       | 7.9       | 8.3       | 8.0       |       |           |
| Total wages and salaries (percent of dom. revenue)           | 53.9      | 59.8      | 55.4      | 54.3      | 57.9      | 55.8      | 56.0      | 54.0      | 56.7      | 54.9      | 52.1      | 51.6      | 52.1      | 50.8      | 51.7      | 51.7      | 48.0      |       |           |

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

1/ Includes the disarmament, demobilization, and reintegration (DDR) program, which is managed outside the budget by a private firm hired by the DDR donors.

2/ To enhance transparency, actual debt service payments in 2002 and projections beyond refer to debt service due before debt relief, and debt relief obtained is shown separately as a financing item.

Debt relief obtained encompasses a rescheduling on Naples terms following the agreed minute with the Paris Club from October 2001 onward.

Cologne flow rescheduling for 2002-04 agreed by the Paris Club at the decision point in February 2002, and comparable relief by other creditors. Interim HIPC initiative assistance by multilateral creditors is shown as grants.

3/ Debt relief obtained in 2001 includes rescheduling of outstanding arrears of \$239 million by Paris Club and other creditors.

4/ In this presentation of the overall fiscal balance, HIPC initiative relief is shown as program grants consistent with revised presentation in the balance of payments from 2002 onward. In the 2002 program, HIPC initiative relief was presented as extern

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

Table 4. Sierra Leone: Poverty-Related Expenditure by Activity, 2000-04  
(In millions of leones)

|   | 2000     | 2001     | 2002      | 2003      |                   |           |           |           | 2004      |
|---|----------|----------|-----------|-----------|-------------------|-----------|-----------|-----------|-----------|
|   |          |          |           | FY 2003   | FY 2002           | Quarter 1 | Quarter 2 | Quarter 3 |           |
|   | Act.     | Act.     | Act.      | Budget    | HIPC<br>Carryover | Act.      | Act.      | Est.      | Budget    |
| Total poverty-targeted expenditure  | 49,206.5 | 72,832.5 | 120,555.1 | 135,626.9 | 34,437.4          | 15,984.2  | 37,154.1  | 43,567.2  | 173,754.5 |
| Recurrent poverty-targeted expenditure  | 49,206.5 | 69,840.5 | 108,193.4 | 125,257.9 | 20,033.0          | 14,343.1  | 24,313.1  | 40,512.9  | 157,057.5 |
| General services  |          |          |           |           |                   |           |           |           |           |
| Ministry of Local Government and Community Development                              | ...      | ...      | ...       | ...       | ...               | ...       | ...       | ...       | 1,209.0   |
| Security services   | 7,677.4  | 15,450.5 | 15,272.2  | 24,147.3  | 8,118.0           | 4,611.9   | 5,376.5   | 9,575.1   | 28,611.7  |
| Police  | 5,787.8  | 10,815.6 | 10,278.9  | 14,505.0  | 1,883.0           | 4,525.0   | 3,306.9   | 4,319.3   | 17,154.0  |
| Prisons Department  | 1,532.6  | 3,969.1  | 4,588.6   | 6,698.0   | 1,335.9           | 21.8      | 1,558.5   | 1,754.7   | 6,817.8   |
| National Fire Authority   | 357.0    | 665.8    | 404.7     | 2,944.3   | 4,899.1           | 65.2      | 511.1     | 3,501.1   | 4,639.9   |
| Social services   | 38,909.0 | 45,802.5 | 73,955.6  | 79,965.6  | 9,741.3           | 6,875.6   | 15,728.2  | 21,099.2  | 101,402.6 |
| Ministry of Education, Science and Technology                                       | 28,255.9 | 29,014.9 | 44,096.8  | 42,947.0  | 5,574.8           | 6,422.1   | 10,136.5  | 11,852.3  | 54,525.3  |
| Ministry of Health and Sanitation   | 10,125.7 | 15,573.9 | 27,366.4  | 34,031.4  | -200.0            | 313.5     | 5,044.0   | 8,380.2   | 36,643.3  |
| Ministry of Social Welfare, Gender and Children's Affairs (Social Welfare Division) | 422.9    | 811.5    | 886.5     | 1,295.3   | 443.5             | 63.1      | 426.3     | 419.0     | 1,357.8   |
| Gender and Children's Affairs Division  | 104.5    | 402.2    | 1,603.9   | 1,691.9   | 3,923.0           | 76.9      | 121.5     | 447.7     | 1,659.4   |
| Ministry of Youth and Sports  | ...      | ...      | ...       | ...       | ...               | ...       | ...       | ...       | 2,716.6   |
| Socially-oriented projects  | ...      | ...      | ...       | ...       | ...               | ...       | ...       | ...       | 4,500.0   |
| Economic services   | 2,620.1  | 8,587.5  | 18,965.6  | 21,145.0  | 2,173.7           | 2,855.5   | 3,208.3   | 9,838.7   | 25,834.3  |
| Ministry of Agriculture and Food Security   | 1,225.8  | 1,988.5  | 4,230.5   | 8,034.6   | 980.4             | 437.7     | 2,210.6   | 4,330.6   | 14,740.6  |
| Ministry of Transport and Communications  | 127.5    | 3,880.0  | 3,252.0   | 3,234.2   | 471.0             | 1,664.8   | 77.4      | 287.2     | 2,015.9   |
| Ministry of Energy and Power  | 1,266.8  | 2,719.0  | 2,929.4   | 3,876.2   | 0.0               | 753.0     | 910.3     | 958.9     | 4,077.7   |
| Domestic debt payback program   | ...      | ...      | 8,553.7   | 6,000.0   | 722.3             | 0.0       | 10.0      | 4,261.9   | 5,000.0   |
| Development poverty-targeted expenditure  | ...      | 2,992.0  | 12,361.7  | 10,369.0  | 14,404.4          | 1,641.1   | 12,841.0  | 3,054.3   | 16,697.0  |
| General services  | ...      | 2,442.0  | 2,379.5   | 857.1     | 364.6             | 99.1      | 692.5     | 201.4     | 1,970.0   |
| Ministry of Rural Development and Local Government                                  | ...      | 2,442.0  | 2,379.5   | 857.1     | 364.6             | 99.1      | 692.5     | 201.4     | 1,900.0   |
| Office of the President   | ...      | ...      | ...       | ...       | ...               | ...       | ...       | ...       | 70.0      |
| Security services   | ...      | ...      | 179.8     | 473.6     | 1,595.0           | ...       | 124.0     | 415.5     | 200.0     |
| Prison Department   | ...      | ...      | ...       | 473.6     | 1,302.0           | ...       | ...       | 415.5     | 200.0     |
| Fire Force Authority  | ...      | ...      | ...       | ...       | 293.0             | ...       | 124.0     | ...       | 0.0       |
| Social services   | ...      | 550.0    | 3,947.5   | 2,539.2   | 11,002.5          | 145.0     | 7,611.9   | 867.0     | 5,977.0   |
| Ministry of Education, Youth and Sport  | ...      | 350.0    | 3,688.7   | 1,206.4   | 3,904.3           | 145.0     | 3,948.0   | 275.0     | 1,660.0   |
| Ministry of Health and Sanitation   | ...      | ...      | 162.8     | 1,075.7   | 6,891.2           | ...       | 3,347.9   | 592.0     | 1,560.0   |
| Ministry of Social Welfare, Gender and Children Affairs                             | ...      | 200.0    | 96.0      | 257.1     | 207.0             | ...       | 316.0     | ...       | 50.0      |
| National Commission for Social Action (NaCSA)                                       | ...      | ...      | ...       | ...       | ...               | ...       | ...       | ...       | 2,707.0   |
| Economic services   | ...      | ...      | 6,034.7   | 6,499.1   | 1,442.3           | 1,397.0   | 4,412.7   | 1,570.3   | 8,550.0   |
| Ministry of Agriculture and Food Security   | ...      | ...      | ...       | ...       | 758.6             | 94.0      | 1,068.0   | 563.7     | 385.8     |
| Ministry of Marine Resources  | ...      | ...      | 449.7     | 214.3     | 878.3             | 279.0     | 520.4     | 106.4     | 250.0     |
| Ministry of Energy and Power  | ...      | ...      | ...       | 321.4     | ...               | 50.0      | 50.0      | 100.0     | 1,000.0   |
| Ministry of Works, Housing and Technical Maintenance                                | ...      | ...      | 2,797.0   | 5,204.8   | 470.0             | ...       | 3,278.5   | 978.1     | 5,330.0   |

Source: Budget Bureau, Ministry of Finance.

Table 5. Sierra Leone: Fiscal Adjustment, January - December 2003  
(In millions of leones, unless otherwise indicated)

|                                    | Q1        |           | Q2        |           | Q3        |           | Q4        |           | 2003      |           |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                    | Prog.     | Act.      | Prog.     | Act.      | Prog.     | Est.      | Prog.     | Proj.     | Prog.     | Proj.     |
| Domestic revenue                   | 67,278    | 60,887    | 69,071    | 77,817    | 66,513    | 72,776    | 68,815    | 72,262    | 271,678   | 283,743   |
| In percent of GDP                  | 3.6       | 3.3       | 3.7       | 4.2       | 3.6       | 3.9       | 3.7       | 3.9       | 14.6      | 15.2      |
| Total domestic expenditure         | 77,147    | 72,401    | 95,381    | 109,074   | 109,431   | 110,564   | 111,949   | 112,826   | 394,709   | 404,865   |
| In percent of GDP                  | 4.1       | 3.9       | 5.1       | 5.9       | 5.9       | 5.9       | 6.0       | 6.0       | 21.2      | 21.7      |
| Domestic primary balance           | -9,869    | -11,514   | -26,310   | -31,257   | -42,918   | -37,787   | -43,134   | -40,564   | -123,031  | -121,122  |
| In percent of GDP                  | -0.5      | -0.6      | -1.4      | -1.7      | -2.3      | -2.0      | -2.3      | -2.2      | -6.6      | -6.5      |
| Overall balance (including grants) | -34,767   | -28,577   | -47,147   | -35,461   | -29,309   | -34,786   | -64,708   | -71,237   | -175,932  | -170,062  |
| In percent of GDP                  | -1.9      | -1.5      | -2.5      | -1.9      | -1.6      | -1.9      | -3.5      | -3.8      | -9.4      | -9.1      |
| Change in arrears 1/               | -16,785   | -3,522    | -6,107    | -3,967    | -10,357   | -6,009    | -5,184    | 0         | -38,433   | -13,498   |
| In percent of GDP                  | -0.9      | -0.2      | -0.3      | -0.2      | -0.6      | -0.3      | -0.3      | 0.0       | -2.1      | -0.7      |
| Net foreign financing              | 31,491    | 21,289    | 30,157    | 11,041    | 55,706    | 57,118    | 43,455    | 17,625    | 160,809   | 107,073   |
| In percent of GDP                  | 1.7       | 1.1       | 1.6       | 0.6       | 3.0       | 3.1       | 2.3       | 0.9       | 8.6       | 5.7       |
| Net domestic financing 2/          | 20,062    | 10,810    | 23,098    | 28,387    | -16,040   | -16,323   | 26,436    | 53,613    | 53,556    | 76,487    |
| Of which: banking system           | 13,264    | 21,304    | 19,814    | 11,378    | -21,605   | -27,104   | 15,714    | 28,900    | 27,188    | 34,479    |
| In percent of GDP                  | 1.1       | 0.6       | 1.2       | 1.5       | -0.9      | -0.9      | 1.4       | 2.9       | 2.9       | 4.1       |
| Memorandum item:                   |           |           |           |           |           |           |           |           |           |           |
| Nominal GDP                        | 1,862,967 | 1,862,967 | 1,862,967 | 1,862,967 | 1,862,967 | 1,868,178 | 1,862,967 | 1,868,178 | 1,862,967 | 1,868,178 |

1/ Includes domestic and foreign arrears.

2/ Includes privatization receipts and unidentified financing.

Table 6. Sierra Leone: Monetary Survey, December 2001-December 2005  
(In millions of leones; at actual exchange rates unless otherwise indicated)

|   | 2001     | 2002     | 2003     |          |          |          |          | 2004     |          |              |              |              | 2005     |              |           |  |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|--------------|--------------|--------------|----------|--------------|-----------|--|
|   | Dec.     | Dec.     | Mar.     | June     | Sep.     |          | Dec.     | Dec.     | Mar.     | Jun.         | Sep.         | Dec.         | Dec.     | Dec.         |           |  |
|   | Act.     | Act.     | Act.     | Act.     | Prog.    | Est. 4/  | Est.     | Prog     | Proj. 5/ | Rev.Prog. 5/ | Rev.Prog. 5/ | Rev.Prog. 5/ | Prog.    | Rev.Prog. 5/ | Rev.Prog. |  |
| <b>Monetary survey</b>                    |          |          |          |          |          |          |          |          |          |              |              |              |          |              |           |  |
| Net foreign assets                        | -202,292 | -140,521 | -157,820 | -158,341 | -137,984 | -117,180 | -134,332 | -116,783 | -169,986 | -139,854     | -152,490     | -134,957     | -119,676 | -134,151     | -93,063   |  |
| Net domestic assets                       | 493,155  | 519,035  | 542,620  | 565,661  | 509,717  | 557,080  | 574,232  | 541,235  | 625,338  | 602,262      | 624,233      | 631,221      | 603,769  | 638,906      | 640,998   |  |
| Domestic credit                           | 762,458  | 785,300  | 814,530  | 825,237  | 777,184  | 807,656  | 807,656  | 808,701  | 843,009  | 819,933      | 841,904      | 848,892      | 871,235  | 856,577      | 853,557   |  |
| Claims on government (net)                | 727,016  | 727,617  | 748,921  | 760,299  | 732,888  | 733,195  | 733,195  | 748,602  | 762,095  | 737,095      | 757,095      | 760,095      | 783,081  | 763,595      | 751,891   |  |
| Claims on government (net) 1/ 2/          | 194,991  | 195,592  | 217,314  | 229,261  | 200,863  | 202,158  | 202,158  | 216,577  | 231,058  | 206,058      | 229,058      | 229,058      | 251,056  | 232,558      | 220,854   |  |
| Claims on nonfinancial public enterprises | 499      | 963      | 1,432    | 2,754    | -15,137  | 2,864    | 2,864    | -7,837   | 3,864    | 3,914        | 3,964        | 4,014        | 7,163    | 4,064        | 4,064     |  |
| Claims on private sector                  | 34,943   | 56,719   | 64,178   | 62,183   | 59,433   | 71,596   | 71,596   | 67,936   | 77,050   | 78,924       | 80,845       | 84,783       | 80,991   | 88,918       | 97,602    |  |
| Other items (net)                         | -269,302 | -266,264 | -271,911 | -259,576 | -267,466 | -250,575 | -233,424 | -267,466 | -217,671 | -217,671     | -217,671     | -217,671     | -267,466 | -217,671     | -212,559  |  |
| Broad money                               | 290,864  | 378,514  | 384,800  | 407,321  | 371,733  | 439,900  | 439,900  | 424,452  | 455,352  | 462,408      | 471,743      | 496,264      | 484,092  | 504,756      | 547,935   |  |
| Money                                     | 189,437  | 247,478  | 244,501  | 251,257  | 231,926  | 273,380  | 273,380  | 263,262  | 282,983  | 287,368      | 293,169      | 308,408      | 295,412  | 313,685      | 340,519   |  |
| Quasi money                               | 101,427  | 131,037  | 140,299  | 156,064  | 146,085  | 166,520  | 166,520  | 146,656  | 160,189  | 162,671      | 165,955      | 174,581      | 168,946  | 177,569      | 192,759   |  |
| <b>Bank of Sierra Leone</b>               |          |          |          |          |          |          |          |          |          |              |              |              |          |              |           |  |
| Net foreign assets                        | -249,587 | -198,904 | -220,558 | -234,953 | -200,367 | -182,696 | -209,437 | -189,465 | -257,281 | -240,149     | -265,785     | -261,252     | -197,559 | -273,445     | -243,315  |  |
| Foreign assets                            | 115,454  | 191,179  | 156,211  | 190,126  | 209,266  | 193,904  | 222,286  | 190,681  | 167,677  | 220,402      | 230,360      | 221,000      | 219,173  | 244,400      | 294,099   |  |
| Foreign liabilities                       | -365,041 | -390,083 | -376,769 | -425,079 | -409,633 | -376,601 | -431,723 | -380,146 | -424,958 | -460,551     | -496,145     | -482,252     | -416,732 | -517,845     | -537,414  |  |
| Net domestic assets                       | 391,690  | 376,345  | 390,092  | 413,765  | 386,718  | 375,179  | 401,920  | 387,001  | 459,942  | 454,942      | 482,942      | 485,942      | 417,780  | 502,042      | 490,450   |  |
| Claims on government (net)                | 637,163  | 612,623  | 620,557  | 635,919  | 628,096  | 602,275  | 602,275  | 628,091  | 646,175  | 641,175      | 669,175      | 672,175      | 655,870  | 688,275      | 671,571   |  |
| Claims on government (net) 2/ 3/          | 105,138  | 80,598   | 88,951   | 104,882  | 96,071   | 71,238   | 71,238   | 96,066   | 115,138  | 110,138      | 138,138      | 141,138      | 123,845  | 157,238      | 140,534   |  |
| Claims on nonfinancial public enterprises | 13       | 13       | 13       | 13       | -2,087   | 13       | 13       | -2,787   | 13       | 13           | 13           | 13           | 213      | 13           | 13        |  |
| Claims on private sector                  | 1,969    | 6,161    | 2,684    | 2,446    | 3,161    | 2,181    | 2,181    | 2,661    | 2,081    | 2,081        | 2,081        | 2,081        | 2,661    | 2,081        | 2,081     |  |
| Claims on deposit money banks             | 969      | 278      | 1,544    | 496      | 278      | 771      | 771      | 1,766    | 787      | 787          | 787          | 787          | 1,766    | 787          | 787       |  |
| Other items (net)                         | -248,423 | -242,730 | -234,707 | -225,109 | -242,730 | -230,061 | -203,320 | -242,730 | -189,114 | -189,114     | -189,114     | -189,114     | -242,730 | -189,114     | -184,002  |  |
| Reserve money                             | 142,103  | 177,441  | 169,534  | 178,812  | 186,352  | 192,483  | 192,483  | 197,536  | 202,661  | 214,793      | 217,158      | 224,690      | 220,221  | 228,597      | 247,135   |  |
| Currency outside banks                    | 116,153  | 148,015  | 150,584  | 153,540  | 130,107  | 172,204  | 172,204  | 161,292  | 178,252  | 181,015      | 184,669      | 194,268      | 174,273  | 197,592      | 214,495   |  |
| Reserves of deposit money banks           | 20,118   | 20,772   | 12,916   | 15,302   | 45,093   | 18,263   | 18,263   | 27,755   | 22,322   | 31,660       | 30,327       | 28,148       | 31,425   | 28,692       | 30,129    |  |
| Other deposits                            | 5,833    | 8,654    | 6,033    | 9,971    | 11,152   | 2,016    | 2,016    | 8,489    | 2,087    | 2,119        | 2,162        | 2,274        | 14,523   | 2,313        | 2,511     |  |
| <b>Deposit money banks</b>                |          |          |          |          |          |          |          |          |          |              |              |              |          |              |           |  |
| Net foreign assets                        | 47,295   | 58,383   | 62,738   | 76,613   | 68,383   | 65,516   | 75,106   | 56,383   | 87,295   | 100,295      | 113,295      | 126,295      | 56,383   | 139,295      | 150,252   |  |
| Net domestic assets                       | 118,220  | 163,462  | 165,444  | 167,197  | 168,370  | 200,164  | 190,575  | 183,754  | 188,505  | 166,610      | 158,999      | 160,153      | 219,180  | 152,054      | 166,020   |  |
| Claims on government (net)                | 89,854   | 114,994  | 128,363  | 124,380  | 104,791  | 130,920  | 130,920  | 120,511  | 115,920  | 95,920       | 87,920       | 87,920       | 127,211  | 75,320       | 80,320    |  |
| Claims on nonfinancial public enterprises | 486      | 950      | 1,418    | 2,741    | -13,050  | 2,851    | 2,851    | -5,050   | 3,851    | 3,901        | 3,951        | 4,001        | 6,950    | 4,051        | 4,051     |  |
| Claims on private sector                  | 32,974   | 50,559   | 61,495   | 59,737   | 56,272   | 69,415   | 69,415   | 65,275   | 74,968   | 76,843       | 78,764       | 82,702       | 78,330   | 86,837       | 95,521    |  |
| Reserves                                  | 17,047   | 21,696   | 12,818   | 13,119   | 45,093   | 15,946   | 15,946   | 27,755   | 22,322   | 18,504       | 16,921       | 14,087       | 31,425   | 14,403       | 14,686    |  |
| Other items (net)                         | -22,140  | -24,737  | -38,650  | -32,780  | -24,737  | -18,967  | -28,557  | -24,737  | -28,557  | -28,557      | -28,557      | -28,557      | -24,737  | -28,557      | -28,557   |  |
| Total deposits                            | 165,516  | 221,845  | 228,182  | 243,810  | 236,752  | 265,681  | 265,681  | 240,137  | 275,800  | 266,905      | 272,294      | 286,448      | 275,562  | 291,349      | 316,272   |  |
| Local currency deposits                   | 119,493  | 166,577  | 168,759  | 170,771  | 160,125  | 195,849  | 195,849  | 177,145  | 198,962  | 188,877      | 192,690      | 202,706      | 202,036  | 206,175      | 223,812   |  |
| Foreign currency deposits                 | 46,023   | 55,268   | 59,424   | 73,039   | 76,627   | 69,831   | 69,831   | 62,992   | 76,838   | 78,028       | 79,604       | 83,742       | 73,526   | 85,174       | 92,461    |  |

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

1/ New special non-interest-bearing government stocks were issued by the Bank of Sierra Leone to cover foreign exchange valuation losses incurred.

2/ Excluding non-interest-bearing stock.

3/ Including foreign currency deposits.

4/ Items denominated in foreign currencies are valued at the program exchange rate of Le 2,142.8 per US\$1 (as specified in the TMU of March 2003).

5/ Items denominated in foreign currencies are valued at the program exchange rate of Le 2,600.0 per US\$1 (as specified in the TMU of January 2004).

Table 7. Sierra Leone: External Financing Requirements and Sources, 2001-05  
(In millions of U.S. dollars)

|  | 2001   | 2002   | 2003   | 2004   | 2005   |
|--|--------|--------|--------|--------|--------|
|  | Est.   | Est.   | Proj.  | Proj.  | Proj.  |
| Current account<br>(excluding interest and official transfers) | -128.4 | -174.1 | -216.2 | -228.2 | -185.7 |
| Debt-service obligations                                       | 111.5  | 80.7   | 96.5   | 88.6   | 69.0   |
| Interest   | 15.3   | 26.3   | 23.2   | 21.6   | 16.5   |
| Amortization   | 96.2   | 54.3   | 73.4   | 67.0   | 52.6   |
| Reduction of arrears 1/  | 239.1  | -6.7   | 20.1   | 0.0    | 0.0    |
| Increase in gross reserves                                     | 2.2    | 32.7   | -25.4  | 31.6   | 20.0   |
| Central bank   | 2.2    | 32.7   | -25.4  | 31.6   | 20.0   |
| Commercial banks   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Gross financing requirement                                    | -481.3 | -280.9 | -307.4 | -348.4 | -274.7 |
| Identified disbursements                                       | 202.5  | 233.8  | 231.0  | 306.3  | 198.2  |
| Loans for balance of payments support                          | 93.5   | 77.1   | 36.1   | 87.6   | 16.0   |
| IMF  | 59.6   | 36.3   | 19.5   | 60.0   | 0.0    |
| IBRD   | 27.5   | 28.5   | 15.9   | 15.0   | 10.0   |
| African Development Bank                                       | 6.3    | 12.3   | 0.8    | 12.6   | 6.0    |
| European Union   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Other  | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Grants   | 49.0   | 76.9   | 79.0   | 91.5   | 106.4  |
| Program  | 30.3   | 56.2   | 60.4   | 70.5   | 60.9   |
| <i>Of which:</i> HIPC Initiative grants                        | 0.0    | 35.8   | 44.2   | 33.9   | 22.7   |
| Project  | 18.6   | 20.8   | 18.6   | 21.0   | 45.5   |
| Project loans  | 22.9   | 25.9   | 31.2   | 36.0   | 35.0   |
| Nonbudgetary transfers (e.g., UNAMSIL)                         | 35.0   | 50.0   | 55.0   | 45.0   | 36.5   |
| Foreign direct investment & private sector loans               | 2.2    | 3.9    | 29.7   | 46.2   | 4.3    |
| Debt relief 2/   | 255.9  | 23.9   | 57.1   | 31.7   | 31.9   |
| Short-term capital movements 3/                                | 22.9   | 23.1   | 19.3   | 10.3   | 0.9    |
| Financing gap 4/   | 0.0    | 0.0    | 0.0    | 0.0    | 43.6   |
| Sources of financing identified:                               | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Residual balance 5/  | 0.0    | 0.0    | 0.0    | 0.0    | 43.6   |

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

1/ Rescheduling of arrears by the Paris Club; assumes comparable treatment by other creditors, including military contractor  
2/ Include Naples flow rescheduling provided by the Paris Club in October 2001 and additional relief by other creditors, Cologne flow rescheduling for 2002-04 agreed by the Paris Club at the decision point in February 2002, and comparable relief by other creditors. For 2001, the amount includes the rescheduling of arrears of \$239.1 million.

3/ Includes capital outflows associated with unrecorded diamond exports, change in trade credit, and errors and omissions.

4/ After identified disbursements, debt reschedulings, HIPC Initiative assistance, and short-term capital movements.

5/ Currently unidentified financing.

Table 8. Sierra Leone: Disbursements Under the PRGF Arrangement, 2001-04  
(In millions of SDRs)

| Date               | Disbursement       | Subject to:   |
|--------------------|--------------------|---|
| September 20, 2001 | 46.84 <sup>1</sup> | Approval of arrangement   |
| March 11, 2002     | 9.33               | First review and performance criteria (PCs) for end-September 2001        |
| September 2002     | 18.66              | Second review and PCs for end-December 2001 and PCs for end-March 2002    |
| March 2003         | 14.0               | Third review and PCs for end-September 2002 and PCs for end-December 2002 |
| February 2004      | 14.0               | Fourth review and PCs for end-June 2003                                   |
| June 2004          | 14.0               | Fifth review and PCs for end-March 2004                                   |
| December 2004      | 14.0               | Sixth review and PCs for end-September 2004                               |

<sup>1</sup> Of this total, an amount equivalent to SDR 37.51 million (36.17 percent of quota) was disbursed and used to replace an equivalent amount outstanding in purchases under the emergency post-conflict assistance policy.

Table 9. Sierra Leone: Indicators of Capacity to Repay the Fund, 1999-2008 1/  
(In millions of U.S. dollars, unless otherwise indicated)

|  | 1999        | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | Projections |       |       |       |       |       |       |       |       |       |
| <b>Fund credit outstanding (end of period) 1/</b>                    |             |       |       |       |       |       |       |       |       |       |
| In millions of SDRs  | 142.0       | 133.2 | 120.8 | 124.5 | 113.8 | 140.0 | 134.4 | 131.3 | 120.5 | 105.6 |
| In millions of U.S. dollars  | 194.1       | 175.7 | 153.8 | 161.3 | 158.8 | 200.2 | 192.6 | 188.6 | 173.2 | 151.7 |
| In percent of quota  | 136.9       | 128.5 | 116.5 | 120.1 | 109.7 | 135.0 | 129.6 | 126.7 | 116.2 | 101.8 |
| <b>Fund obligations</b>  | 13.9        | 27.7  | 78.1  | 32.2  | 35.4  | 23.5  | 9.1   | 5.3   | 16.4  | 22.3  |
| Fund total charges and interests                                     | 1.5         | 2.5   | 2.7   | 0.8   | 0.8   | 1.0   | 1.0   | 0.9   | 0.9   | 0.8   |
| Existing drawings  | 1.5         | 2.5   | 2.7   | 0.8   | 0.7   | 0.6   | 0.6   | 0.5   | 0.5   | 0.4   |
| Prospective drawings   | 0.0         | 0.0   | 0.0   | 0.0   | 0.1   | 0.4   | 0.4   | 0.4   | 0.4   | 0.4   |
| Fund total repayments/repurchases                                    | 12.4        | 25.2  | 75.4  | 31.4  | 34.6  | 22.5  | 8.1   | 4.4   | 15.5  | 21.5  |
| Existing drawings  | 12.4        | 25.2  | 75.4  | 31.4  | 34.6  | 22.5  | 8.1   | 4.4   | 15.5  | 21.5  |
| Prospective drawings   | 0.0         | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| <b>Fund credit outstanding in percent of:</b>                        |             |       |       |       |       |       |       |       |       |       |
| Exports of goods and services  | 210.5       | 160.1 | 133.3 | 113.1 | 89.0  | 96.7  | 71.6  | 58.1  | 49.7  | 37.7  |
| Total external debt 2/   | 16.0        | 14.5  | 12.3  | 12.6  | 12.4  | 19.6  | 18.1  | 16.8  | 14.8  | 12.5  |
| Gross official reserves  | 506.8       | 354.0 | 296.6 | 190.7 | 268.4 | 220.6 | 173.9 | 134.0 | 95.8  | 68.7  |
| <b>Fund obligations in percent of:</b>                               |             |       |       |       |       |       |       |       |       |       |
| Exports of goods and services  | 15.0        | 25.3  | 67.7  | 22.6  | 19.8  | 11.3  | 3.4   | 1.6   | 4.7   | 5.5   |
| External debt service 2/   | 25.7        | 52.6  | 70.0  | 39.9  | 36.6  | 26.5  | 13.1  | 8.5   | 25.0  | 32.4  |
| Gross international reserves   | 36.2        | 55.9  | 150.6 | 38.1  | 59.8  | 25.9  | 8.2   | 3.8   | 9.1   | 10.1  |
| <b>Memorandum items:</b>   |             |       |       |       |       |       |       |       |       |       |
| Exports of goods and services (in millions of U.S. dollars)          | 92.2        | 109.7 | 115.4 | 142.6 | 178.4 | 207.1 | 268.9 | 324.5 | 348.6 | 402.6 |
| Gross official reserves (in months of imports of goods and services) | 2.0         | 2.2   | 1.8   | 2.4   | 1.5   | 2.2   | 2.6   | 3.0   | 3.8   | 4.4   |

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

1/ All numbers are before HIPC Initiative assistance.

2/ Before rescheduling.

Table 10. Sierra Leone: Selected Social and Demographic Indicators

|   | Sierra Leone | Sub-Saharan Africa |
|---|--------------|--------------------|
| Total land area (thousands of square kilometers)                          | 71.6         | 23,628.4           |
| Agricultural land (in percent of total)                                   | 74           | 53                 |
| <b>Population and vital statistics (1999, unless otherwise indicated)</b> |              |                    |
| Total population (in millions)  | 5            | 644                |
| Population growth rate (in percent)                                       | 2            | 3                  |
| Urban population (in percent of total)                                    | 34           | 34                 |
| Population density (per square kilometer)                                 | 65           | 27                 |
| <b>Population age structure (in percent; 1996)</b>                        |              |                    |
| 0-14 years  | 45           | 44                 |
| 15-64 years   | 52           | 53                 |
| 65 years and above  | 3            | 3                  |
| Infant mortality rate (per thousand)                                      | 182          | 107                |
| Life expectancy at birth (years)  | 38           | 49                 |
| Male  | 36           | 46                 |
| Female  | 41           | 48                 |
| GDP per capita in U.S. dollars (2000)                                     | 134          | 500                |
| Poverty rate (in percent) 1/  | 82           | ...                |
| <b>Health and nutrition (2000, unless otherwise indicated)</b>            |              |                    |
| <b>Access to safe water (in percent of population)</b>                    |              |                    |
| Total   | 34           | 46                 |
| Urban   | 58           | 64                 |
| Rural   | 21           | 29                 |
| Population per physician  | 20,695       | 14,347             |
| Population per hospital bed   | ...          | 1,310              |
| Daily per capita calorie supply   | 2,035        | ...                |
| Percent of requirement  | 85           | ...                |
| Protein intake per capita (1990; grams per day)                           | 44           | ...                |
| <b>Labor force (in millions; 1999)</b>                                    |              |                    |
| Total labor force (1999)  | 3            | 275                |
| <b>Percent of formal labor force (1997)</b>                               |              |                    |
| Female  | 32           | 42                 |
| Agriculture   | 61           | 70                 |
| Industry  | 17           | 8                  |
| Services  | 22           | ...                |
| <b>Education (1999)</b>   |              |                    |
| <b>Percent of age group enrolled in:</b>                                  |              |                    |
| Primary school  | 42           | 78                 |
| Secondary school  | 16           | 27                 |
| Tertiary education  | 1            | 3                  |
| Adult literacy rate (in percent)  | 30           | 41                 |

Sources: Central Statistical Office; draft Sierra Leone 2000 "National Human Development and Related Indicators"; UNDP, *Human Development Indicators*, 2001; Government of Sierra Leone, "Household Survey Report on Women and Children 2000".

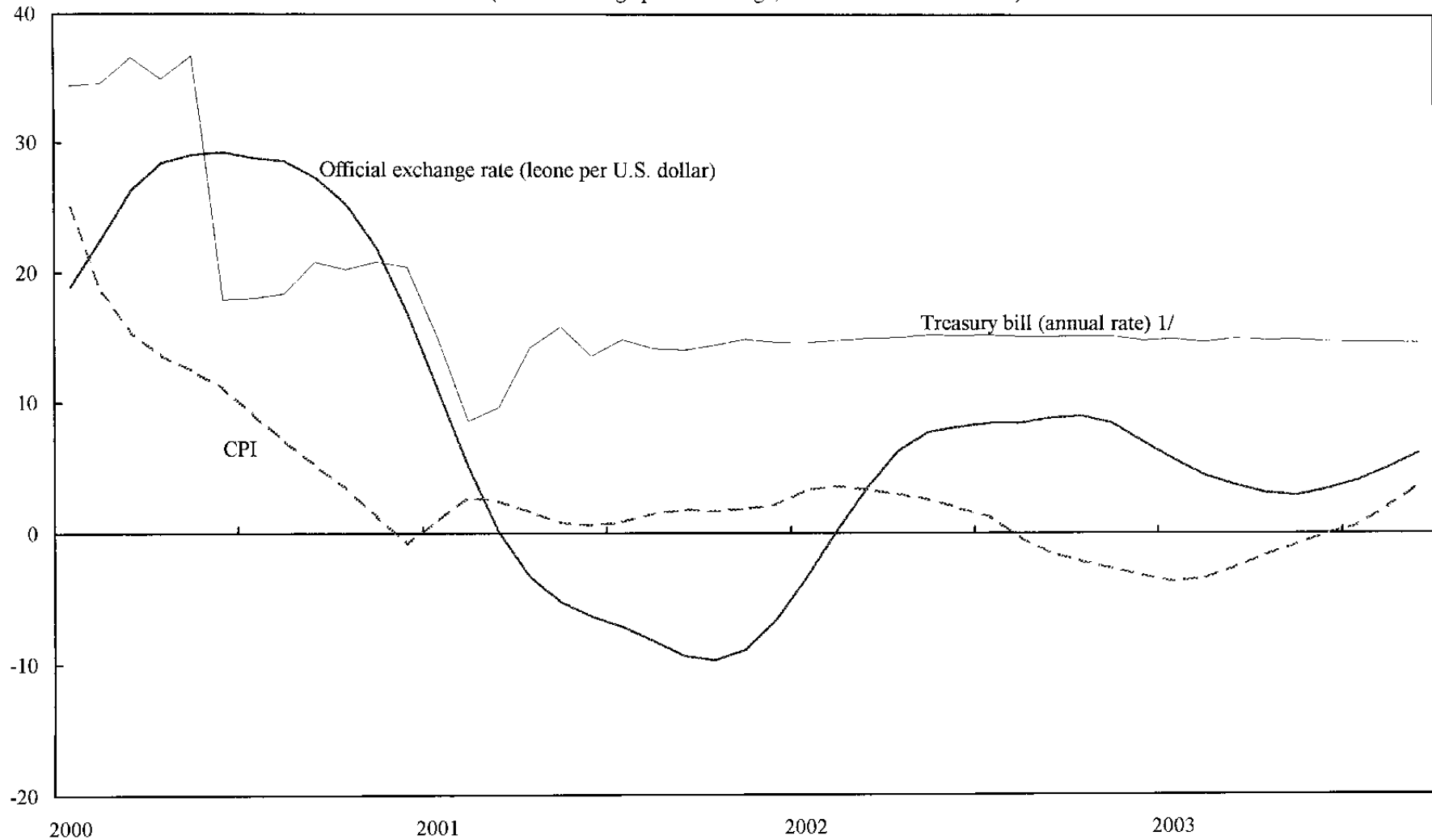
1/ This figure is for 1989-90. It measures the percentage of the total population living on the equivalent of under US\$1 per day in 1989.



Table 11. Sierra Leone: Status of HIPC Initiative Completion Point Triggers

| Triggers  | Status  |
|---|---|
| <p><b>PRSP.</b> Preparation of a full PRSP and implementation for at least one year, as evidenced by the satisfactory joint staff assessment of the PRSP and the country's annual progress report.</p>  | <p>The preparation of the PRSP has been hampered by administrative and capacity constraints. The date of completion of a full PRSP is now set for mid-2004. Technical assistance is being provided by World Bank, DfID, and EU.</p>   |
| <p><b>Macroeconomic stability.</b> Continued maintenance of macroeconomic stability, as evidenced by satisfactory implementation of the PRGF-supported program.</p>   | <p>Macroeconomic stability continues to be maintained, as evidenced by satisfactory progress under the PRGF arrangement.</p>  |
| <p><b>Use of budgetary savings.</b> The budgetary savings from interim debt-service relief in 2002 have been used in the priority areas indicated in Table 2 of EBS/02/30 and monitored in the framework for poverty reduction expenditures. The increase in total spending on these priorities will be proportionate to HIPC relief. Budgetary savings from interim debt-service relief in subsequent years will be used in accordance with the agreed annual budgets for those years.</p> | <p>The use of interim HIPC relief, in 2003 and beyond, will allow a significant increase in the allocations for poverty-reduction activities in health, education, and agriculture.</p>   |
| <p><b>Governance and decentralization of government functions:</b></p>  | <p>Under the program, 48,200 ex-combatants have now completed or are in approved projects; of the 8,537 remaining ex-combatants, the remaining case load is estimated at 4,500. The program is expected to be completed by end-2003.</p>  |
| <ul style="list-style-type: none"> <li>• Completion of disarmament and demobilization and provision of reintegration assistance to all ex-combatants under the DDR program.</li> </ul>  | <p>A review of the PETS was conducted in March 2003, followed by the development of a generic resource flow model. A public expenditure survey covering 2002 was completed in October 2003, with a report expected by January 2004.</p>   |
| <ul style="list-style-type: none"> <li>• Biannual tracking of public expenditures on priority areas within the PETS framework, including development expenditures; dissemination and publication of results.</li> </ul>   | <p>The MTEF process is being deepened to ensure greater participation by ministries, transparency, and accountability. Budget execution for 2004-6 will be affected by a gradual diversification of the budget in line with the government's drive for decentralization.</p>  |
| <ul style="list-style-type: none"> <li>• Adoption and implementation of the MTEF, and budget system for tracking expenditures at the regional levels.</li> </ul>  | <p>The NCP is operating. A strategic plan for divesting 24 public enterprises by December 2006 exists.</p>  |
| <p><b>Structural measures:</b></p>  | <p>A draft mining sector law has been submitted for Cabinet approval. Technical assistance has been provided by the World Bank and DfID.</p>  |
| <ul style="list-style-type: none"> <li>• New privatization legislation was introduced in September 2002 for the establishment of an independent National Privatization Commission to implement the government divestiture strategy.</li> </ul>  | <p>Primary school gross enrollment rates increased to 60 percent in 2003, from 44 percent in 2002.</p>  |
| <ul style="list-style-type: none"> <li>• Adoption by the government of a revised mining policy to promote formal activity (including artisanal mining) and attract private investment for medium-and large-scale mining.</li> </ul>   | <p>A total of 1,573 unqualified teachers are being trained under the REBEP, funded by the World Bank. A module for training unqualified secondary school teachers will start in January 2004.</p>   |
| <p><b>Education:</b></p>  | <p>About 80,000 insecticide-treated bed nets have been distributed by 2003.</p>   |
| <ul style="list-style-type: none"> <li>• The primary gross enrollment rates for girls will have been increased to at least 65 percent.</li> </ul>   | <p>Twelve core staff have been recruited; sensitization with the public and private sectors ongoing; units in 19 ministries and district coordination committees in all districts and chiefdoms have been established for HIV/AIDS; and guidelines and manuals have been developed, including communication strategy. Anti-natal clinics for pregnant women have been set up.</p> |
| <ul style="list-style-type: none"> <li>• At least 1,500 unqualified teachers will have received formal in-service training in primary schools, and at least 500 unqualified teachers will have received in-service training in secondary schools.</li> </ul>  | <p>Full cycle immunization coverage is estimated at 47 percent in 2003.</p>   |
| <p><b>Health:</b></p>   |   |
| <ul style="list-style-type: none"> <li>• Distribution of insecticide-treated bed nets will have increased from 18,482 in 2000 to 60,000.</li> </ul>   |   |
| <ul style="list-style-type: none"> <li>• At least 200 persons, including health professionals and staff from line ministries and civil society organizations, will have been provided by the National HIV/AIDS Secretariat with HIV/AIDS, and STIs education and training on prevention and basic care, in order to encourage HIV/AIDS, and STIs avoidance behavior, destigmatize the disease, and support those infected or otherwise affected by the disease.</li> </ul>                  |   |
| <ul style="list-style-type: none"> <li>• Immunization coverage (percentage of children aged 12 to 23 months immunized against diphtheria, pertussis, and tetanus) will have increased to at least 55 percent.</li> </ul>  |   |

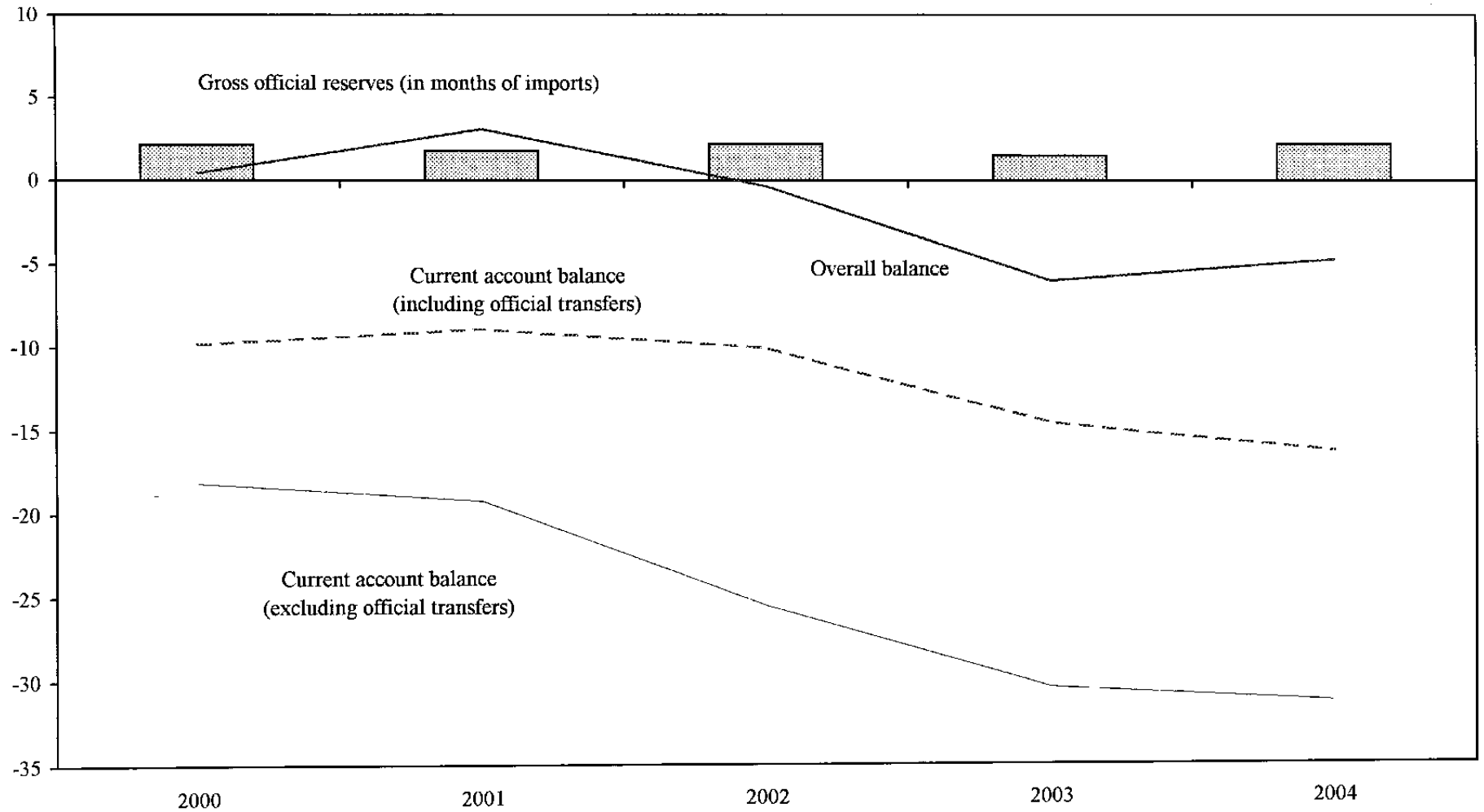
Figure 1. Sierra Leone: Trends in Interest Rate, Exchange Rate, and Consumer Price Index (CPI), January 2000 - September 2003  
 (Annual average percent change, unless otherwise indicated)



Sources: Sierra Leonean authorities; and staff estimates.

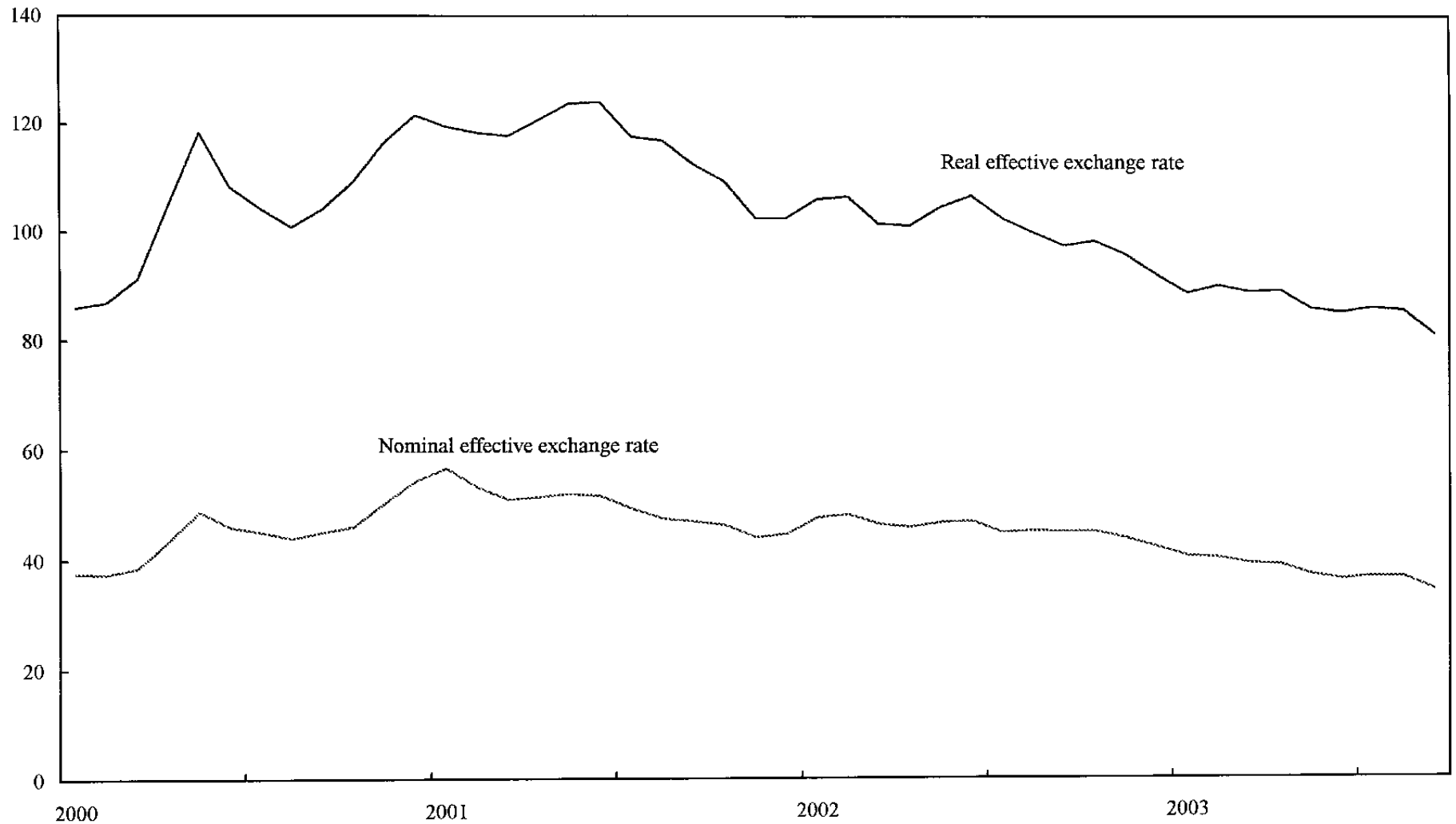
1/ Annual percent change.

Figure 2. Sierra Leone: Balance of Payments, 2000-04  
(In percent of GDP, unless otherwise indicated)



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

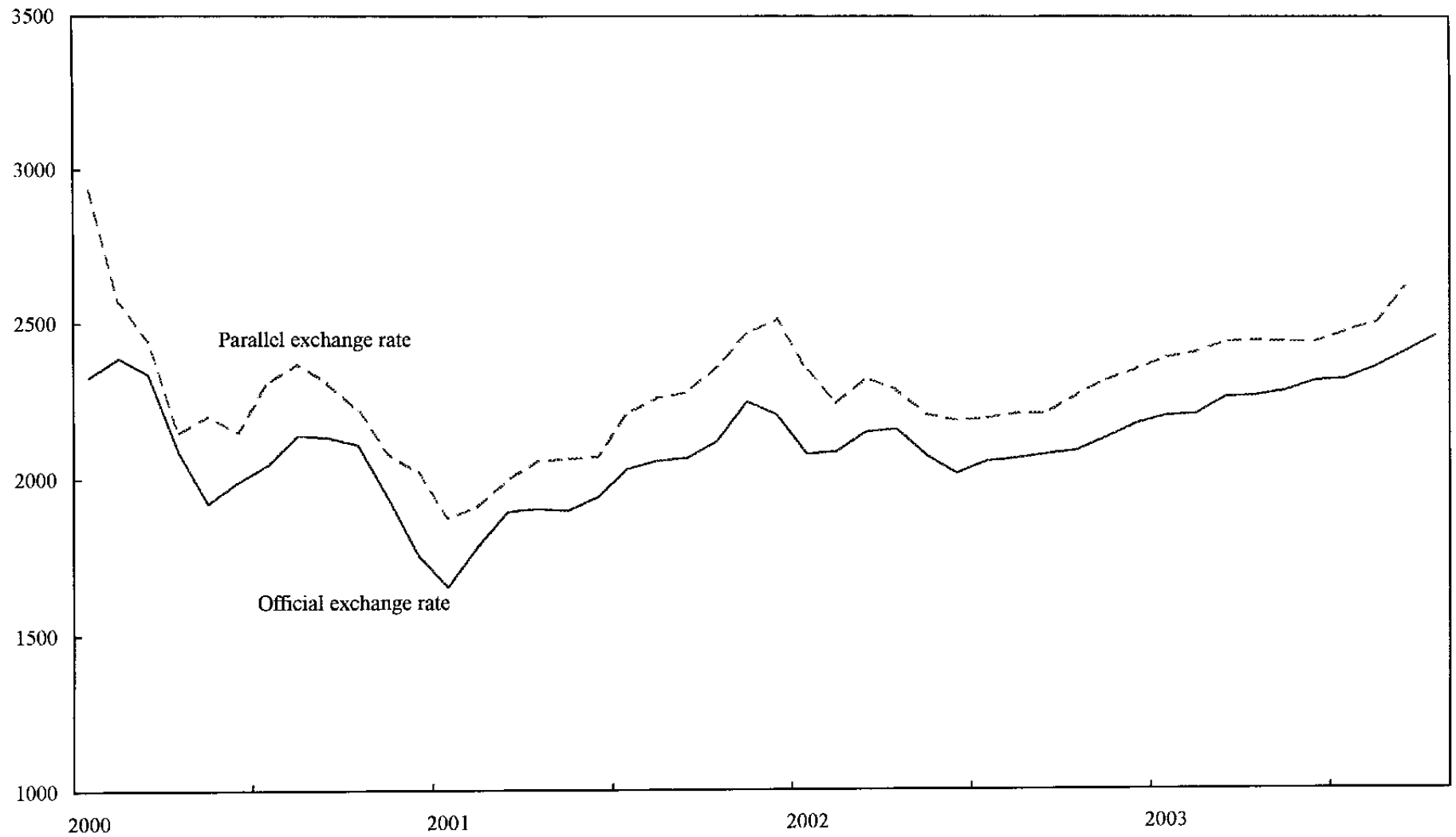
Figure 3. Sierra Leone: Nominal and Real Effective Exchange Rates, January 2000 - September 2003 1/  
(1995=100)



Source: IMF, Information Notice System.

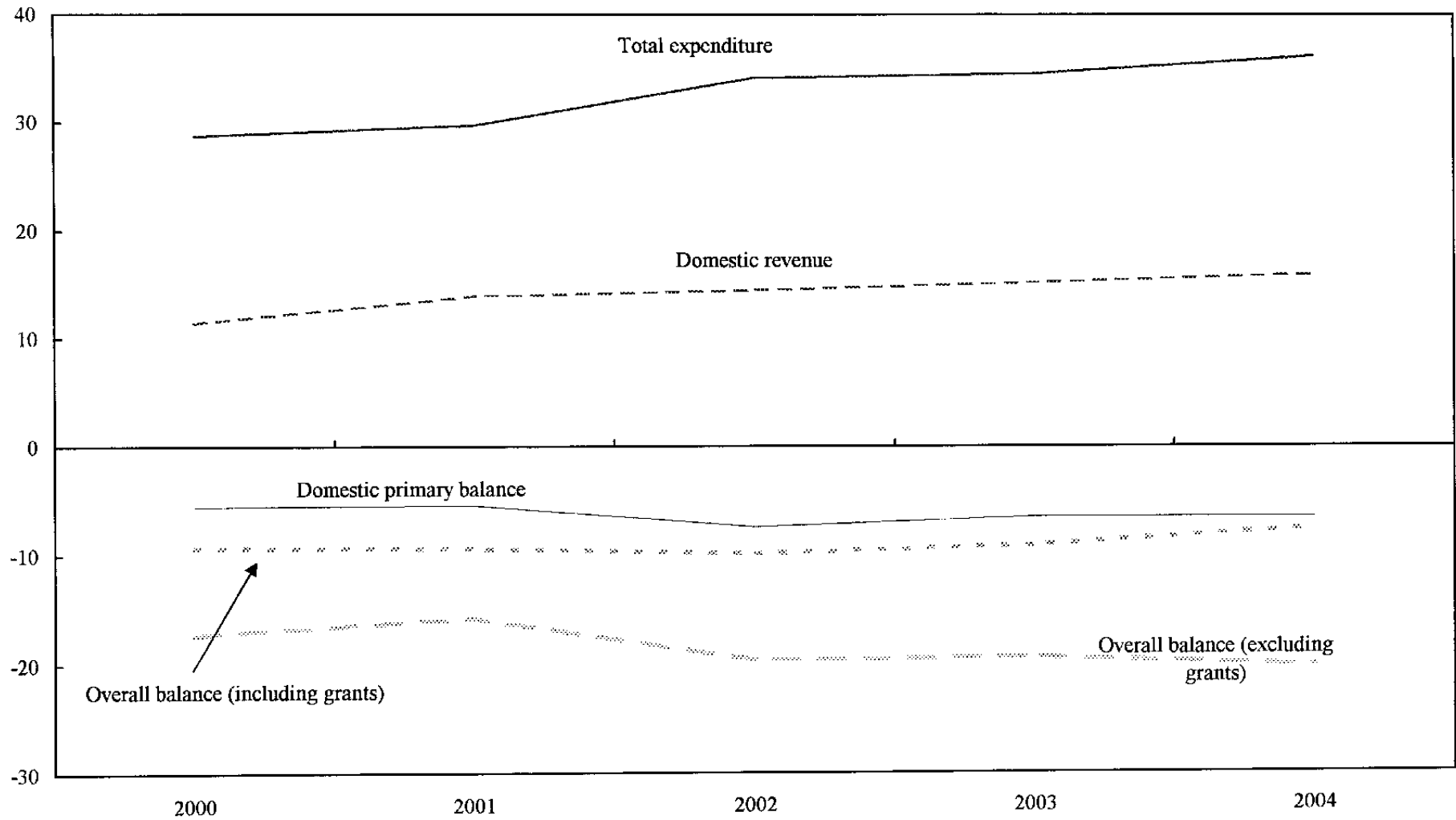
1/ An increase in the indices implies an appreciation.

Figure 4. Sierra Leone: Official and Parallel Exchange Rates, January 2000 - October 2003  
(Leones per U.S. dollar)



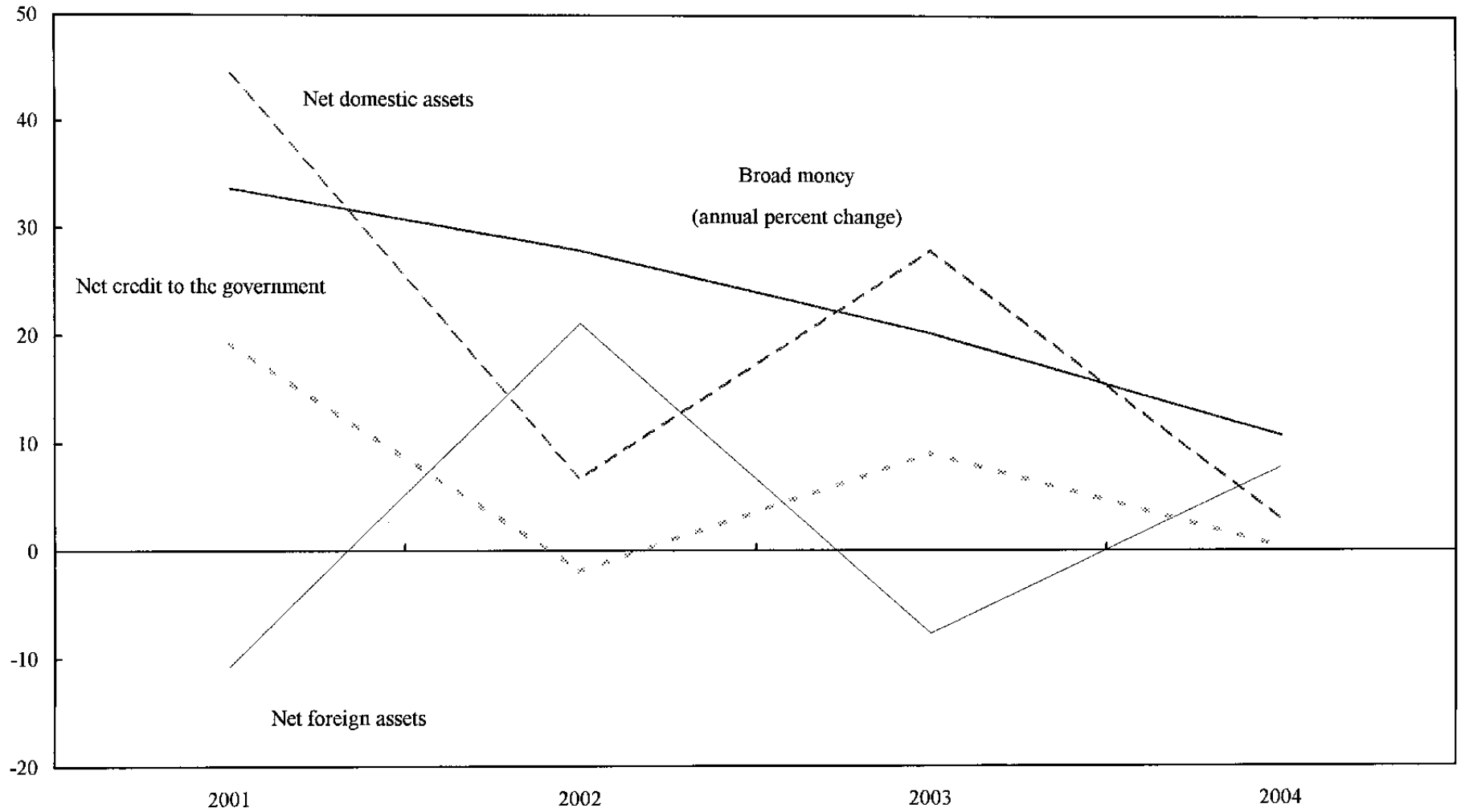
Sources: Sierra Leonean authorities; and staff estimates.

Figure 5. Sierra Leone: Fiscal Developments, 2000-04  
(In percent of GDP)



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

Figure 6. Sierra Leone: Monetary Developments, 2001-04  
 (In percent of broad money at the beginning of the period, unless otherwise indicated)



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

February 3, 2004

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Köhler:

1. In accordance with the provisions of the three-year arrangement (approved on September 26, 2001) under the Poverty Reduction and Growth Facility (PRGF), the government of Sierra Leone, in cooperation with staff of the IMF, has evaluated the implementation of the program to end-June 2003, and performance through September 2003. The attached memorandum of economic and financial policies (MEFP) highlights recent economic developments and performance during 2003, and sets out the government's macroeconomic objectives and policies and the structural reform agenda for 2004.
2. Economic activity remained robust in 2003, as agricultural and mining outputs continued to expand. In part, this reflects the progress the government of Sierra Leone has made in consolidating peace, including completing the disarmament, demobilization, and reintegration (DDR) program for ex-combatants, which has helped to bolster confidence. We expect the pace of economic expansion to continue strengthening in the medium term.
3. Performance under the PRGF-supported program in 2003 was mixed. The government met all quantitative performance criteria at end-June except on net bank credit to the central government and the domestic primary budget balance, reflecting mainly larger-than-programmed domestic development and interest outlays, and the clearance of domestic wage and public utility arrears that were not envisioned under the program. Furthermore, there were slippages in the implementation of structural measures envisaged under the program. The government of Sierra Leone took measures during the second half of 2003 to address the shortcomings and to bring performance broadly in line with the original program.
4. In view of the above, the government of Sierra Leone requests for waivers on the nonobservance of the end-June 2003 quantitative performance criteria relating to net domestic bank credit to the government and to the domestic primary budget balance, as well as on the nonobservance of the structural performance criteria related to the completion of payroll photo verification for all existing teachers with valid letters of appointment and the issuance of identification cards by the Ministry of Finance to all verified teachers. The government requests for the completion of the fourth review and the disbursement of the seventh loan under the PRGF arrangement in an amount equivalent to SDR 14 million (13.5 percent of quota). The government also requests an advance of additional interim HIPC assistance in an amount equivalent to SDR 14.75 million under the enhanced HIPC Initiative for the twelve-month period starting March 21, 2004. This additional interim assistance is



needed since previous Fund interim assistance committed under the HIPC Initiative lapses on March 20, 2004, and Sierra Leone has obligations to the Fund falling due during the twelve month period mentioned above.

5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. Sierra Leone will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The government is continuing to address medium-term development issues and plans to complete the full poverty reduction strategy paper (PRSP) in the first half of 2004. The quantitative and structural performance criteria for the fifth review, and quarterly indicative targets through end-2004, are set out in Tables 3 and 4 of the MEFP.

6. Given the likely timing of the completion of the fourth review, the government would like to propose that the fifth review with the Fund be based on end-March 2004 quantitative performance criteria, and on structural performance criteria for end-February, mid-March and end-May 2004, and be conducted by no later than end-June 2004. The sixth and the final review of the program would be conducted by no later than end-December 2004, based on end-September quantitative performance criteria. In view of this, the government of Sierra Leone requests a six-month extension of the arrangement from the current expiration date of September 25, 2004.

7. The government authorizes the publication of this letter and the attached MEFP by the Fund, including the posting of such documents to the IMF website, subsequent to Executive Board approval.

Yours sincerely,

/s/

Joseph B. Dauda  
Minister of Finance  
Freetown, Sierra Leone

Attachments (2)

Memorandum of Economic and Financial Policies for 2004  
Technical Memorandum of Understanding

**MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES  
OF THE GOVERNMENT OF SIERRA LEONE FOR JULY 1, 2003–DECEMBER 31, 2004**

**I. INTRODUCTION**

1. The peace and political reconciliation process that was initiated in 2002 continues to be consolidated, and refugees and internally displaced people are being resettled in their communities. The final phase of the disarmament, demobilization, and reintegration (DDR) program for ex-combatants has, by and large, been completed. The Special Court, set up under U.N. auspices in the country, has issued indictments against rebel, military, and militia leaders accused of war crimes. These developments, together with an improvement in the security situation in the country, are having a positive impact on economic activity, as well as on the environment in which the government's poverty reduction and growth policies are being implemented.
2. This memorandum of economic and financial policies (MEFP) complements the one issued in April 2003. It describes developments and performance during 2003 and spells out the government's macroeconomic objectives and policies and key elements of the budget for 2004.

**II. DEVELOPMENTS AND PERFORMANCE IN 2003**

3. Economic activity remained robust in 2003, reflecting the recovery of activity in the agricultural sector following the resettlement of the displaced population, the growth of diamond production, and the expansion of activities in the public and private sectors. Real output in 2003 is estimated to have grown by 6.5 percent, compared with 6.3 percent in 2002.
4. Inflation accelerated in 2003 from an annual average rate of -3 percent in 2002 to 4.3 percent in the year to September 2003, in part reflecting higher fuel prices, broad money growth, and the impact of the exchange rate depreciation against the U.S. dollar.
5. The overall deficit (including grants) was 5.3 percent of GDP for the first three quarters of 2003, thus remaining within the program target. In part, this outcome reflected better-than-anticipated domestic revenue performance. The government contained expenditure, in line with the shortfalls in foreign grants and borrowing. However, the shortfalls necessitated a partial accommodation through an increase in domestic financing.
6. Government domestic revenue for the period January–September 2003 amounted to Le 211.5 billion (11.3 percent of GDP), slightly exceeding the program target. However, external grant financing fell substantially short of program expectations, as delays occurred in the disbursement of project grants whereas program grants, including the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) debt relief, were larger than programmed. Total expenditure and net lending amounted to 23.2 percent of GDP, well below the programmed level of 28.8 percent of GDP, reflecting slower-than-planned execution of development and HIPC Initiative-financed projects. Current spending, excluding DDR expenditure, was broadly in line with the programmed level. However, the government wage

bill exceeded the program target in the third quarter by a small margin, reflecting payments of wage arrears.<sup>18</sup> Despite measures taken by the government to strengthen public accounting and budget execution, the level of “unaccounted items” in the government financial accounts rose to Le -14.9 billion (equivalent of 0.8 percent of GDP) in the first three quarters of 2003. The government has identified the causes for the discrepancy and is taking corrective measures to expedite the reconciliation of public accounts. While reconciling fiscal and monetary data, it emerged that some deposit accounts were incorrectly classified (by banks) as government accounts. The government has worked with the banks to resolve the data issue for 2003, for the purpose of program reporting. However, further work is still needed to reconcile the data for the previous program years. In this context, the government has requested technical assistance from the Fund to systematically remedy the problem.

7. Broad money increased by 16 percent in the period January-September 2003, compared with an increase of 7.2 percent under the program, owing to the higher-than-programmed growth of bank net domestic assets, including faster expansion in credit to the private sector. Reserve money also grew rapidly in this period, by 8.5 percent, exceeding the programmed level by 1 percent. Nominal interest rates were broadly stable in the first nine months of the year, but rising inflation substantially eroded interest rates adjusted for inflation, which fell from above 20 percent at end-2002 to about 3 percent in September 2003. Commercial bank nonperforming loans declined to about 11 percent at end-September 2003, in part due to the repayment of the government arrears to enterprises. The Bank of Sierra Leone (BSL) is strengthening its supervisory capacity, with technical assistance from the Fund, and remains vigilant in its efforts to supervise the banks.

8. The current account continued to be under pressure, mainly due to strong growth in imports and the higher cost of fuel. Exports also increased, in particular because of strong diamond exports, while agricultural exports, such as cocoa, also did well. The adoption of the Kimberley Process Certification Scheme at the beginning of 2003 by most diamond-exporting nations helped to reduce incentives for diamond smuggling. Gross external reserves declined by about US\$8.3 million in the first half of the year to US\$76 million, but recovered somewhat during the third quarter, in part because of a World Bank disbursement.<sup>19</sup> Official reserves at end-September were at about US\$83 million. The real effective exchange rate depreciated by about 12 percent during the first nine months of 2003, mainly because of the nominal depreciation against the U.S. dollar.

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<sup>18</sup> The government wage bill in the third quarter of 2003 also included salary arrears of pensions and gratuities to former ministers and deputy ministers, as well as redundancy benefits to former staff of the Hotel and Tourism Training Institute amounting to about Le 1 billion. Also included in this amount is the backlog of salaries to 1,050 teachers employed during 2003 but whose salaries were delayed because of the approval process and the firming up of the KPMG-verified list.

<sup>19</sup> The first tranche under the World Bank Economic Rehabilitation and Recovery Credit (ERRC) III arrangement, totaling US\$15 million, was disbursed in the third quarter, although it had been programmed for the fourth quarter of 2003.

9. The regular auctions of foreign exchange have been the main instrument of determining the exchange rate in Sierra Leone. However, in order to ensure a continuous flow of imported fuels into the country, the BSL had allowed oil companies to purchase foreign exchange at auction-determined exchange rates since early 2003, through a special window. The government closed the window in December. Foreign reserves are estimated to have declined to about 1.5 months of import cover by year's end, reflecting shortfalls in donor support. The spread between the official and parallel market exchange rates remained relatively stable within a range of 5-8 percent.

10. Six out of the eight quantitative performance criteria for end-June 2003 were met; the remaining two, pertaining to net domestic bank credit to the government and to the primary fiscal budget balance, were not met. The nonobservance of the ceiling on net bank credit to the government was caused mainly by the overruns on domestic development spending and interest outlays, and the clearance of domestic arrears. The end-June 2003 indicative target for poverty-related expenditure was not met. All indicative targets for end-March 2003 were met, except for ceiling on net credit to government, and the floors on the primary domestic budget balance and total domestic government revenue. All indicative targets for end-September 2003 under the program were observed, except for the floor on the primary domestic budget balance and the ceiling on the government wage bill. The government's domestic revenues exceeded the indicative target in September 2003.

11. The implementation of structural reforms in 2003 was slower than anticipated. The two structural performance criteria related to the completion of photo verification for all existing teachers with valid letters of appointment and the issuance of identification cards by the Ministry of Finance for all verified teachers were not observed at end-June 2003. The photo verification exercise was delayed because the needed equipment arrived only in August 2003. Subsequently, the verification exercise began and was completed by October 30, 2003 for all teachers in the payroll as of August 31, 2003, except for 102 teachers that could not be verified and have since been taken off the payroll. The government also started to issue identification cards for all verified teachers; a sample identification card was presented to the staff in September 2003. However, completion of the exercise was slower than anticipated because of logistical constraints. The government reached understandings with Fund staff that the issuance of identification cards for at least 80 percent of all verified teachers be completed by mid-December 2003, while, for the remaining 20 percent, the cards would be issued by mid-March 2004. The financial audit of the Ministry of Education—a structural benchmark for end-September—was launched in the second week of September and completed by end-October 2003.

12. With regard to other structural benchmarks for 2003, the photo verification system for civil servants and teachers in the Establishment Secretary's Office is not yet fully operational. Progress has been made with regard to the payment of teachers' salaries through the banking system for secondary schools and technical and vocational institutions; the government has implemented these payments by setting up individual school accounts rather than paying through personal accounts. This is in part because of the paucity of banking services in many rural areas and the need to minimize transaction costs for the teachers

(intermediation fees charged by banks are high, given the low salary level for teachers). A tripartite committee on education comprising representatives of the Ministry of Finance, Ministry of Education, and the Teachers' Union has advised the Accountant General's Office on how to distribute payments in areas where no banking services are available. The Financial Secretary now approves all new teachers before they are added to the payroll. Salary payments of the 2,446 teachers who could not be verified during the KPMG audits of schools were suspended with effect from January 1, 2003. The affected teachers were recertified at end-May 2003, and 600 of them were reidentified and consequently reinstated on the payroll. Moreover, the amendments to the Income Tax Act, Sales Tax Act, and Customs Act to ensure consistency with the National Revenue Authority Act have yet to be completed, awaiting the provision of technical assistance.

13. The government took corrective measures to bring performance for the year as a whole closer to program objectives. In particular, an improved domestic revenue mobilization, together with efforts to contain total expenditures while protecting poverty-related outlays, helped in bringing fiscal performance within the program target. The government also accelerated the implementation of structural reforms. Against this background, most objectives for 2003, as outlined in the MEFP of April 2003, were attained. In the fiscal area, the overall deficit, including grants, would remain within the program target. The domestic primary deficit in 2003 is estimated at the level of 6½ percent of GDP, which is below the original program. However, broad money is expected to increase by 20 percent in 2003, exceeding the program level. As a result of the high import growth, the current account deficit (excluding official transfers) would widen from 26 percent of GDP in 2002 to 30 percent of GDP in 2003 (from 10 percent to 14 percent, including official transfers)

14. To ensure a more efficient utilization of public resources, a nationwide awareness program with respect to the 2003 budget allocations was conducted in May 2003 in all districts. In September 2003, the Ministry of Finance introduced a policy review process as the first stage in the medium-term expenditure framework (MTEF) cycle for 2004–06, comprising a review of macroeconomic and sectoral policies to ensure they are in line with national goals and policies, as well as an identification and estimation of the expenditure implications of agreed policies.

15. Within the MTEF, the government continues to monitor the effective and accountable use of public funds through the public expenditure tracking surveys (PETS). In collaboration with the World Bank and the U.K. Department for International Development (DfID), it carried out a review of the PETS process in March 2003. A pilot survey covering poverty-related lines of expenditure in the education sector was conducted in August 2003. A joint DfID/World Bank PETS support mission visited Sierra Leone in September 2003 and provided assistance in the analysis of data collected during the pilot PETS. The administration of survey questionnaires for the main survey, covering agriculture, health, and education for 2002 public expenditures, was carried out in early October 2003.

16. The government is fully convinced that an efficient and effective public sector is fundamental to sustainable economic growth and poverty reduction. For the past, the government has undertaken various initiatives to reform the civil service, but the reforms have not been effective due to the prolonged civil conflict; the civil service remains overstaffed and underpaid, resulting in poor motivation and an unsatisfactory quality of public services. A review of the civil service grading and pay structure is under way and will provide a basis for future reform, for which the government is seeking further technical and financial support from donors. It has also adopted a new civil service code, which constitutes the first comprehensive updating of the code in several decades and includes several measures designed to improve performance and reward merit. The code is being progressively introduced at all levels of the civil service. The Civil Service Training College, which has been closed for several decades, is also being reactivated.

17. The government has recently established an independent commission to undertake a comprehensive review of the public service and proffer recommendations for rapidly improving and strengthening the effectiveness and competence of the management levels of the civil service. The aim is to restructure those management levels to create a senior executive service.

18. The government recognizes that reforming the highly centralized public procurement system, which is based on an outdated 1963 legislation and procurement regulation, is necessary in order to improve efficiency in the utilization of public funds. Therefore, the government, with the support of key donors, including the African Development Bank (AfDB), DfID, United Nations Development Program (UNDP), and the World Bank, has committed itself to a fast-paced process of a comprehensive public procurement reform program involving institutional and legal changes, as well as changes in procedures and operations. A Procurement Reform Steering Committee (PRSC), chaired by the Vice President of the Republic of Sierra Leone and comprising representatives of the UNDP, World Bank, European Union, Ministry of Finance, and Office of the President has been established to direct and monitor the reform process. The UNDP Interagency Procurement Services Office (IAPSO) has been appointed as external management advisers on public procurement reforms. The formulation of a new procurement policy, including the drafting of a procurement law, is in progress. The government is considering outsourcing procurement in the interim period, until new procedures are in place.

19. The government initiated several actions during 2003 to jump-start the preparation of the full poverty reduction strategy paper (PRSP). A Core Technical Preparatory Committee was established and Interministerial and Steering Committees have been actively involved in the process. To deepen public awareness and ownership of the PRSP, a nationwide sensitization and awareness-raising program was conducted for the general public, cabinet, and senior government officials in August 2003. Significant progress is also being made on the ongoing Integrated Household Expenditure Survey. The draft outline of the PRSP has been developed and circulated for comments to all domestic stakeholders and donors. The PRSP document is to be finalized by mid-2004.

### III. OBJECTIVES AND POLICIES FOR 2004

20. While the government will continue to address the country's immediate postwar problems, including further consolidating peace and security and improving public sector service delivery, increased emphasis will be placed on maintaining macroeconomic stability, reducing poverty, and addressing long-term development issues. The PRSP will be used as the main vehicle to guide medium-term development efforts. Furthermore, the newly established National Recovery Committee will continue to facilitate the extension of civil authority throughout the country and to restore infrastructure for ensuring a smooth transition from recovery to development. The main objective for the government in 2004 will be to sustain a high level of real activity—a key element in the fight against poverty—and maintain low inflation. To succeed, monetary policy needs to remain appropriately tight and be supported by a prudent fiscal policy. The government will continue to address deficiencies in its operations and improve infrastructure to enhance the delivery of public services.

21. The program for 2004 projects real GDP to grow by 6.8 percent, supported mainly by the continued recovery of the agricultural sector and a further increase in reconstruction and investment activities. Average annual consumer price inflation is targeted to fall below 5 percent.

#### A. Fiscal Policy

22. Fiscal policy will continue to aim at supporting macroeconomic stability while enhancing revenue mobilization and increasing the efficiency and effectiveness of public sector operations, with a view to supporting poverty reduction efforts and accountability. The overall budget deficit (including grants) will narrow in 2004 to 7½ percent of GDP from the 9 percent projected in 2003, in part reflecting the increase in external sources available in 2004. The domestic primary deficit is projected at 6.5 percent of GDP, unchanged from 2003, while domestic financing will rise only modestly. Government domestic revenue is projected at 16 percent of GDP in 2004. Total expenditure and net lending is budgeted at about 36 percent of GDP, owing to the increased foreign-financed development expenditure; current expenditure is expected to fall by about 1 percentage point to 26 percent of GDP.

23. To attain the fiscal objectives, the government will ensure the timely implementation of reforms to improve tax administration, including through the strengthening of the National Revenue Authority (NRA). Further revenue measures include the collection of tax arrears (the level of which is now estimated at Le 11 billion) and the integration of the Diamond Evaluation Office into the NRA's Income Tax Department. In addition, the government will defer the implementation of the reductions in income and corporate tax rates, which were announced in the 2004 Budget Speech, until satisfactory revenue trends have been established for 2004. A study is planned for 2004 to examine the modalities for the introduction of a value-added tax. As the international community reduces its intervention in the securing of peace in Sierra Leone, the government will need to increasingly assume its responsibility in this area. The resulting pressures on the already stretched budgetary

resources will require a rigorous prioritization of expenditures, in order to avoid expenditure cuts in critical areas (health, education, and social services).

24. The government will continue its specific efforts to improve expenditure controls in the education system, including through a strict management of the teachers' payroll. In this regard, the government will ensure that agreed ceilings are observed in terms of both the number of employed teachers and the related wage bill. The government will encourage senior public servants, including teachers with access to banking facilities, to open individual bank accounts to facilitate direct payment of salaries through the banking system. With the completion of the payroll photo verification and issuance of identification cards, the database of teachers will be continuously updated. The setting up of a payroll management unit in the Ministry of Education will reinforce these efforts. The database of civil servants and teachers of the Establishment Secretary's Office (ESO) will be updated monthly and used to update the payroll database of the Accountant General's Office. In the area of civil service reforms, the focus continues to be on strengthening the capacity and improving the efficiency of the public service. In this connection, the government will continue with the functional reviews of the remaining line ministries (under the review program) and implement reforms in the ministries in which reviews have been completed. The government will also put into effect new civil service rules and regulations by end-May 2004, which will benefit from World Bank technical assistance with respect to pay, grading, and job classification, expected to be completed by April 2004, and launch the project to convert the ESO into a modern personnel management office by end-June 2004.<sup>20</sup>

### **B. Monetary Policy and Financial Sector Reform**

25. Monetary policy will continue to focus on controlling inflation. The BSL will pursue this objective mainly by managing the growth of its net domestic assets and would complement this, as needed, by maintaining a higher reserve requirement ratio and using interest rates more actively. Broad money is projected to rise by about 11 percent in 2004. The expected growth of bank net domestic assets reflects economic activity and the rise in the demand for money as confidence in the banking system continues to improve. Net bank credit to the government in 2004 as a whole will rise only modestly, in line with the goal of maintaining a sustainable level of domestic debt over the medium term.

26. The BSL has worked closely with the MFD on a program of reforms for 2003 and 2004 that aims to advance work in a number of areas. An active work program is being undertaken in banking supervision and monetary operations, areas in which considerable progress has been made in 2003. A successful transition to improved monetary operations and secondary market development is critical for the BSL's modernization program. In addition, substantial reform efforts are envisaged in respect of the payments system. The BSL will undertake a study to determine the best way forward toward unifying the reserve

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<sup>20</sup> The latter will be funded in part through a grant from DfID.



requirements on domestic and foreign currency bank deposits, with technical assistance from the Fund; at present, foreign currency deposits are excluded from the mandatory reserve requirement. Furthermore, the government will seek technical advice from the Fund on securitizing the remaining domestic verified payments arrears, which is now a structural benchmark for end-March 2004 under the program. The current level of these arrears is Le 19.3 billion. Of this amount, the government will make a cash payment to small creditors amounting to Le 1.9 billion and securitize the remainder, which is owed to one creditor.

27. The government is also committed to implementing the recommendations of the 2002 safeguards assessment by the Fund staff, with a view to further strengthening the BSL's internal controls. For the 2003 accounts, the current external auditors will be replaced with a combination of a local and an internationally reputable firm. The BSL also plans to complete the computerization of its bookkeeping system by June 2004. The government looks forward to the Fund's follow-up mission on safeguards assessment in the first half of 2004.

### **C. External Sector Policies**

28. The current account deficit in 2004, excluding official transfers, is projected at 31 percent of GDP (at 16 percent, including transfers). In the short term, import demand will remain strong because of the recovery in economic activity and the large import needs related to reconstruction. On the export side, the increase mainly comes from diamond production, which is expected to benefit from an improved security situation and better access to mining areas; rutile exports will not begin before 2005.

29. Important progress was made in 2003 in laying a solid foundation for a revival of the mining sector, an effort that has benefited from significant assistance from the World Bank and DfID. A mining sector policy framework and an investment code are to be finalized in 2004. Attracting foreign investment into medium- and large-scale mining projects in Sierra Leone will in general require a careful balancing of the need for tax incentives with the medium-term objective of generating fiscal revenues from mineral wealth.

30. Sierra Leone is a resource-rich country, but it represents a challenging environment for mining companies to operate in, given its poor state of infrastructure, as well as the remaining security and governance concerns. To compensate for these drawbacks, and a worsened outlook for rutile prices, the government decided to grant Sierra Rutile tax concessions in order to restart the rutile-mining project. These concessions will reduce the overall tax burden (including payroll taxes) by about 50 percent and will total US\$98 million over the life of the project. In return, the government will receive an equity stake in the mining project that accumulates over time and is projected to reach 30 percent when proven reserves are exhausted. The government plans to establish a unit for monitoring price and production developments. Following the conclusion of financing arrangement with Sierra Rutile, full-scale production could resume by 2005.

31. Other large-scale projects under negotiation are the resumption of bauxite and kimberlite mining by reputable international companies. Progress has also been made in

fostering an enabling regulatory environment by conducting a mining sector study and by submitting the resulting policy recommendations for a mining sector regulatory framework to the cabinet. Work is under way with support from the DfID and the U.S. Agency for International Development (USAID) to conduct a diamond sector study. A stakeholder workshop was held in February 2003. The government will provide to the Fund a full account of tax concessions granted for mineral projects, including those that are under negotiation. It will also request for Fund technical assistance to help in broadly quantifying the fiscal impact of these concessions. The government will postpone any agreements on bauxite, kimberlite, petroleum, and other minerals, until a comprehensive mineral policy framework that could provide guidance on the appropriate level of tax incentives has been put in place. Fund staff will be consulted, in the context of the PRGF-supported program, on any commitments to be made in this area. The government will also develop a comprehensive medium-term budget framework, in time for the fifth review under the PRGF arrangement, that would incorporate expected revenue streams for all major mineral sectors.

32. The government will maintain a market-based exchange rate regime. A centerpiece of this policy was the introduction of the foreign exchange auction system in 2002. As for 2004, foreign exchange allocation to the auctions will be around US\$1 million per week, which should provide room for a modest reserve buildup, equivalent to 2.2 months of import cover at end-2004.

33. In respect of debt relief, further progress has been made in completing negotiations with bilateral creditors. As of end-June 2003, total debt owed to official bilateral creditors amounted to about US\$388 million, of which US\$320 million was to Paris Club creditors. The government has signed debt-rescheduling accords on Naples terms with ten out of eleven Paris Club bilateral creditors and on Cologne terms with six bilateral creditors.<sup>21</sup> Of the latter six, five creditors agreed to go beyond Cologne terms and provide 100 percent interim relief.<sup>22</sup> The additional bilateral relief provided by these creditors has lowered debt service burden considerably by reducing debt-service payments post cut-off date and on rescheduled arrears that otherwise would have fallen due beginning in 2003. Of the official bilateral non-Paris Club creditors, the government has reached an agreement with the Saudi Fund for Development on the rescheduling of arrears, but on terms that fall short of what is required under the HIPC Initiative. The government also finalized an agreement with the OPEC Fund on arrears clearance using resources from the OPEC's Commodity Import Program, but the implied debt relief also falls short of what is expected under the HIPC Initiative. Validated commercial and military debt amounts to about US\$100-80 million, of which about US\$35 million (mostly related to military debt) is currently under litigation. The government

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<sup>21</sup> The Paris Club countries agreed on July 10, 2002, to top up the debt relief from Naples to Cologne terms. An extension of the Paris Club deadline for the signing of bilateral agreements needs to be requested by the government.

<sup>22</sup> These creditors are Germany, Italy, the United Kingdom, the United States, and Switzerland.

has adopted a “best-effort” approach to engage these creditors, with a view to rescheduling the verified arrears over a long period. Success, however, has been limited so far.

34. To foster regional integration, the government plans to adjust its external tariffs gradually toward the agreed common external tariff (CET) of the Economic Community of West African States (ECOWAS). A study has been initiated to assess the fiscal impact of this change in the tariff regime, and a technical working group has been formed that brings experts together from all relevant ministries. Enabling legislation is being formulated and will be completed in time for the start of the implementation of the CET by January 2005.

#### **D. Structural Reforms**

35. Commitment by the government to combat corruption remains overarching. In this respect, steps are being taken to revamp the fight against corruption, shifting the focus from prevention to investigation and follow-up through prosecution. A review of the organization and activities of the Anti-Corruption Commission was completed in April 2003, with several recommendations made for strengthening the commission, including capacity building, strategic planning, staff rationalization, pay enhancement, and other improvements in the conditions of service. These recommendations were incorporated in the commission's new strategic plan, whose full implementation will take place during 2004. Apart from this, the 2002 annual report of the Anti-Corruption Commission indicated that prosecution was lagging far behind in alleged corruption cases. To this end, the government has sought external assistance from The Commonwealth for the provision of a special prosecutor, two judges, and a local legal support. The backlog of corruption cases awaiting trial at the Attorney General's Office is expected to decline, as the arrival of one of the judges from the United Kingdom (in September 2003) will expedite the trial of cases. On the investigative side, the relevant department of the commission will be further strengthened by the recruitment, with DfID assistance, of two principal investigators.

36. The National Commission for Privatization (NCP) has prepared a comprehensive plan for the implementation of the strategy for the divestiture of public enterprises. Twenty-four public enterprises have been slated for privatization. These enterprises have been classified by sector as well as by their current financial position, following initial diagnostic assessments by the NCP. Other actions already taken include advertisements for the registration of consultants to carry out diagnostic studies.

37. In March 2003, the government cleared all outstanding arrears to the National Power Authority (NPA), amounting to Le 4.6 billion. The government further paid out Le 2.4 billion in respect of current electricity bills. Following the clearance of the arrears, all ministries were expected to settle their bills directly with the NPA, which was advised to institute measures to secure payments, including disconnection. While this measure has increased significantly the payments of electricity bills, outstanding balances have been reported by the NPA. At end-September 2003, outstanding balances totaled Le 1.3 billion, of which past-due payments amounted to Le 0.5 billion, in part owing to delays by the ministries in paying bills and time lags related to processing payment vouchers. The buildup of balances was further

influenced by the increase in electricity tariffs in June 2003, of 40 percent. Based on average monthly consumption of electricity by the ministries, the annual estimate is about Le 5 billion, which has been used in the 2004 budgeting. In 2004, the government is committed to settling the arrears to the NPA and to examining ways to prevent their reoccurrence. Certain institutional bills have been included in the government's obligations, including institutions receiving quarterly subventions from the government. To address this issue, the NPA has been authorized to adjust the bills and forward them to the identified institutions for payment. The concerned institutions have been informed accordingly.

38. The key structural measures to be implemented during September 2003-June 2004 are summarized in Table 4 of this attachment.

#### **E. Prior Actions, Program Monitoring, and Reviews**

39. The government has agreed that the following measures will constitute prior actions to be completed before Board consideration of the fourth review under the PRGF arrangement:

- payroll photo verification for all existing teachers who have valid letters of appointment, which was concluded by October 30, 2003;
- financial audit of the Ministry of Education, which was completed at end-October 2003; and
- issuance of identification cards by the Ministry of Finance to at least 80 percent of all verified teachers, completed by December 15, 2003.

Given the likely timing of the completion of the fourth review, the government of Sierra Leone requests a six-month extension of the arrangement from the current expiration date of September 25, 2004. The program will continue to be monitored based on quantitative and structural performance criteria and benchmarks indicated in Tables 3 and 4 of this attachment. There will be two reviews during 2004. The fifth review will be conducted by end-June 2004, based on end-March 2004 quantitative performance criteria, and on structural performance criteria for end-February, mid-March, and end-May 2004. The final review will be conducted by end-December 2004, based on end-September 2004 quantitative performance criteria.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets  
Under the Poverty Reduction and Growth Facility Arrangement (January-December 2003)

(Cumulative change from beginning of calendar year to end of month indicated; in millions of leones, unless otherwise indicated) 1/

|  | March                 |                     |         |                   | Performance<br>Criteria (PC) | June            |         |                   | September             |                     |         | December<br>Indicative<br>Targets |                   |
|--|-----------------------|---------------------|---------|-------------------|------------------------------|-----------------|---------|-------------------|-----------------------|---------------------|---------|-----------------------------------|-------------------|
|  | Indicative<br>Targets | Adjusted<br>Targets | Act.    | Met or<br>Not met |                              | Adjusted<br>PCs | Act.    | Met or<br>Not met | Indicative<br>Targets | Adjusted<br>Targets | Prel.   |                                   | Met or<br>Not met |
| <b>Performance criteria</b>  |                       |                     |         |                   |                              |                 |         |                   |                       |                     |         |                                   |                   |
| Net domestic bank credit to the central government (ceiling) 2/ 3/   | 13,264                | 17,274              | 21,304  | Not met           | 33,078                       | 27,612          | 32,682  | Not met           | 11,473                | 13,373              | 5,578   | Met                               | 27,188            |
| Unadjusted target (ceiling)  |                       | 13,264              |         |                   |                              | 33,078          |         |                   | 11,473                | 11,473              |         |                                   |                   |
| Adjustment for the shortfall (excess) external budget support  |                       | 0                   |         |                   |                              | 2,100           |         |                   | -10,507               |                     |         |                                   |                   |
| Adjustment for the issuance of treasury securities to the private sector   |                       | -4,009              |         |                   |                              | 3,366           |         |                   | 8,607                 |                     |         |                                   |                   |
| Net domestic assets of the central bank (ceiling) 2/ 4/ 5/ 6/  | 68,961                | 80,501              | 13,747  | Met               | 50,075                       | 67,074          | 37,420  | Met               | 12,770                | 50,018              | 25,575  | Met                               | 13,053            |
| Unadjusted target (ceiling)  |                       | 68,961              |         |                   |                              | 50,075          |         |                   | 12,770                | 12,770              |         |                                   |                   |
| Adjustment for the shortfall (excess) external budget support  |                       | 0                   |         |                   |                              | 2,100           |         |                   | -10,507               |                     |         |                                   |                   |
| Adjustment for higher fuel prices  |                       | 381                 |         |                   |                              | 1,176           |         |                   | 0                     |                     |         |                                   |                   |
| Adjustment for exchange rate depreciation (appreciation)   |                       | 11,158              |         |                   |                              | 17,923          |         |                   | 26,741                |                     |         |                                   |                   |
| Domestic primary budget balance of the central government (floor) 7/   | -10,269               | -10,269             | -11,514 | Not met           | -36,979                      | -36,979         | -42,771 | Not met           | -79,897               | -79,897             | -80,558 | Not met                           | -123,031          |
| Subsidies to National Power Authority (ceiling)  | 125                   | 125                 | 0       | Met               | 250                          | 250             | 0       | Met               | 375                   | 375                 | 250     | Met                               | 500               |
| Gross foreign exchange reserves of the central bank (in millions of U.S. dollars (floor)) 8/ 9/  | -19.68                | -19.84              | -19.64  | Met               | -13.17                       | -12.70          | -8.27   | Met               | 11.21                 | -18.61              | -1.16   | Met                               | 2.43              |
| Unadjusted target (floor)  |                       | -19.68              |         |                   |                              | -13.17          |         |                   | 11.21                 | 11.21               |         |                                   |                   |
| Adjustment for higher fuel prices (in millions of U.S. dollars)  |                       | -0.17               |         |                   |                              | -0.51           |         |                   | 0.00                  |                     |         |                                   |                   |
| Adjustment for the shortfall (excess) external budget support  |                       | 0.00                |         |                   |                              | 0.98            |         |                   | -9.81                 |                     |         |                                   |                   |
| Adjustment for the shortfall in the U.S. dollar value of IMF disbursement  |                       | 0.00                |         |                   |                              | 0.00            |         |                   | -20.02                |                     |         |                                   |                   |
| Contracting or guaranteeing of nonconcessional external debt 10/<br>by the public sector (ceiling) with maturities of one year or more 11/ 12/ | 0.0                   | 0.0                 | 0.0     | Met               | 0.0                          | 0.0             | 0.0     | Met               | 0.0                   | 0.0                 | 0.0     | Met                               | 0.0               |
| Outstanding stock of external debt owed or guaranteed by the public sector 13/<br>with maturities of less than one year (ceiling) 14/          | 0.0                   | 0.0                 | 0.0     | Met               | 0.0                          | 0.0             | 0.0     | Met               | 0.0                   | 0.0                 | 0.0     | Met                               | 0.0               |
| External payment arrears of the public sector (ceiling) 15/  | 0.0                   | 0.0                 | 0.0     | Met               | 0.0                          | 0.0             | 0.0     | Met               | 0.0                   | 0.0                 | 0.0     | Met                               | 0.0               |
| <b>Indicative targets</b>  |                       |                     |         |                   |                              |                 |         |                   |                       |                     |         |                                   |                   |
| Total domestic government revenue (floor)  | 67,278                | 67,278              | 60,887  | Not met           | 136,349                      | 136,349         | 138,704 | Met               | 202,862               | 202,862             | 211,481 | Met                               | 271,678           |
| Government wage bill (ceiling)   | 38,525                | 38,525              | 33,760  | Met               | 77,050                       | 77,050          | 76,025  | Met               | 115,575               | 115,575             | 116,655 | Not met                           | 154,100           |
| Change in the stock of verified domestic arrears of the central government (ceiling) 16/   | -1,750                | -1,750              | 0       | Met               | -5,250                       | -5,250          | -10     | Met               | -7,000                | -7,000              | -4,280  | Met                               | -7,000            |
| Poverty-related expenditures (floor)   |                       |                     | 15,984  |                   | 62,114                       | 62,114          | 53,138  | Not met           |                       |                     | 96,705  |                                   | 138,586           |
| <b>Memorandum items:</b>   |                       |                     |         |                   |                              |                 |         |                   |                       |                     |         |                                   |                   |
| External budgetary assistance 17/  |                       |                     | 0       |                   | 15,578                       | 15,578          | 17,678  |                   | 89,776                | 89,776              | 68,762  |                                   | 123,182           |
| Net credit to the central government by nonbank sector 18/   |                       |                     | 5,624   |                   |                              |                 | 19,268  |                   |                       |                     | 31,991  |                                   |                   |

1/ Variables are based on definitions in the technical memorandum of understanding (TMU) of March 2003.

2/ The ceilings will be adjusted downward by the amount of any excess in programmed external budgetary assistance (see footnote 16). The ceiling will also be adjusted upward by up to 50 percent of the amount of any shortfall in external budgetary assistance (as defined in the TMU; see footnote 16).

3/ Defined as claims on government (net) in the monetary survey. To be adjusted downward (upward) by any net issues of government securities to the nonbank private sector up to the ceiling on net domestic bank credit to the central government.

4/ The program benchmarks for January - September 2003 are valued at the program exchange rate as defined in the technical memorandum of understanding (TMU) of March 2003.

5/ Defined as the difference between the net foreign assets of the central bank (valued at the program exchange rate) and reserve money.

6/ The program net domestic assets performance criterion will also be adjusted for higher-than-programmed oil prices with an upside adjustment cap of US\$10 million translated into leones at the actual exchange rate, as specified in paragraph 31 of the TMU of March 2003.

7/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the externally financed DDR program.

8/ In the event of an excess (shortfall) in external budgetary assistance (as defined above), the floor will be adjusted upward (downward) by the amount of the excess (shortfall).

9/ The floor will also be adjusted downward for higher-than-programmed oil prices, with a downside adjustment cap of US\$10 million, as specified in paragraph 31 of the TMU of March 2003.

10/ This performance criterion applies to debt as defined in Annex 1 of the TMU of March 2003.

11/ Excluded from this performance criterion are disbursements from the Fund and rescheduling arrangements.

12/ Excluded from this performance criterion are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

13/ The term "debt" has the meaning set forth in Annex 1 of the TMU of March 2003.

14/ Excluded from this performance criterion are normal import-related credits.

15/ To be applied on a continuous basis. Excluded from this performance criterion are those debts subject to rescheduling arrangements.

16/ The indicative target is meant to define an upper bound for the clearance of verified domestic arrears.

17/ Including program grants and program loans, debt relief, and financing gap, but excluding DDR, project-related grants, and loans.

18/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the non-financial private sector.

Table 2. Sierra Leone: Structural Performance Criteria and Benchmarks for April-September 2003  
Under the Program Supported by the Poverty Reduction and Growth Facility Arrangement

| Performance Criteria and Structural Benchmarks   | Timing             | Status   |
|--|--------------------|--|
| <b>Prior actions</b>   |                    |  |
| The clearance of expenditures by the Office of the President is no longer required.  |                    | Observed.  |
| All departmental bank accounts except those required for donor-funded projects or programs have been closed and all balances transferred to the treasury main account. |                    | Observed.  |
| <b>Performance criteria</b>  |                    |  |
| Payroll photo verification has been completed for all existing teachers who have valid letters of appointment.   | May 31, 2003       | Not observed.  |
| Identification cards have been issued by Ministry of Finance to all verified teachers.   | June 30, 2003      | Not observed.  |
| <b>Benchmarks</b>  |                    |  |
| The photo verification system for civil servants and teachers in the Establishment Secretary's Office (ESO) is operational and adequately staffed.                     | April 30, 2003     | Not observed.  |
| Financial Audit of the Ministry of Education has been completed.   | September 30, 2003 | Not observed.  |
| The ESO database of civil servants and teachers is updated monthly and used to update the payroll database of the Accountant General's Office.                         | Continuous         | Partially observed.  |
| The Financial Secretary approves all new teachers before they are added to the payroll.  | Continuous         | Observed.  |
| Payment of teachers' salaries through the banking system has started.  | June 30, 2003      | Partially observed. The authorities began at end-September 2003 to pay schools via the banking system and will make efforts to encourage teachers to open individual bank accounts that can be used for direct depositing of salaries. |

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets  
Under the Poverty Reduction and Growth Facility Arrangement (January-December 2004)

(Cumulative change from beginning of calendar year to end of month indicated; in millions of leones, unless otherwise indicated) 1/

|  | 2004                             |                               |                                      |                                   |
|--|----------------------------------|-------------------------------|--------------------------------------|-----------------------------------|
|  | March<br>Performance<br>Criteria | June<br>Indicative<br>Targets | September<br>Performance<br>Criteria | December<br>Indicative<br>Targets |
| <b>Performance criteria</b>  |                                  |                               |                                      |                                   |
| Net domestic bank credit to the central government (ceiling) 2/ 3/   | -25,000                          | -5,000                        | -2,000                               | 1,500                             |
| Net domestic assets of the central bank (ceiling) 2/ 4/ 5/   | -5,000                           | 23,000                        | 26,000                               | 42,100                            |
| Domestic primary budget balance of the central government (floor) 6/   | -46,049                          | -81,415                       | -109,578                             | -135,607                          |
| Subsidies to National Power Authority (ceiling)  | 0                                | 0                             | 0                                    | 0                                 |
| Gross foreign exchange reserves of the central bank (in millions of U.S. dollars (floor)) 7/   | 18.31                            | 5.67                          | 21.7                                 | 31.6                              |
| Contracting or guaranteeing of nonconcessional external debt 8/<br>by the public sector (ceiling) with maturities of one year or more 9/ 10/ | 0.0                              | 0.0                           | 0.0                                  | 0.0                               |
| Outstanding stock of external debt owed or guaranteed by the public sector 11/<br>with maturities of less than one year (ceiling) 12/        | 0.0                              | 0.0                           | 0.0                                  | 0.0                               |
| External payment arrears of the public sector (ceiling) 13/  | 0.0                              | 0.0                           | 0.0                                  | 0.0                               |
| <b>Indicative targets</b>  |                                  |                               |                                      |                                   |
| Total domestic government revenue (floor)  | 82,642                           | 165,967                       | 248,495                              | 333,157                           |
| Government wage bill (ceiling)   | 43,023                           | 86,045                        | 129,068                              | 172,090                           |
| Poverty-related expenditures (floor)   | 54,937                           | 102,888                       | 139,573                              | 173,755                           |
| <b>Memorandum items:</b>   |                                  |                               |                                      |                                   |
| External budgetary assistance 14/  | 75,816                           | 103,007                       | 142,007                              | 166,967                           |
| Net credit to the central government by nonbank private sector 15/   | 556                              | 11,513                        | 11,406                               | 22,568                            |

1/ Variables are based on definitions in the technical memorandum of understanding (TMU) of December 2003.

2/ The ceilings will be adjusted downward by the amount of any excess in programmed external budgetary assistance (see footnote 16). The ceiling will also be adjusted upward by up to 50 percent of the amount of any shortfall in external budgetary assistance (as defined in the TMU; see footnote 16).

3/ Defined as claims on government (net) in the monetary survey. To be adjusted downward (upward) by any net issues of government securities to the nonbank private sector up to the ceiling on net domestic bank credit to the central government.

4/ The program benchmarks for December 2003 - June 2004 are valued at the program exchange rate as defined in the technical memorandum of understanding (TMU) of December 2003.

5/ Defined as the difference between the net foreign assets of the central bank (valued at the program exchange rate) and reserve money.

6/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments, externally financed capital expenditures, and the externally financed DDR program.

7/ In the event of an excess (shortfall) in external budgetary assistance (as defined above), the floor will be adjusted upward (downward) by the amount of the excess (shortfall).

8/ This performance criterion applies to debt as defined in Annex 1 of the TMU of December 2003.

9/ Excluded from this performance criterion are disbursements from the Fund and rescheduling arrangements.

10/ Excluded from this performance criterion are external loans with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates (CIRRs).

11/ The term "debt" has the meaning set forth in Annex 1 of the TMU of December 2003.

12/ Excluded from this performance criterion are normal import-related credits.

13/ To be applied on a continuous basis. Excluded from this performance criterion are those debts subject to rescheduling arrangements.

14/ Including program grants and program loans.

15/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the non-financial private sector.

Table 4. Sierra Leone: Structural Performance Criteria and Benchmarks for September 2003 - December 2004  
Under the Program Supported by the Poverty Reduction and Growth Facility Arrangement

| Performance Criteria and Structural Benchmarks   | Timing             | Status  |
|--|--------------------|---|
| <b>Prior actions</b>   |                    |   |
| Payroll photo verification has been completed for all existing <sup>1</sup> teachers who have valid letters of appointment.  | October 30, 2003   | Observed.   |
| Identification cards have been issued by Ministry of Finance for at least eighty percent of all verified <sup>2</sup> teachers.  | December 15, 2003  | Observed.   |
| Financial audit of the Ministry of Education has been completed.   | November 15, 2003  | Observed.   |
| <b>Performance criteria</b>  |                    |   |
| Guidelines have been issued by the Ministry of Finance requiring double signatures in operating school bank accounts; one of the signatures to be that of a member of the community-based school management committee. | February 28, 2004  |   |
| Identification cards have been issued by Ministry of Finance for the remaining twenty percent of all verified <sup>2</sup> teachers.   | March 15, 2004     |   |
| The reconciliation of fiscal and monetary data for 2000-02 has been completed.   | May 31, 2004       |   |
| New personnel management regulations for the civil service, establishing a code of ethics, and including a system for performance-based appraisal and promotions, have been introduced.                                | May 31, 2004       |   |
| <b>Benchmarks</b>  |                    |   |
| Specific measures have been elaborated to strengthen the Auditor General's Office, including the use of private accounting firms to expedite audits of government ministries and agencies.                             | September 30, 2003 | Partially observed.<br>The terms and conditions of the audit service have been submitted to cabinet for approval. |
| The photo verification system for civil servants and teachers in the Establishment Secretary's Office (ESO) is operational and adequately staffed.   | September 30, 2003 | Partially observed.<br>Technical and financial resources are being sought.  |
| Legislation relating to customs and inland revenue has been revised to ensure consistency with provisions under the National Revenue Authority Act.  | December 31, 2003  | Partially observed.<br>Amendments to the Income Tax Act and to other related acts have been approved by cabinet.  |
| Employment ceilings for individual schools have been established, and these data have been published in the government gazette.  | February 28, 2004  |   |
| The ESO database of civil servants and teachers is updated monthly and used to update the payroll database of the Accountant General's Office.   | Continuous         |   |
| Terms and conditions for securitization of all remaining verified domestic arrears have been announced publicly.   | March 31, 2004     |   |
| An action plan has been formulated to implement recommendations of the financial audit of the Ministry of Education.   | March 31, 2004     |   |
| Diagnostic studies and reforms have been completed in six key ministries to rationalize structure, functions, and staffing in these ministries.  | March 31, 2004     |   |
| A medium-term budgetary framework incorporating all major mineral revenues has been formulated and discussed with development partners.  | May 31, 2004       |   |
| Project has been launched to convert the Establishment Secretary's Office into a personnel management office.  | June 30, 2004      |   |
| Identification cards have been issued for all civil servants.  | June 30, 2004      |   |

<sup>1</sup> Existing teachers refer to those with valid letters of appointment as of August 31, 2003.

<sup>2</sup> Verified teachers refer to existing teachers as of August 31, 2003 who have been photo verified.



## Sierra Leone: Technical Memorandum of Understanding

January 2004

### INTRODUCTION

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement, as well as the related reporting requirements. The definitions have been revised to ensure that the memorandum continues to reflect the best understanding of the Sierra Leonean authorities and the Fund staff in monitoring the program. Unless otherwise specified, all quantitative performance criteria and benchmark will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Tables 1 and 3 of the attached Memorandum of Economic and Financial Policies of the Government of Sierra Leone for July 1, 2003 —December 31, 2004.

### QUANTITATIVE PERFORMANCE CRITERIA: DEFINITIONS AND DATA SOURCES

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

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

3. Gross foreign exchange reserves consist of (a) monetary gold; (b) foreign currency in cash; (c) unencumbered foreign currency deposits at non-resident banks; (d) foreign securities and deposits; (e) SDR holdings and Sierra Leone's reserve position with the Fund; and (f) balances in the Bank of England account related to debt service to Paris Club creditors. Gross reserves will exclude nonconvertible currencies and pledged, swapped, or any encumbered reserves assets including but not limited to reserve assets used as collateral or guarantees for third party external liabilities.

4. **Adjustment clauses.** The floor on gross foreign exchange reserves will be adjusted (a) downward (or upward) by the amount in U.S. dollars of the shortfall/excess in programmed external budgetary assistance<sup>23</sup>; (b) downward (upward) for any shortfall/excess

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<sup>23</sup> External budgetary assistance is defined as program grants and program loans, but excluding external financing for the Disarmament, Demobilization and Reintegration (DDR) Program, project-related grants and loans. The leone value of the cumulative shortfall  
(continued...)

in the U.S. dollar value of disbursements from the IMF under the PRGF arrangement; and (c) upward or downward for any increase in BSL short-term foreign currency-denominated debt (to residents and nonresidents), using the definition of short-term debt below.

5. For the purpose of this target, as well as of those for external debt and arrears, valuation will be in U.S. dollars, using the program exchange rates. For the 2004 program, the program exchange rates between the U.S. dollar and other non-leone currencies will be those prevailing at December 31, 2003.

6. **Supporting material.** Data on gross foreign exchange reserves, including its components, will be transmitted by the BSL to the Fund on a weekly basis within ten days of the end of each week.

#### **Net Domestic Assets of the (BSL)**

7. **Definition.** Net domestic assets (NDA) of the BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rate of 2,600 leones per U.S. dollar. Reserve money includes currency in circulation and required reserves on leone deposits. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities (defined below).

8. Foreign liabilities are defined as short-term (one year or less in original maturity) foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit.

9. **Adjustment clauses.** The ceiling on the NDA of the BSL will be adjusted upward by up to fifty percent of the amount of the shortfall in the external budgetary assistance at the test dates. The ceiling will be adjusted downward by the amount of the excess in the external budgetary assistance at the test dates.

10. **Supporting material.** Net domestic assets of the BSL will be transmitted to the Fund on a monthly basis within four weeks of the end of the month. This report will include foreign assets excluded from the definition of gross foreign exchange reserves in Section IIA above.

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(excess) of external budgetary assistance will be calculated at the program exchange rate of 2,600 leones per U.S. dollar used in the budget that was approved by the Sierra Leone Parliament in December 2003.

### **Net Domestic Bank Credit to Government (NCG)**

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

- the net position of the government with commercial banks, including: (a) treasury bills; (b) bonds issued by the Government of the Republic of Sierra Leone (GSL); (c) loans and advances; less (d) Central government deposits (defined to include account balances under the authority of controlling officers); plus
- BSL holdings of (a) GSL statutory bonds; (b) ordinary GSL bonds; (c) bonds in respect of loans to current and former parastatals; (d) treasury bills on the trading portfolio of BSL; (e) other government stock; (f) HIPC debt relief deposits; less (g) special non-interest-bearing government stocks to cover foreign exchange valuation losses.

12. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted upward by up to fifty percent of the amount of the shortfall in external budgetary assistance. The ceiling will be adjusted downward by the amount of the excess in external budgetary assistance. The leone value of the cumulative shortfall or excess in external budgetary assistance will be converted at the program exchange rate of 2,600 leone per U.S. dollar. The ceiling will also be adjusted downward (upward) by the net increase (decline) in the leone value of net issues of government securities to the nonbank private sector up to the ceiling set on net domestic bank credit to government for each test date.

13. **Supporting material.** The data source for the above will be the series "Claims on Government (Net)" submitted to Fund staff on a weekly basis and reconciled with the monthly BSL monetary survey to be submitted to the Fund within six weeks of the end of each month. These data will be reconciled with monthly reports on treasury bill transactions and the ways-and-means account, and with treasury bearer bond transactions to be submitted to the Fund staff by the Ministry of Finance, within six weeks of the end of each month.

### **Domestic Primary Balance of Central Government**

14. **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 (NASSIT) and public enterprises are excluded from this definition of central government.

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

16. **Supporting material.** The data will be submitted to Fund staff by the Budget Unit of the Ministry of Finance (MFIN) within six weeks of the end of each month.

#### **Domestic Payment Arrears of Government**

17. **Domestic arrears** of the government are defined as (a) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 60 days; (b) wage and salary arrears that were due to be paid in a given month but remained unpaid on the fifteenth of the following month; and (c) interest or principal obligations that remain unpaid 30 days after the due date of payment. Any change in such arrears will be reported to the Fund within six weeks after the end of each month.

18. **Supporting material.** Data on government's domestic payment arrears referred to in this paragraph will be submitted to Fund staff by the Budget Unit of the MFIN within six weeks of the end of each quarter.

#### **Domestic Revenue of Central Government**

19. The **target on total domestic government revenue** is defined as total central government revenue, excluding external grants.

20. **Supporting material.** The data will be submitted to Fund staff by the Budget Unit of (MFIN) within six weeks of the end of each month.

#### **Central Government Wage Bill**

21. The **ceiling on the government wage bill** is defined as total expenditure outlays on wages, salaries, pensions, payments to NASSIT and cash allowances by the government.

22. **Supporting material.** The data will be submitted to Fund staff by the Budget Unit of the Ministry of Finance within six weeks of the end of each month.

#### **Poverty-related Expenditures**

23. Poverty-related expenditures refer to those expenditures in those areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document ([www.imf.org](http://www.imf.org)). These budgetary expenditures include but are not limited to those sub-components that are financed by drawdown from the HIPC Relief Account at the BSL.

#### **External Payment Arrears**

24. **Definition.** Official external payment arrears are defined as the stock of external overdue debt-service payments by the public sector. For the purposes of this Memorandum, the public sector will comprise the central government, all public enterprises and the BSL. The **nonaccumulation of external arrears is a performance criterion during the**

**program** period. Excluded from this performance criterion are those debts subject to rescheduling arrangements. This performance criterion will apply on a continuous basis.

25. **Supporting material.** Data on arrears are compiled jointly by the MFIN and the BSL and will be reported to Fund staff by the Budget Director of the MFIN on a quarterly basis within six weeks of the end of each quarter.

#### **Official Medium- and Long-Term Nonconcessional Loans**

26. **Definition.** Those are defined as all forms of official debt contracted or guaranteed by the public sector.<sup>24</sup> This performance criterion applies not only to debt as defined in Annex 1 of this Technical Memorandum of Understanding but also to commitments contracted or guaranteed for which value has not been received. This performance criterion will apply on a continuous basis. Excluded from this performance criterion are disbursements from the IMF and rescheduling arrangements. In this memorandum, the public sector consists of the central and regional governments and other public agencies, including the BSL.

27. **Supporting material.** Detailed data on all new concessional and non-concessional debt contracted or guaranteed will be provided to Fund staff by BSL/the Ministry of Finance on a quarterly basis within six weeks of the end of each quarter.

#### **External Short-Term Debt Contracted or Guaranteed by the Public Sector**

28. External short-term debt is defined as external debt with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in Annex 1 of this Technical Memorandum of Understanding. For this purpose, short-term debt will exclude normal trade credit for imports. A performance criterion is **no new external short-term debt during the program** period. This performance criterion will apply on a continuous basis.

29. **Supporting material.** A comprehensive report on all new external debt with original maturity of less than one year owed or contracted by the public sector will be transmitted to Fund staff by the BSL on a quarterly basis within four weeks of the end of each quarter.

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<sup>24</sup> Debt is considered concessional if it has a grant element equalent to 35 percent or more. Calculation of the degree of concessionality of new external borrowing is based on the 10-year average commercial interest reference rate (CIRR) of the Organization for Economic Cooperation and Development (OECD) for loans with maturities at least 15 years and the six-month average CIRR for loans maturing in less than 15 years.

### **Subsidies to the NPA**

30. The term “subsidy” refers to any financial government support (i.e., unrequited transfers) to the National Power Authority (NPA). It does not include the government’s on-lending of external loans for capital expenditure of the enterprise. The subsidy is to be reduced by the amount of arrears accumulating in regard to the charges for government’s electricity consumption. This performance criterion will apply on a continuous basis.

### **PROGRAM-MONITORING COMMITTEE**

31. **Definition.** The Sierra Leonean authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Economic Development and Planning; the Bank of Sierra Leone, and other relevant agencies. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. The committee shall provide the Fund with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

### **DATA REPORTING TO THE FUND**

#### **Domestic Prices**

32. **Reporting standard.** the monthly disaggregated consumer price index will be transmitted within four weeks of the end of each month.

#### **Government Accounts Data**

33. **Reporting standard.** A consolidated budget report of the central government comprising (a) the revenue data by each major item, including those collected by the National Revenue Authority, as well as privatization receipts to the budget; (b) details of the recurrent and capital expenditure of the central government; (c) details of budget financing (domestic and external), which will be transmitted on a monthly basis within six weeks of the end of each month; and (d) details on the government’s outstanding arrears outstanding, including payments and other arrangements to discharge them (these data will be transmitted on a monthly basis within six weeks of the end of each quarter).

#### **Monetary Sector Data**

34. **Reporting standard.** The balance sheet of the central bank and the consolidated balance sheets of the commercial banks will be transmitted on a monthly basis within six weeks of the end of each month. A special report on transactions in the HIPC relief account at the BSL will be provided to the Fund on a monthly basis within six weeks of the end of each month. The results of the treasury bill auctions will be transmitted on a biweekly basis

within five business days. The stocks of government securities, balances in the divestiture account, detailed information on interbank loans (terms, duration, and participating institutions), and interest rate developments will be transmitted on a monthly basis within two weeks of the end of each month.

#### **External Sector Data**

35. **Reporting standard.** The following standard will be adhered to: (a) the interbank market exchange rate, as the simple average of the daily-weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; (b) the results of foreign exchange auctions (on a weekly or more frequent basis) will be transmitted on a weekly basis within five business days of the end of each week; and (c) the foreign exchange cashflow data will be transmitted on a quarterly basis within six weeks of the end of each quarter.

### **Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt**

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



**Sierra Leone: Relations with the Fund**  
(As of November 30, 2003)

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

|                                       |                    |                |
|---------------------------------------|--------------------|----------------|
| <b>II. General Resources Account:</b> | <b>SDR Million</b> | <b>% Quota</b> |
| Quota                                 | 103.70             | 100.0          |
| Fund holdings of currency             | 103.69             | 99.99          |
| Reserve position in Fund              | 0.02               | 0.02           |

|                             |                    |                     |
|-----------------------------|--------------------|---------------------|
| <b>III. SDR Department:</b> | <b>SDR Million</b> | <b>% Allocation</b> |
| Net cumulative allocation   | 17.45              | 100.0               |
| Holdings                    | 24.40              | 139.81              |

|   |                    |                |
|---|--------------------|----------------|
| <b>IV. Outstanding Purchases and Loans:</b> | <b>SDR Million</b> | <b>% Quota</b> |
| PRGF Arrangements                           | 122.56             | 118.19         |
| SAF Loans                                   | 5.40               | 5.21           |

**V. Latest Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|------|---------------|-----------------|-------------------------------|----------------------------|
| PRGF | 09/26/01      | 09/25/04        | 130.84                        | 88.84                      |
| PRGF | 3/28/94       | 5/04/98         | 101.90                        | 96.85                      |
| SAF  | 3/28/94       | 3/27/95         | 27.02                         | 27.02                      |

**VI. Projected Payments to Fund (without HIPC Assistance)**

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

|                  | 2003        | 2004        | <u>Forthcoming</u> |             | 2007        |
|------------------|-------------|-------------|--------------------|-------------|-------------|
|                  |             |             | 2005               | 2006        |             |
| Principal        | 1.81        | 15.72       | 5.66               | 3.05        | 10.81       |
| Charges/interest | <u>0.30</u> | <u>0.52</u> | <u>0.48</u>        | <u>0.46</u> | <u>0.42</u> |
| <b>Total</b>     | 2.11        | 16.24       | 6.14               | 3.51        | 11.23       |

**Projected Payments to Fund; (with Board-approved HIPC Assistance)**

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

|                  | 2003        | 2004        | <u>Forthcoming</u> |             | 2007        |
|------------------|-------------|-------------|--------------------|-------------|-------------|
|                  |             |             | 2005               | 2006        |             |
| Principal        | 0.08        | 15.72       | 5.66               | 3.05        | 10.81       |
| Charges/interest | <u>0.30</u> | <u>0.52</u> | <u>0.48</u>        | <u>0.46</u> | <u>0.42</u> |
| <b>Total</b>     | 0.38        | 16.24       | 6.14               | 3.51        | 11.23       |

**VII. Implementation of HIPC Initiative:**

|  | Enhanced Framework |
|--|--------------------|
| Commitment of HIPC assistance                    |                    |
| Decision point date                              | March 2002         |
| Assistance committed (NPV terms) <sup>1</sup>    | end-2000           |
| Total assistance by all creditors (US\$ Million) | 600.00             |
| <i>Of which:</i> IMF Assistance (SFR Million)    | 98.48              |
| Completion point date                            | Floating           |
| Disbursement of IMF assistance (SDR Million)     |                    |
| Amount disbursed                                 | 47.28              |
| Interim assistance                               | 47.28              |
| Completion point                                 | 0.0                |
| Total disbursements                              | 47.28              |

**VIII. Safeguards assessment**

Under the Fund's safeguards assessment policy, the Bank of Sierra Leone (BSL) is subject to an assessment with respect to the PRGF arrangement, which was approved on September 26, 2001 and is scheduled to expire on September 24, 2004. A safeguards assessment of the BSL was completed on July 29, 2002. The assessment concluded that substantial risks may exist in the financial reporting framework. Staff findings, proposed recommendations under program conditionality, and other recommendations are reported in ([www.imf.org](http://www.imf.org)), *Sierra Leone—Second Review Under the Poverty Reduction and Growth Facility and Request for a Waiver of Performance Criteria*. Measures are being implemented by the BSL within the prescribed timeframe. Measures with future deadlines continue to be monitored by staff.

<sup>1</sup> NPV terms at the decision point under the enhanced framework.

### **IX. Exchange rate arrangement**

Since April 25, 1990, the exchange rate has been market determined. Commercial banks may buy and sell foreign exchange from/to individual customers, as well as trade among themselves or with the BSL on a freely negotiable basis. The BSL calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial banks' mid-rate, and the bureaus' mid-rate in the previous week, for customs valuation purposes and for official transactions. As end-December 2003, the BSL mid-rate was Le 2,562=US\$1. The exchange rate regime is classified as "independently floating".

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

### **X. Article IV Consultation**

The 2001 Article IV consultation was concluded by the Executive Board on March 11, 2002. The next Article IV consultation with Sierra Leone will be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

### **XI. Technical Assistance**

| <u>Mission</u>   | <u>Date</u>           |
|--|-----------------------|
| MFD mission on improving foreign exchange auction  | January/February 2000 |
| FAD mission to conduct fiscal sector review and to recommend reforms in expenditure management and revenue administration. | May 2001              |
| MFD mission on banking supervision and regulation; monetary operations and framework; and payment systems                  | May/June 2001         |
| MFD mission to assess TA needs of the BSL, banking Supervision, and central bank management                                | November 2001         |
| FAD mission to review public expenditure management Systems.   | June 2002             |
| STA mission to assess the legal-institutional framework for statistics   | June 2002             |

MFD mission on banking supervision and regulation  
and monetary operations and framework

December 2002

MFD mission on monetary operations, banking supervision,  
and payment systems

May/June 2003

**XII. Resident Representative**

A Fund resident representative was stationed in Freetown until May 1997.

### F. Sierra Leone: Relations with the World Bank Group

The World Bank, through IDA, has assisted the government in pursuing four main objectives as the country moves out of conflict: (i) consolidating peace; (ii) resettlement, reconstruction and reintegration; (iii) improving governance; and (iv) maintaining a macroeconomic framework conducive to recovery. Instruments used in supporting these objectives have been the second Public Sector Management Support Project (PSMS II), the Second and Third Economic Rehabilitation and Recovery Credits (ERRC II and III), the Community Reintegration and Rehabilitation Project (CRRP) and the National Social Action Project.

The Bank's Board endorsed a Transitional Support Strategy (TSS) for Sierra Leone for FY02-03 on March 26, 2002. The Bank would prepare a CAS following continued progress in establishing security and governance as well as the completion of a PRSP. The Bank supports the Government's HIV/AIDS Program through the Multi-Sector HIV/AIDS Response Project approved on the same date, under the MAP II.

To meet Sierra Leone's exceptional financing needs in this transitional period, and based on the country's Post-Conflict Performance Rating, in FY03 the Bank provided US\$30 million in adjustment support (ERRC III), US\$20 for the Rehabilitation of Basic Education, US\$20 million for Health Reconstruction and Development, US\$35 million for the National Social Action Project for a total of US\$105 million. Planned FY04 lending includes US\$15 million for an Institutional Reform and Capacity building project and US\$30 million for an Infrastructure Development project for a total of US\$45 million (to be updated by World Bank staff).

As of December 3, 2003, the World Bank Group has approved 45 credits for a total amount of about US\$540 million, with an undisbursed amount of about US\$108 million. The current portfolio consists of seven lending operations, as summarized below, in the areas of adjustment support, poverty reduction, education, health, HIV/AIDS, transportation and public sector management totaling about US\$158.5 million.<sup>1/</sup>

#### Sierra Leone: Financial Relations with the World Bank Group (As of December 3, 2003; in millions of U.S. dollars)

|  | Commitments |       | Of which:<br>Undisbursed |
|--|-------------|-------|--------------------------|
|  | IBRD        | IDA   |                          |
| <b>IV. IBRD/IDA LENDING OPERATIONS</b> |             |       |                          |
| Basic Education                        | 0.00        | 20.0  | 20.06                    |
| ERRC III                               | 0.00        | 30.0  | 15.39                    |
| National Social Action Project         | 0.00        | 35.0  | 34.18                    |
| Health Sector Reconstruction           | 0.00        | 20.0  | 21.05                    |
| HIV/AIDS Response Project              | 0.00        | 15.0  | 14.94                    |
| Second Public Sector Management        | 0.00        | 3.5   | 1.18                     |
| Transportation sector                  | 0.00        | 35.0  | 1.43                     |
| Total                                  | 0.00        | 158.5 | 108.22                   |
| Total disbursed (IBRD and IDA)         | 18.70       | 540.2 |                          |
| Of which: repaid                       | 18.16       | 49.74 |                          |

Source: World Bank Group.

<sup>1/</sup>**World Bank Contact:** Douglas M. Addison, Senior Economist, Macroeconomics 4, Africa Region, the World Bank (phone: 202-473-1188).

### **Sierra Leone: Statistical Issues**

1. Owing to the prolonged civil war, Sierra Leone's macroeconomic database has serious deficiencies, particularly in the areas of the balance of payments, national accounts, as do key social indicators. From the May 1997 coup to March 1998, the statistical compilation virtually collapsed because of institutional damage and the departure of key skilled personnel from the administration. Since April 1998, however, the authorities have endeavored to rehabilitate the data collection and compilation systems. The authorities are fully cooperative in providing data to the Fund for purposes of policy formulation and program monitoring, and available data are provided to the Fund in a timely manner. The authorities are trying to disseminate economic and financial data to the public on a regular basis.

2. A major and sustained improvement in the coverage and timeliness of economic data will require the restructuring of the institutional framework along the lines recommended by the 1998 STA macroeconomic statistics mission. Budgetary resources remain scarce for the main statistical unit, the Central Statistics Office (CSO); this situation most adversely affects the compilation of national accounts and price statistics. Cooperation and coordination between the main statistical agencies also need to be improved. Sierra Leone is participating in the GDDS regional project for Anglophone African countries that is funded by the Department for International Development (DfID) of the UK. The authorities have prepared an initial set of metadata that include detailed plans for improvement over the short and medium term; these were posted on the Fund's DSBB on May 29, 2003. Sierra Leone has received Fund technical assistance in priority areas and additional assistance is expected to be requested in the context of this project.

#### **National accounts**

3. National accounts data are prepared by the CSO using data received from government ministries and agencies, public enterprises, and through occasional surveys of economic activity. The CPI is used extensively to derive estimates of GDP at constant prices. A project to improve the system of national income and social accounts was undertaken with Fund/United Nations Development Program (UNDP) technical support. As a result, a set of revised national accounts for the period 1986/87–1994/95 (opening month–closing month) was published in December 1995. The main revisions dealt with adjusting trade figures to reflect illegal diamond mining and fishing activity. However, large adjustments were also made to the exports of nonfactor services, for which the CSO was unable to provide sufficient explanation. Data on the exports and imports of services need further improvement and efforts to strengthen direct estimation techniques are ongoing. Fund missions continue to make their own estimates and projections of key national accounts aggregates, as well as adjustments to historical data using available information. Last available national accounts data refer to 2000. Resource constraints have significantly delayed data production for 2001 and 2002.

## **Prices**

4. The consumer price index (CPI) for Freetown is prepared monthly by the CSO and published with a lag of more than three weeks. The CPI covers the capital city only, although with the onset of peace the CSO intends to extend coverage of the CPI to towns and selected rural areas. A wholesale price index, which has remained dormant for many years, needs to be reestablished.

## **Government finance statistics**

5. The budget reporting system was established with technical assistance provided under the Fund/UNDP technical assistance project. Monthly data on central government revenue, current expenditure, and financing are being provided, with appropriate disaggregation. The European Commission (EC) is providing technical assistance to the Accountant General's Office that will improve the timeliness and quality of fiscal data. Data on capital expenditure are poor. While Sierra Leone has reported fiscal data to AFR, it has not provided annual data for publication in the GFS Yearbook since 1999. Fiscal data only cover the budgetary central government, excluding extrabudgetary agencies and local governments.

## **Monetary statistics**

6. The main components of the central bank balance sheet are available on a daily and weekly basis; this system provides an early warning system on key financial targets. The full monetary survey is prepared with a lag of about six weeks, with comprehensive coverage of commercial banks.

7. The BSL is compiling monetary data using a compilation system established by the 1996 STA mission for data reporting to AFR and STA. Most of the mission's recommendations have been implemented, resulting in substantial improvements in the quality of the monetary data. However, in commercial banks data, the distinction between foreign and domestic positions is still based only on currency of denomination and not on residency. In addition, the recent GDDS metadata and monetary and financial statistics mission identified that (i) the institutional coverage of monetary statistics does not include those financial corporations that accept non-transferable deposits and (ii) the BSL records the counterpart to the foreign exchange received through foreign grants and loans to the central government as foreign liabilities instead of liabilities to the central government. Some other data problems result from mispostings in the balance sheet of the BSL and misclassifications of new accounts.

### **Balance of payments statistics**

8. Sierra Leone's external transactions are characterized by a large volume of activity in the informal sector, owing principally to the smuggling of diamonds. A considerable portion of imports is financed by these unrecorded exports. As a result, official balance of payments statistics tend to substantially understate transactions. The staff has been addressing this problem through the use of third-country (principally EC member) import data. The Statistics Department is providing technical assistance to help the authorities with the implementation of BPM5.

9. Information on official program grant and loan receipts is relatively good and is prepared by the staff on the basis of contact with the Sierra Leonean authorities and donor agencies. In contrast, data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private capital flows, especially those linked to the informal diamond trade, are effectively captured only in "Errors and omissions." Data on the gross and net official reserves positions of the BSL are provided monthly to the Fund with a short lag.

10. Information on public external debt is good. A comprehensive debt-reporting system has been in operation, monitoring official external debt and related interest payments. Data on the present stock of private sector external debt are satisfactory, following the verification exercise made in connection with the July 1995 commercial debt buyback operation and the reconciliation exercise undertaken in the context of the HIPC Initiative.



Sierra Leone: Core Statistical Indicators  
(As of December 7, 2003)

|                             | Exchange Rates | International Reserves | Central Bank Balance Sheet | Reserve/ Base money | Broad Money | Interest Rates | Consumer Price Index | Exports/ Imports | Current Account Balance | Overall Government Balance | GDP/ GNP | External Debt/ Debt Service |
|-----------------------------|----------------|------------------------|----------------------------|---------------------|-------------|----------------|----------------------|------------------|-------------------------|----------------------------|----------|-----------------------------|
| Date of latest observation  | 10/31/03       | 10/03                  | 10/03                      | 10/03               | 10/03       | 10/03          | 09/03                | 04/03            | 2002                    | 06/03                      | 2001     | 06/03                       |
| Date received               | 11/05/03       | 12/03                  | 12/03                      | 12/03               | 12/03       | 11/17/03       | 11/03                | 06/03            | 08/03                   | 08/03                      | 06/02    | 09/03                       |
| Frequency of data 1/        | D              | M 2/                   | M 3/                       | M 3/                | M 2/        | W              | M                    | M                | A                       | M                          | A        | M                           |
| Frequency of reporting 1/   | W              | M                      | M                          | M                   | M           | M              | M                    | M                | V                       | M                          | V        | M                           |
| Source of update 4/         | A              | A                      | A                          | A                   | A           | A              | A                    | A                | A                       | A                          | A        | A                           |
| Mode of reporting 5/        | E, T           | E, C, T                | E                          | E, C                | E, C        | E, C           | E, C                 | E, C, V          | E, C, V                 | E                          | E, C, V  | E, C, M                     |
| Confidentiality 6/          | C              | C                      | C                          | C                   | C           | C              | C                    | C                | C                       | C                          | C        | C                           |
| Frequency of publication 1/ | W              | W                      | M                          | M                   | M           | W              | M                    | M                | A                       | M                          | A        | M                           |

1/ D-daily, W-weekly, M-monthly, A-annual, V-irregularly in conjunction with staff visits.

2/ Weekly estimates provided in Bank of Sierra Leone's "Trends in Monetary Variables."

3/ Daily estimates provided in Bank of Sierra Leone's "Daily Indicators."

4/ A-direct reporting by the authorities.

5/ C-cable or facsimile, E-electronic data transfer, T-telephone, M-mail, V-staff visits.

6/ C-for unrestricted use.



Press Release No. 04/33  
FOR IMMEDIATE RELEASE  
February 23, 2004

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Completes Fourth Review Under Sierra Leone's  
PRGF Arrangement and Approves US\$21 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Sierra Leone's performance under a SDR 130.84 million (about US\$196 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see [Press Release No. 01/39](#)). The completion of this review enables the release of an amount equivalent to SDR 14 million (about US\$21 million), which will bring the total amount drawn under the arrangement to SDR 88.84 million (about US\$133 million).

In completing the review, the Board waived the nonobservance of performance criteria pertaining to net domestic bank credit to the government and to the domestic primary budget balance, as well as the nonobservance of the structural performance criteria related to the completion of payroll photo verification for all existing teachers with valid credentials and the issuance of identification cards for all verified teachers.

The Board also approved an SDR 14.75 million (about US\$22 million) advance of additional interim assistance under the enhanced HIPC Initiative, as well as a six-month extension of the arrangement to March 25, 2005 from the current expiration date of September 25, 2004.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion of Sierra Leone's economic performance, Agustín Carstens, Deputy Managing Director and Acting Chair, made the following statement:

"Sierra Leone has made continued progress in stabilizing the macroeconomy, providing sustainable growth, reducing poverty, and consolidating peace, despite continuing regional instability. Nevertheless, many challenges lie ahead in solidifying these gains, developing a realistic and ambitious medium-term framework, and progressing on a broad range of structural

reforms. In view of the scheduled withdrawal of United Nations forces from Sierra Leone at year-end, the government also confronts the need to assume full responsibility for security with significant budgetary costs to the country.

“The authorities’ macroeconomic objectives for 2004 will support higher growth and reduced inflation. Achievement of the fiscal target will entail reduced recourse to domestic bank financing of the budget, to support the reduction in inflation. An increased and timely availability of donor support is critical in easing financing constraints. The budget aims at raising poverty-reducing spending and revenue collection. Structural measures will aim at achieving efficiency gains in public service delivery and management.

“To strengthen monetary policy implementation, the authorities need to widen the set of monetary policy instruments, including by making a more active use of interest rates, in the context of maintaining a market-based exchange rate regime. Measures to improve bank supervision are also on-going.

“The authorities need to take strong measures to improve governance and foster the development of the private sector, including strengthening legal and judicial frameworks. In view of the critical importance of mineral and natural resources to the economy, the authorities also need to begin developing a medium- to long-term policy framework to guide their development.

“The authorities are aiming at completing the Poverty Reduction Strategy Paper for Sierra Leone by mid-2004, which will provide a critical medium-term framework to address the socio-economic challenges facing the country. They will continue to pursue debt relief with non-Paris Club creditors in the context of the enhanced HIPC Initiative. The authorities are commended for the progress made in implementing HIPC Initiative completion point triggers.

“It is expected that the authorities will build upon already solid progress on the peace front in order to consolidate gains in restoring macroeconomic stability and growth, and reducing poverty,” Mr. Carstens said.

**Statement by Ismaila Usman, Executive Director for Sierra Leone  
and Peter J. Ngumbullu, Alternate Executive Director  
February 23, 2004**

**Key Points**

- The disarmament and demobilization of over 72,000 former combatants has been fully completed.
- Real GDP is projected to grow by 6.8 percent, to be supported mainly by the continued recovery of the agricultural sector, mining and reconstruction.
- Inflation is targeted to fall below 5 percent.
- Overall fiscal deficit is expected to decline to 7.5 percent of GDP in 2004 from 9.1 percent in 2003.
- Total expenditure and net lending amounted to 23.2 percent of GDP, well below the programmed level of 28.8 percent of GDP.
- Teacher verification has been completed. Identification cards are being issued to all verified teachers.
- The authorities have expressed commitment to implement the recommendations by Fund staff, of the 2002 safeguards assessment that will further strengthen the BSL's internal controls.
- The authorities are strongly committed to combating corruption and have taken steps to revamp the fight against it, shifting the focus from prevention to investigation and follow-up through prosecution.
- The authorities are, therefore, requesting technical assistance from FAD in this connection.

**1. Introduction**

Sierra Leone has continued to consolidate the peace effort as reflected in the political reconciliation process initiated in 2002. Refugees and internally displaced people have already been resettled in their various communities. The disarmament and demobilization of over 72,000 former combatants have been fully completed, while the reintegration process is in its final phase of completion. Indictments for all the major players in the conflict have been issued and the trials are expected to commence soon. On this score, testimonies have been received by the Truth and Reconciliation Commission (TRC) and compilation of these testimonies is in the final process of completion. Without doubt, these developments have had a positive impact on the economy, in addition to improving stable security situation which the country is now enjoying.

**2. Macroeconomic developments in 2003**

The countries' economic activities remained robust in 2003, a reflection of recovery in economic activity in the agricultural sector, increase in diamond production, followed by a rapid expansion of public and private sector activities. Real output in 2003 is estimated to

have grown by 6.5 percent, compared with 6.3 percent in 2002. All indicative targets for end-September 2003 under the program were observed, except for the floor on the primary domestic budget balance and the ceiling on the government wage bill.

**a. Fiscal developments** portrayed an increase in inflation in 2003 from an annual average rate of -3 percent in 2002 to 4.3 percent in September 2003, as a result of spillovers in monetary developments due to the increased prices of fuel. Government domestic revenue was 11.3 percent of GDP, a little higher than programmed. Expenditure was contained partly due to shortfalls in foreign grants and borrowing, although the fiscal program was still accommodated by an increase in domestic financing. Consequently, total expenditure and net lending amounted to 23.2 percent of GDP, well below the programmed level of 28.8 percent of GDP. Slight overruns on the government wage bill over program targets was experienced in the third quarter because of payments of wage arrears. The overall deficit, including grants remained within program target and was 5.3 percent of GDP.

**b. Monetary and Exchange Rate Policies and Banking Sector Developments.**

Interest rates were broadly stable in the first nine months of the year, though substantially eroded by rising inflation. Nominal interest rates remained flat during the period, resulting in a substantial decline in real interest rates from over 20 percent at end of 2002 to about 3 percent in September 2003. Nonperforming loans of the commercial banks declined to about 11 percent at end- September 2003 because of repayment of the government arrears to enterprises. With technical assistance from the Fund, the Bank of Sierra Leone (BSL) has continued to strengthen its supervisory capacity and remains vigilant in its efforts to supervise commercial banks.

The real effective exchange rate depreciated by about 12 percent during the first nine months of 2003, due to the nominal depreciation against the U.S. dollar. In addition, regular auctions of foreign exchange have contributed to determining the exchange rate. The authorities have closed the special window that had been allowing oil companies to purchase foreign exchange at auction-determined exchange rates, despite its ability to ensure a continuous flow of fuel products into the country.

**c. The external current account** position widened because of the strong growth in imports and the higher cost of fuel. Exports revenue, however, also increased, due to strong diamond and cocoa exports. The Kimberley Process Certification Scheme adopted at the beginning of 2003 by most diamond- exporting nations contributed to a reduction in incentives for diamond smuggling.

**3. Structural Reforms Efforts**

The photo verification of teachers exercise was completed in October 30, 2003 for all teachers on the payroll, and following understandings reached with Fund staff, the authorities have issued identification cards to at least 80 percent of verified teachers. The exercise will be completed by mid-December 2003.

Similarly, the photo verification system for civil servants and teachers in the Establishment Secretary's Office has taken off, and the financial audit of the Ministry of Education was completed by end-October 2003.

Given the lack of banking services in many rural areas and the need to minimize transaction costs for the teachers, efforts have been made to effect payment of teachers' and other academic staff salaries through the banking system into individual school accounts rather than paying through personal accounts. Measures have also been taken on how to make payments in areas where no banking services are available. Approval of new teachers is now undertaken by the Ministry of Finance before they are added to the payroll.

The authorities have also cleared all outstanding arrears to the National Power Authority (NPA). As a result, all ministries are now expected to settle their bills directly with the NPA, which has been instructed to institute strong measures under the program to secure payments for non-paying public and private institutions, including disconnection.

#### **4. Projections for 2004**

Real GDP is projected to grow by 6.8 percent, to be supported mainly by the continued recovery of the agricultural sector and a further increase in reconstruction. Inflation is targeted to fall below 5 percent. To attain these goals, the authorities intend to continue to address the country's immediate postwar problems, including measures to further consolidate peace and security and improve public sector service delivery. More emphasis will be placed on maintaining macroeconomic stability and fiscal consolidation in reducing poverty, and addressing long-term development issues. The authorities main thrust in 2004, is to sustain a high level of real activity and maintain low inflation. They intend to continue to tighten monetary policy to complement fiscal policy. They also intend to improve infrastructure to enhance efficient delivery of public services.

##### **a. Fiscal Policy**

Fiscal policy aims at achieving macroeconomic stability, boosting revenue mobilization and increasing the efficiency and effectiveness of public sector operations, as well as enhancing poverty reduction efforts and promoting job-creating growth. Overall budget deficit, including grants, is expected to narrow down in 2004 to 7.5 percent of GDP, reflecting an increase in external resources expected during 2004. The domestic primary fiscal balance is projected to remain unchanged at 6.5 percent of GDP which is lower than in the original program. Domestic financing will increase slightly. Domestic revenue is projected to increase to 16 percent of GDP in 2004, whilst total expenditure and net lending are estimated at about 36 percent of GDP, due to increase in foreign-financed development expenditure. On the other hand, current expenditure will drop by about one percentage point to 26 percent of GDP.

To achieve these objectives, the authorities will continue implementation of reforms to improve tax collection and administration. This would include strengthening of the National Revenue Authority (NRA), improving the capacity of government ministries and raising the

efficiency of public service delivery. Further measures would also include the collection of tax arrears and the integration of the Diamond Evaluation Office into the NRA's Income Tax Department. The authorities will also continue to improve expenditure controls in the education system, including through a strict management of the teachers' payroll. In this regard, they will ensure that agreed ceilings are observed in terms of both the number of employed teachers and the related wage bill. They will also put on hold the reductions in income tax and corporate tax, whilst observing revenue trends established to form the basis for the next review.

**b. Monetary and Exchange Rate Policies and Financial Sector Reform**

Monetary policy will focus on controlling inflation and building up of external reserves. Broad money is projected to grow by about 11 percent in 2004 which is lower than the original program. Private sector credit will grow by 15 percent in 2004, compared with 36 percent in 2003.

On exchange rate policy, the authorities will continue to maintain a market-determined exchange rate regime, based on the weekly foreign exchange auction started since 2002, while providing adequate room for a modest reserve buildup, equivalent to 2.2 months of import cover at end-2004.

The authorities have expressed strong commitment to implementing the staff recommendations of the 2002 safeguards assessment to further strengthen the BSL's internal controls among other things. Similarly, the Bank's current external auditors will be replaced to strengthen external audit function.

**c. External sector policies**

With the exclusion of official transfers, the current account deficit in 2004 is projected at 31 percent of GDP. Import demand will remain strong due to recovery in economic activity and the large reconstruction import needs. Exports will increase as a result of increased diamond production that is facilitated by the improved security situation and adequate access to mining areas. The authorities intend to develop a comprehensive medium-term budget framework in time for the fifth review under the PRGF arrangement, that would incorporate expected revenue streams for all major mining areas in the mineral sector.

To foster regional integration, the authorities intend to adjust external tariffs gradually toward the agreed common external tariff (CET) of the Economic Community of West African States (ECOWAS). To do this, they will expand the revenue base, including the introduction of value added tax (VAT) so as to compensate for the resulting loss that would follow the common external tariff's impact on fiscal revenues.

In respect of debt relief, further progress has been made in completing negotiations with bilateral creditors. The authorities have signed debt-rescheduling accords on Naples terms with ten out of eleven Paris Club bilateral creditors and on Cologne terms with six bilateral

creditors. They have also finalized an agreement with the OPEC Fund on arrears clearance using resources from the OPEC's Commodity Import Support Program.

#### **4. Other Proposed reforms**

The authorities are fully convinced that an efficient and effective public sector is fundamental to sustainable economic growth, poverty reduction and improved service delivery to the public. A review of the civil service grading and pay structure is under way and is expected to provide a basis for future reform, for which the government is seeking further technical and financial support from donors.

On governance issues, the authorities remain committed to combating corruption by revamping prevention measures and thorough investigation and follow-up through to prosecution. To this end, they have sought external assistance from the Commonwealth Secretariat for the provision of a special prosecutor, two judges, and a local legal support.

The National Commission for Privatization (NCP) has prepared a comprehensive plan for the implementation of the strategy for the divestiture of public enterprises. Other actions already taken include tendering for the registration of consultants to carry out diagnostic studies.

The authorities, with assistance from the Fund and other donors, will continue to pursue efforts to promote the private sector through improved governance as well as judicial and legal reforms.

#### **5. Conclusion**

My authorities share the staff's assessment of economic developments and would like to extend their appreciation to staff for their continued efforts towards completion of the fourth review. They reiterate their strong commitment to pursuing the path of adjustment and reform and are therefore requesting waivers for the nonobservance of two of the performance criteria. They are also requesting for an extension of the arrangement for a six-month period, together with an advance of the additional interim HIPC assistance under the enhanced HIPC initiative for the twelve-month period starting March 21, 2004.