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SIERRA LEONE

2013 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

November 2013

In the context of the 2013 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 21, 2013, following discussions that ended on September 12, 2013, 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 October 7, 2013.

- An **Informational Annex** prepared by the IMF.

- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its October 21, 2013 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.

- 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
- Techincal Memorandum of Understanding*

*Also included in the Staff Report.

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

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SIERRA LEONE

October 7, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Against the background of challenging economic and social conditions, Sierra Leone has been making progress since the end of the civil conflict in 2002. The economy has been growing at a solid pace, inflation has been trending down, and socio-political stability is taking hold. Going forward, the authorities need to strengthen policy implementation particularly in the fiscal area to entrench macroeconomic stability, support private sector development and job creation, and develop social policies to protect the most vulnerable groups in the population.

Consultation focus. Policy discussions focused on fiscal consolidation and public financial management reforms; monetary policy and price stability; borrowing policies and long-term debt sustainability; private sector development and structural reforms to enhance inclusive growth.

Staff views. Staff recommends the approval of the authorities' request for a three-year arrangement under the Extended Credit Facility (ECF) in an amount of SDR 62.22 million (60 percent of quota). In May 2013, the authorities decided to cancel the three-year ECF arrangement approved by the Board in June 2010 because key objectives under the program supported by the arrangement were no longer achievable. The new arrangement is aimed at supporting the authorities' efforts to consolidate macroeconomic stability, strengthen the fiscal position, build external buffers, and promote broad-based economic growth in the context of their new Poverty Reduction Strategy (PRS).

Safeguards assessment. The latest safeguards assessment was updated in 2010. The next update will be completed by the time of the first review of the proposed ECF arrangement.

The new Poverty Reduction Strategy. The Joint IMF-World Bank Staff Advisory Note on the new PRS will be circulated to the Board in early November.

Approved By
Michel Lazare (AFR) and Dhaneshwar Ghura (SPR)

Discussions took place in Freetown during September 29–October 3, 2012; May 8–21 and September 3–12, 2013. The team comprised Ms. Kabedi-Mbuyi (head), Messrs. Palmason, Orav, Zhdankin (all AFR), Ms. Parulian (SPR–September 2012 mission), and Mr. Kumah (Resident Representative). Mr. Tucker (OED) participated in policy discussions.

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BACKGROUND: TAKING STOCK

A Decade of Peace—Progress and Remaining Challenges

1. **Sierra Leone has made important strides in economic reconstruction and macroeconomic as well as political stability since the end of the civil conflict in 2002**. Economic growth has been sustained and has strengthened in the last two years with the coming on stream of iron ore production and increased infrastructure investment. Per capita GDP growth was slightly above the 2.4 percent Sub-Saharan Africa average for 2003–11. Inflation, fuelled by expansionary monetary and fiscal policies, currency depreciation, and global price shocks, has been in the double-digits for most of the past decade. However, tighter monetary policy stance and increased food supply in the last two years have helped contain inflationary pressures. The external current account deficit deteriorated sharply in 2010–11 mainly because of the surge in FDI-financed imports associated with iron ore investment; it narrowed in 2012 with the onset of iron ore exports (Text Table 1). Since the end of the civil conflict, the socio-political situation has been stable, and three peaceful rounds of elections have been held.

Text Table 1. Sierra Leone: Recent Economic Developments, 2003–12
(In percent of non-iron ore GDP, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP at constant prices (percent change)	9.3	6.6	4.5	4.2	8.0	5.2	3.2	5.3	6.0	15.2
Excluding Iron ore	9.3	6.6	4.5	4.2	8.0	5.2	3.2	5.3	5.8	5.3
Consumer prices (end-of-period, percent change)	11.3	14.4	13.1	8.3	13.8	12.2	10.8	18.4	16.9	12.0
Gross international reserves in months of imports (Excluding iron ore related imports)	2.2	3.3	4.5	4.6	4.3	4.4	4.1	3.4	2.8	3.1
Current account balance (Including official grants)	-3.5	-4.3	-5.2	-4.2	-4.2	-8.9	-6.3	-19.7	-45.0	-39.4
External public debt	118.7	119.0	106.4	82.9	24.5	24.2	28.2	30.4	32.6	27.8
Domestic primary balance	-5.9	-4.8	-4.3	-3.4	-2.4	-3.0	-4.0	-5.9	-3.8	-3.8

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

2. **While recent progress is laudable, fostering broad-based growth and reducing poverty remain daunting challenges**. Although in decline, the poverty headcount is above 50 percent. Unemployment and underemployment are also high, and social indicators are weak by regional standards. There are large infrastructure gaps, particularly for roads, energy, and access to safe water and sanitation (Figure 1). Progress in institution building has been uneven, and administrative capacity constraints remain important.

3. **The authorities have been addressing Sierra Leone's developmental challenges within the framework of poverty reduction strategies with donor support**. They implemented two generations of Poverty Reduction Strategies (PRS) during 2005–12, and have recently adopted a new PRS, which aims to consolidate past progress and advance social and economic development in 2013–18. Donors have supported the authorities' efforts through budget aid and technical assistance (TA). In addition to TA, the IMF also provided policy advice and funding under

ECF-supported programs. The authorities have generally been responsive to IMF policy advice and built on TA recommendations to advance structural reforms and improve policy formulation (Box 1).

Lessons from the Last ECF-Supported Program

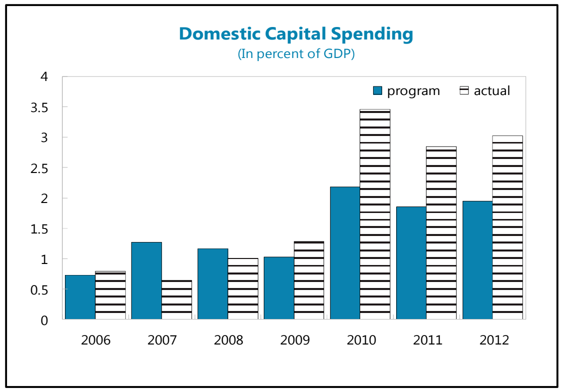
4. **Performance under the previous ECF-supported program (June 2010–June 2013) was mixed**. Macroeconomic stability improved, economic growth accelerated, and inflation declined (Figure 2). Comprehensive structural and institutional reforms were completed to enhance revenue collection as well as expenditure and treasury cash flow management, improve monetary operations and banking sector supervision, and enhance the management of natural resources. However, progress was limited in the fiscal area: the fiscal position weakened over time due to tension between available resources and the scaling-up of infrastructure investment. While revenue performance was in line with program objectives, expenditure overruns marked the three program years (Box 2). The larger-than programmed deficits were financed with: (i) direct financing from the Bank of Sierra Leone (BoSL) in 2010; (ii) unpaid bills to domestic suppliers in 2011 and; (iii) over-borrowing from the government securities market, as well as accumulation of significant unpaid bills to domestic suppliers in 2012. Corrective measures to reduce fiscal dominance and address the slippages had a limited impact in the face of persistent weaknesses in public financial management. The latter included: (i) weak coordination for budget preparation and low forecast capacity; (ii) accommodation of in-year requests for additional spending; (iii) disaggregated government accounts as well as low coordination between agencies and; (iv) absence of a public investment plan integrated with a medium-term expenditure framework (MEFP ¶ 9–15).

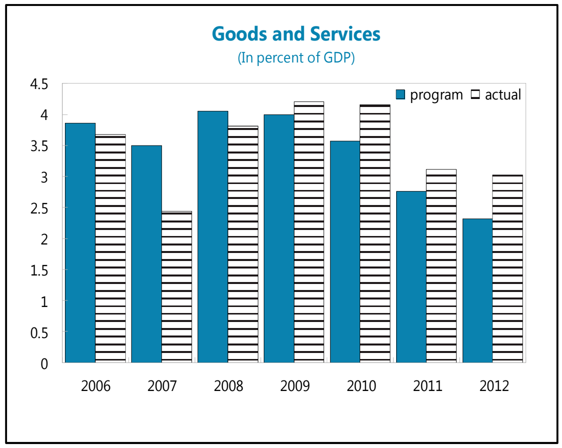
Box 1. Sierra Leone: Response to Fund Advice from the 2010 Article IV Consultation

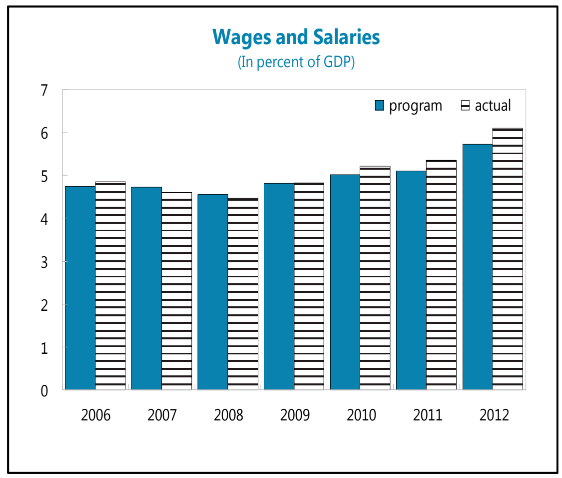
Fund Advice	Response
Enhance the efficiency of revenue collecting agencies and broaden the tax base in order to create fiscal space for infrastructure investment and social services.	The authorities introduced structural reforms that have strengthened efficiency at the National Revenue Agency (NRA). Key measures include the setting up of: a Domestic Tax Department, the Large Taxpayer office, the Medium Taxpayer office; and the increase in penalties for noncompliance with tax obligations. They also overhauled the tax system for the mining sector.
Contain non-priority spending while striking a balance between spending on infrastructure and social services.	The authorities tightened expenditure commitment procedures to improve non-priority spending monitoring and contain them to budgeted levels. In this context, they set up a high-level inter-agency Cash Management Committee; adopted regulations to guide public investment execution, and prioritized spending on roads.
Eliminate fuel subsidies.	The authorities took action to substantially reduce implicit fuel subsides in the form of foregone excises and road user charges. In this context, they introduced a new fuel pricing mechanism.
Foster budget credibility and predictability by strengthening the medium-term expenditure framework.	The preparation of a medium-term expenditure framework has enhanced budget credibility, while the wider rollout of the Integrated Financial Management Information System (IFMIS) has strengthened the infrastructure for budget execution. The introduction of a multi-year pay reform plan has set the stage for increasing capacity in the civil service. Amendments to the Government Budgeting and Accountability Act have helped clarify that only viable capital projects should enter into the budget.
Limit monetization of the fiscal deficit.	The Bank of Sierra Leone (BoSL) Act was amended to cap direct credit to government at 5 percent of previous year's revenue. The authorities have complied with this measure since its introduction in 2011.
Increase effectiveness of monetary policy and develop a yield curve.	The BoSL adopted the reverse repo rate as the benchmark interest rate, which is announced regularly by the Monetary Policy Committee.
Enhance the supervisory role of BoSL and improve regulation and supervision.	New off-site guidelines for surveillance were adopted and revised prudential guidelines were issued.
Improve the information flow on creditors and creditworthiness.	The authorities established a Credit Reference Bureau to provide banks with information on the creditworthiness of prospective customers.

Box 2. Sierra Leone: Budget Execution Under Severe Resource Constraints

Budget execution has faced important challenges in recent years. Contributing factors are limited resources in the face of expenditure pressures and weak public financial management. As a result, spending in goods and services, domestically financed investment and wages and salaries have been systematically higher than budgeted, compromising fiscal performance under the previous ECF-supported program.







Low revenue base and declining budget support. Limited gains on revenue performance set the stage for a tight fiscal envelope in recent years, with revenue mobilization overly dependent on exceptional collection from the mining sector (iron ore) and oil exploration licenses. In addition, declining budget support partially rooted in Sierra Leone's graduation from a post-conflict status added to the resource constraints.

Limited access to domestic financing. Borrowing from the government securities market is constrained by the narrow investors' base, its high cost (the 91-day interest rate was 24.5 percent in 2010), and prospects for crowding out credit to the private sector. In addition, overdraft financing from the BoSL was significantly reduced when the central bank act was adopted by parliament in late 2011, limiting government financing from BoSL to 5 percent of revenue in the preceding year. This implied maximum financing from BoSL equivalent to about 0.5 percent of GDP in fiscal year 2011 while actual BoSL financing reached 2.9 percent of GDP in 2010.

Weak public financial management (PFM). Against the background of administrative capacity constraints, in-year requests for additional spending were not adequately curbed in recent years, resulting in overspending. Although the IFMIS supports expenditure controls for most line ministries, lack of clarity under the Government Budget and Accountability Act (2005) led to accommodation of expenditures deemed to be of high urgency, particularly for roads and other infrastructure projects.

Expenditure overruns and high cost of domestic debt. In 2010–12, on average, domestically financed investment, expenditure on goods and service, wages and salaries to a lesser extent, were above the program targets by 55 percent, 20 percent, and 5 percent respectively. Key contributing factors were: (i) higher than anticipated cost of running national elections in 2012; (ii) higher than projected cost of the pay reform and the need to hire additional teachers, nurses, and police officers; and (iii) faster execution rate for domestically financed investment that led to accelerated payment to projects contractors. Financing the higher than budgeted fiscal deficit from the securities market has increased the domestic debt burden with interest charges increasing from Le 142 billion (1.4 percent of non-iron ore GDP in 2010) to Le 256 billion (1.7 percent of non-iron ore GDP) in 2012.

RECENT ECONOMIC DEVELOPMENTS AND SHORT-TERM OUTLOOK

5. **Economic growth surged in 2012 as large-scale iron ore mining production started** (Figure 3 and Table 1). The onset of iron ore production at two mines, and a strong performance in agriculture, services, and construction boosted GDP growth to 15.2 percent in 2012, up from 6 percent in 2011. Growth is projected to average 13.7 percent in 2013–14, supported by the same drivers and continued high public investment (MEFP ¶ 4).

6. **Inflationary pressures declined in 2012 and prospects for 2013 are encouraging**. The inflation rate stood at 12.1 percent (year-on-year) in 2012 (16.9 percent in 2011), supported by a tight monetary policy stance, stability in the exchange rate, and increased food supply. The declining trend in inflation has continued in 2013 as the authorities are restraining fiscal policy, and monetary policy conditions have remained tight. The inflation rate (year-on-year) stood at 9.5 percent in July, which augurs well for the end-year target (MEFP ¶ 5).

7. **The 2012 fiscal position was worse than anticipated** (Tables 2a, 2b; and Figure 4). The domestic primary deficit reached 3.8 percent of non-iron ore GDP, compared with 1.8 percent budgeted, because of expenditure overruns. While revenue collection was slightly higher than expected, expenditure was well above appropriation levels, mostly on account of spending related to the November elections, and the authorities' continued efforts to scale-up infrastructure investment. The higher-than-budgeted deficit was partially financed with over-borrowing from the government securities market and an accumulation of unpaid bills at the end of the year (MEFP ¶ 8).

8. **The external position improved in 2012 and is expected to strengthen further in 2013** (See Figure 3 and Table 5). The current account deficit dropped from 45 percent of non-iron ore GDP in 2011 to 39.4 percent in 2012. The improvement reflects the sharp decline in investment-led imports related to iron ore projects, the commencement of iron ore export, and favorable terms of trade. Although the latter are expected to deteriorate in 2013, the current account deficit would narrow further on account of the expected strong export performance. Sierra Leone's reserve coverage rose from 2.8 months of imports (excluding iron ore-related imports) in 2011 to 3.1 months in 2012. It is expected to stabilize around this level in 2013 (MEFP ¶ 6).

9. **Monetary and banking sector developments were broadly satisfactory in 2012, as risks to financial sector stability appeared contained** (Figure 5 and Tables 4 and 9). Broad money (M2) grew by 23.1 percent, slightly faster than nominal non-iron ore GDP; and credit to the private sector expanded by 6.3 percent, down from 21.8 percent in 2011, partly reflecting the impact of enhanced banking supervision, and some crowding out from a sharp rise in government borrowing from the securities market in 2012. Financial soundness indicators show that banks are generally well capitalized, profitable, and in compliance with prudential regulations. They also point to an increase in nonperforming loans, partly due to the high level of government unpaid bills to the private sector at end-2012 (MEFP ¶ 7).

MEDIUM-TERM FRAMEWORK

10. **Reducing poverty and creating employment opportunities through sustained and inclusive growth are two key objectives of the authorities' medium-term policy framework**. Under their new development strategy for 2013–18, the authorities aim to reach these objectives by strengthening the fiscal position, ensuring that economic policies support macroeconomic stability; that structural reforms are put in place to improve the business environment; and that social protection systems are developed for the most vulnerable groups of the population.

11. **The medium-term macroeconomic framework underpinning the ECF-supported program being requested by the authorities is consistent with the new PRS**. It points to a favorable outlook with sustained growth, low inflation, and improving fiscal and external positions (MEFP ¶ 27–30).

- *Growth prospects for 2014–18 are dominated by developments in the iron ore sector.* Baseline projections show that growth is expected to accelerate at a double-digit rate in the next two years, and decelerate to 7.7 percent in 2016, consistent with the current iron ore production profile (Text Table 2). Growth in the non-iron ore economy would remain robust (above 6 percent), supported by continued strong performance in agriculture. Mining activity is expected to spillover into construction, manufacturing, and services—mainly trade and transport. Staff stressed that continued infrastructure investment, and structural reforms to improve the business environment will be needed to further enhance medium-term growth prospects in the non-mineral economy.

Text Table 2. Sierra Leone: National Accounts, Growth by Sectors, 2013–18
(Percent change)

	2013	2014	2015	2016	2017	2018
		Proj.				
Gross Domestic Product	13.3	14.0	12.4	7.7	5.2	5.3
Excluding Iron ore	6.0	6.3	6.6	6.6	7.0	7.0
Agriculture, Forestry and Fishing	4.5	4.8	4.8	5.6	5.6	5.6
Agriculture	5.0	5.5	5.5	6.5	6.5	6.5
Industry	53.8	42.2	28.1	9.6	2.3	2.2
Mining and Quarrying	71.9	49.2	30.9	9.1	0.6	0.3
Of which Iron ore	90.3	59.0	34.7	11.1	0.0	0.0
Manufacturing and Handicrafts	6.0	10.0	10.0	10.0	10.0	10.0
Electricity and Water Supply	-5.9	13.2	13.3	13.5	13.6	13.7
Construction	10.0	15.0	15.0	15.0	15.0	15.0
Services	6.0	6.8	7.8	8.2	8.0	8.2

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

- *The declining trend in inflation is expected to continue* as the authorities are taking action to improve the fiscal position and maintain a tight monetary policy stance. Measures taken by the authorities in recent years to support agricultural production would also help contain food inflation. The year-on-year inflation rate is forecast to be below 6 percent by 2016.

- *The external position would improve further in the medium term.* The external current account deficit is projected to narrow from 10.5 percent of non-iron ore GDP in 2014 to 7.2 percent in 2016, mostly because of strong export performance; helping improve the reserve coverage to 3.9 months of imports.

12. **The economic outlook is subject to downside risks**. Domestically, there are uncertainties regarding iron ore production, as the largest mine had a difficult start in 2012, with actual production much lower than anticipated. Key external risk factors include a potential slowdown in global demand for Sierra Leone's main exports, adverse terms of trade shocks, and a shortfall in projected budget aid. Lower exports as well as higher cost for imported fuel would heighten vulnerabilities for the government budget and for the balance of payments. Similarly, a shortfall in budget aid would hinder budget execution and may lead to excessive borrowing from the securities market (Table 11—Risk Assessment Matrix).

POLICY DISCUSSIONS

13. **Policy discussions focused on**: improving the fiscal position, reducing inflation to single-digits, maintaining prudent borrowing policies, promoting private sector development, and supporting growth inclusiveness.

A. Fiscal Policy and Reforms

14. **The authorities' medium-term fiscal strategy aims to improve the fiscal position to support macroeconomic stability and long-term debt sustainability** (MEFP ¶ 31–37). To this effect, the authorities plan to:

- *Strengthen revenue mobilization.* Key measures include: (i) improve IT systems at the NRA to increase auditing capacity and enhance monitor for compliance with tax obligations; (ii) set up a specialized unit for taxation of extractive industries; (iii) implement the small-taxpayer regime; and (iv) review and rationalize the tax exemption system.

- *Enhance natural resource revenue management.* The authorities have prepared, with support from the IMF Fiscal Affairs Department (FAD) TA, a new fiscal regime for the resource sector (Extractive Industries Revenue Imposition Act) that will be introduced in parliament before the end of the year. The new regime would bring under one legal instrument tax and non-tax rules for the extractive industries, and introduce a resource rent tax levied against windfall profits.

- *Restrain expenditure and improve spending commitment controls.* After several years of expenditure overruns, the authorities are taking steps to restore fiscal discipline and tighten expenditure commitment controls. They are preparing a medium-term expenditure framework (MTEF) incorporating a three-year rolling public investment program starting in 2014, to guide the implementation of the new PRS. Infrastructure investment and other pro-poor spending will remain important priorities, while growth in spending in goods and services, as well as wages and salaries will decelerate in the medium term. In particular, the implementation of the pay reform plan will be better controlled with improved forecasting capacity for the wage bill, resulting in an average increase of 16 percent for wages and salaries during 2013–16, well below the 26 percent rise in 2011–12. Staff stressed that continued expenditure restraint is warranted because of the low revenue base and continued financing constraints.

- *Reduce domestic debt.* Following a significant build-up in domestic debt in recent years, partly to finance infrastructure projects, the medium-term fiscal strategy anticipates a decline in the stock of domestic debt over time, and a lengthening of maturity starting in 2013, in line with the Medium-Term Debt Management Strategy. On this basis, interests on domestic debt are projected to decline from 1.7 percent of non-iron ore GDP in 2012 to 1.4 percent in 2016.

- *Accelerate PFM reforms.* The authorities agreed with staff that addressing weaknesses in budget processes and expenditure management was critically important for the programmed fiscal objectives. They have prepared a medium-term PFM reform strategy to be adopted by Cabinet in the coming weeks, focusing on budget comprehensiveness and credibility, accountability, and revenue mobilization (Box 3). Staff encouraged the authorities to prepare an action plan for the implementation of the strategy, and stressed that actions taken in 2012 to enhance coordination between fiscal and monetary policies through the operations of the Cash Management Committee have been productive and should be enhanced further with the participation of all stakeholders.

15. **The authorities expect that implementation of the measures presented above will improve the fiscal position over the medium term**. Revenue is projected to increase from 12.4 percent of non-iron ore GDP in 2014 to almost 13.4 percent in 2016, while expenditure would stabilize around 20.5 percent of non-iron ore GDP during the same period, with an increase in pro-poor and capital spending. Hence, after an initial increase to 2.3 percent of non-iron ore GDP in 2014 on account of a pick-up in domestically financed investment, the domestic primary deficit would narrow to 1.9 percent of non-iron ore GDP by 2016 (Figure 6). Building on recommendations from FAD TA, the authorities are preparing a PFM bill for the adoption of a fiscal rule based on a non-resource fiscal balance (MEFP ¶ 38). Staff noted that progress in this area will help the authorities prepare for the advent of increased revenue from iron ore in the medium to long term.

16. **The revised 2013 budget approved by parliament in July calls for a significant tightening of fiscal policy**. The domestic primary deficit is projected to drop from 3.8 percent of non-iron ore GDP in 2012 to 1.8 percent (see Table 2b). Although revenue collection efforts will be intensified, total revenue would increase only marginally. Hence, the anticipated fiscal consolidation efforts rest on expenditure restraint. Current expenditure and domestically financed investment combined are projected to decline by almost 2 percentage points of non-iron ore GDP compared with 2012, reflecting the unwinding of one-off election-related outlays, and the authorities' decision to limit domestically financed investment to ongoing projects.

17. **The 2013 fiscal program is fully financed, and financing prospects for the remainder of the program period are positive**. The main financing sources are: external budget aid, bonds and

T-bills issuance in the securities market, and statutory overdraft facility at BoSL, which is limited at 5 percent of previous year's government revenue. Fiscal policy would be anchored by a level of bank and nonbank financing not exceeding 2 percent of non-iron ore GDP, with the aim of achieving a reduction in the ratio of domestic debt to non-iron ore GDP over the medium term. Staff stressed that achieving the 2013 fiscal targets would require that fiscal discipline be restored to avoid any accumulation of unpaid bills in 2013, and enhance fiscal policy credibility. In this context, there was an agreement that domestically financed investment be scaled back in the event of revenue shortfall, or if expected donor support should be lower than the expected 1.8 percent of non-iron ore GDP (MEFP ¶ 33).

18. **The authorities stressed that restoring fiscal discipline is their most important goal for 2013**. While agreeing with staff that there are important challenges for fiscal policy implementation, they indicated that measures taken in early 2013, including enhanced review of spending in line ministries, improved monitoring of NRA revenue transit accounts in commercial banks, and a better follow up on collection of taxes on petroleum products would support the attainment of programmed fiscal objectives. The authorities indicated that to avoid over spending, they have decided to limit investment projects execution in 2013 to ongoing projects initiated in 2012, and to complete all expenditure commitments earlier than in previous years (MEFP ¶ 36).

Box 3. Sierra Leone: Public Financial Management Reform Strategy for 2014–17

The authorities' medium term strategy to advance Public Financial Management (PFM) reforms focuses on budget planning, comprehensiveness and credibility (including at the local level), financial accountability, service delivery and oversight, and revenue mobilization. The strategy stresses that enhanced revenue mobilization and effective investment spending controls are essential for the efficient implementation of the new PRS. Key structural measures under the strategy, some of which are part of structural reforms under the economic program for 2013–14 are presented below.

- **A new PFM Bill**. Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds.
- **Extend the use of IFMIS**. Set up an Integrated Financial Management Information System (IFMIS) performance budgeting module to ensure that all fiscal operations and public accounts are covered under IFMIS and implement IFMIS functionality for all expenditure commitment and control; activate commitment accounting under IFMIS as part of a comprehensive plan to improve forecasting and procedures for budget adjustments within the year; and complete the roll-out of IFMIS to all major spending line ministries. These measures would facilitate timely and high-quality fiscal accounting, reporting, and audits.
- **Build administrative capacity**. Expand revenue and expenditure forecasting capacity at all levels.
- **Enhance cash management**. Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts held in deposit money banks (DMBs) for revenue collection. In this context, the National Revenue Authority (NRA) signed a memorandum of understanding with DMBs setting up time limit for the transfer of collected revenue to the Treasury's account at the Bank of Sierra Leone.
- **Improve capital spending management**. Complete a three-year Public Investment Plan (PIP), fully integrated with the budget process and the revised Medium Term Expenditure Framework for 2015–18, and set up a PIP unit at the Ministry of Finance and Economic Development (MoFED).
- **Strengthen public procurement**. Adopt the New Public Procurement Act, harmonized with the Procurement Manual, and establish a Directorate for procurement at the MoFED.
- **Adopt a new tax regime for the mining sector**. Submit to parliament the Extractive Industries Revenue Bill; including a resource rent tax and a resource revenue administration unit at NRA.

B. Monetary Policy and Financial Sector Issues

19. **Monetary policy should continue to support a decline in inflation**. In the first half of 2013, the Monetary Policy Committee (MPC) reduced the monetary policy rate (MPR) twice, to realign it with lower interest rates in the government securities market. Although price pressures eased further during the same period, staff took the view that BoSL should maintain a tight monetary policy stance through the use of the MPR to contain liquidity in line with the programmed single-digit inflation target for 2013. Hence, the MPC should stand ready to raise the MPR to mop up excess liquidity should inflationary pressures reemerge. The BoSL will continue to develop its monetary policy tools and liquidity forecasting capacity to be more active in the money market and use repo instruments to achieve liquidity targets, while contributing to the development of the securities market. Staff stressed that continued information sharing between the BoSL and the Ministry of Finance remains critically important, notably for liquidity forecasting purposes (MEFP ¶ 39–40).

20. **The BoSL concurred with staff that although trending down, inflation remained elevated**. Therefore, easing monetary policy conditions would not be appropriate. In this regard, the BoSL noted that the MPR had started to be an efficient signaling tool for monetary policy stance. It also noted that the recent conversion of non-marketable and non-interest bearing securities into marketable instruments had strengthened its ability to mop up liquidity, should the need arise. The BoSL indicated that supply shocks play an important role in price pressures. Therefore, prospects for good harvests in 2013 would help in reducing food inflation further. BoSL reaffirmed commitment to complying with the statutory limit on budget financing by the central bank to 5 percent of the previous year's revenue.

21. **Sierra Leone's financial sector has expanded significantly in recent years, but it remains relatively small** (Annex II). It comprises deposit money banks, insurance companies, a pension fund, and a stock exchange. Banks represent over 80 percent of the financial system, with the two largest ones accounting for 38 percent of assets and about 46.5 percent of credit to the economy. The number of banks increased from 8 in 2006 to 13 in 2012, and their networks have also expanded.

22. **Despite the fast growth in the banking system, access to financial services remains limited** (Figure 7). Financial intermediation has grown steadily since the end of the civil conflict. However, it is building from a low base, and the financial sector development lags peer countries. World Bank data indicates that there are roughly three bank branches per 100,000 persons; only 19 percent of the population holds a bank account; and only 1 percent of the population holds a loan from the banking system. Key factors hindering access to financial services include: lack of sound collateral, weaknesses in the legal system, the low level of household income, and the short term nature of banks' liabilities.

23. **Financial soundness indicators suggest that the banking sector is generally well capitalized and liquid, with limited vulnerabilities**. Capital adequacy ratios are generally well above the statutory limit for most banks. Credit quality has improved as NPLs halved since 2007, but their level remains elevated at 14.7 percent at end-2012 (see Table 9). Banks' income has increased

in recent years, although it is increasingly dependent on the spread between deposits and government securities. Liquidity ratios are generally high as private sector lending remains limited.

24. **BoSL has made good progress toward building supervisory capacity and putting in place the necessary components of a modern financial system**. A Financial Sector Development Plan was adopted in 2009 and is being implemented; the BoSL and Banking Acts have been revised to strengthen compliance with the aim of eventually adopting Basel Core Principles; prudential bank guidelines have been drafted; a benchmark policy rate has been introduced to improve monetary policy signaling; and a credit reference bureau was established in 2011. While welcoming these improvements, staff encouraged BoSL to continue building on TA recommendations to address remaining gaps in banking supervision, monetary and foreign exchange operations, and administrative capacity.

25. **BoSL continues to give a special emphasis on access to finance**. It is actively supporting initiatives to encourage the development of microfinance in rural areas and credit facilities for small- and medium-sized enterprises, with support from donors. It is also developing a financial literacy campaign.

C. Supporting Long-Term Debt Sustainability

26. **The updated Debt Sustainability Analysis (DSA) indicates that Sierra Leone remains at a moderate risk of debt distress** (Figure 8).[1] Under the baseline scenario, all debt indicators are expected to remain below their policy-dependent indicative thresholds during the projection period (2013–33). However, stress tests point to vulnerability to adverse shocks affecting key macroeconomic indicators. Staff reiterated that to contain the risk of debt distress and support long-term debt sustainability, it was critical for the authorities to: (i) maintain prudent borrowing policies, seeking mainly grants and concessional loans; (ii) sustain fiscal consolidation efforts; (iii) continue implementation of growth-enhancing structural reforms; and (iv) promote economic diversification.

27. **Staff also called for strengthened debt management capacity**. It welcomed progress in the preparation of the Medium-Term Debt Strategy (MTDS), scheduled for Cabinet adoption by end-December 2013 (MEFP ¶ 45, 46). Staff stressed that improving debt management capacity is increasingly critical in light of the country's access to nonconcessional borrowing (see below).

28. **The proposed ECF-supported program provides for non concessional borrowing (NCB)**. The projected stock of external debt under the DSA includes US$30 million (0.6 percent of GDP), per year, during the program period, that could be contracted on nonconcessional terms. Staff stressed that borrowing on nonconcessional terms should be considered after ensuring that: (i) all avenues for mobilizing concessional financing have been exhausted; (ii) the new nonconcessional borrowing should not increase Sierra Leone's risk of debt distress; and (iii) the selected projects are

[1] The last Debt Sustainability Analysis produced jointly by the IMF and World Bank staffs was presented to the Board in September 2012 (IMF Country Report No. 12/115).

integrated in a three-year public investment program aligned with the new PRS, and assessed by a reputable third party as being economically viable. For the first program year (2013–14), the NCB would cover the construction of two mini hydroelectric dams in rural areas (MEFP ¶ 45).

29. **Staff advised the authorities to ensure that projects assessed as economically viable should be financed to the maximum extent possible through concessional resources**. It insisted that prior to contracting external loans, associated projects should be included in the rolling three-year Public Investment Plan, well prioritized to take into account financing constraints, and assessed as economically and financially viable. On the specific case of the new airport project (See below ¶ 38), staff advised that the authorities carry out a feasibility study, with support from the World Bank, and assess the project's macroeconomic impact. Staff also recommended that the authorities evaluate financing options and seek to secure concessional financing for the airport. The authorities agreed to provide staff with available documentation on the airport and other large infrastructure projects under consideration, to inform staff analysis on their macroeconomic impact.

30. **The authorities appreciated the added flexibility on external borrowing terms**. They stressed that increased difficulty in obtaining improvement in proposed loan terms to meet the 35 percent concessionality threshold for external borrowing specified in the program hampered the implementation of some economically viable and socially important projects, and partially led to increased borrowing in the securities market in the last few years. They agreed with staff, however, that in view of the economy's vulnerability to terms of trade and other exogenous shocks, and the narrow export base, they will continue to seek mainly grants and concessional loans, and limit nonconcessional borrowing to economically viable projects for which softer loan terms could not be secured.

D. Enhancing Competitiveness and External Stability

31. **Sierra Leone's exchange rate system is classified as floating, with the value of the leone determined by the market**. The central bank's interventions are limited and aimed at smoothing volatility in the market. Building on TA recommendations from MCM, Staff urged BoSL to introduce a wholesale foreign exchange auction system to replace the current retail auction system available to some importers. The new system will be introduced in mid-2014 (MEFP ¶ 41). The authorities are working on an amendment to the Foreign Exchange Act, which aims to update existing legislation, building on TA recommendations from IMF staff.

32. **Staff estimates that Sierra Leone's real effective exchange rate (REER) is broadly in line with macroeconomic fundamentals**. While the nominal effective exchange rate was relatively stable during 2010–12, the REER appreciated by about 9 percent reflecting inflation differential with Sierra Leone's major trading partners. Results from the standard Consultative Group on Exchange Rate (CGER) methodologies suggest that there was no significant misalignment. The external sustainability approach points to 3.5 percent overvaluation, while the macroeconomic balance and the equilibrium exchange rate approaches indicate an undervaluation in the range of 4–6 percent (Annex I).

33. **Increasing reserve coverage should remain a priority for the medium term, in light of Sierra Leone's vulnerability to shocks**. At end-2012, international reserves stood at 3.1 months of imports,[2] lower than the average for SSA countries under ECF-supported programs. Staff analysis indicates that an optimal level of reserve coverage for Sierra Leone would be in the 3–6 months of imports range, taking into account that Sierra Leone is a small open-economy susceptible to external shocks (See Annex I). However, staff argued that given the country's large need for infrastructure investment, the opportunity cost of holding reserves is relatively high for Sierra Leone, supporting a target level of reserves closer to 4 months of prospective imports.

34. **Important structural factors continue to hinder competitiveness despite some progress in recent years**. Sierra Leone improved its position on the Ease of Doing Business indicators, and its ranking in 2013 advanced by ten places (Figure 9). However, further structural reforms are needed to address key structural factors contributing to high transactions costs in Sierra Leone, including inadequate infrastructure, limited availability of skilled labor force, insufficient energy supply and high transportation and communication costs. Therefore, staff welcomed the authorities' resolve to accelerate structural reforms to address these impediments to private sector development (MEFP ¶ 47). It also encouraged them to strengthen the framework for Anti-Money Laundering and Financing of Terrorism (AML/CFT), notably through the setting up of an independent Financial Intelligence Unit in line with recommendations from the Intergovernmental Action Group against Money Laundering in West Africa.

35. **The authorities agreed with staff's external stability assessment for Sierra Leone**. They noted that there was a marginal appreciation of the REER in 2012, but agreed there was no evidence of exchange rate misalignment that could result in future external instability. On reserve adequacy, the BoSL did not see the need for higher international reserve accumulation at this time. They emphasized that a temporary increase in mining-related imports had driven the decline in gross reserves, which will reverse as the mining projects begin to generate foreign exchange inflows. Nonetheless, the authorities are aware of the risk of Dutch disease for Sierra Leone over the medium term, with the expected expansion in the mining sector. Therefore, they have identified economic diversification as one of the key objectives under the new PRS (MEFP ¶ 16–18). They also plan to intensify initiatives aimed at supporting agricultural development, through inputs provision, improved extension services, and skills development through the setting up of new Agricultural Business Centers.

E. Promoting Inclusive Growth

36. **The authorities have reviewed policy performance relative to the objectives set out in the previous PRS in preparing key pillars of the new strategy**. They recognize that progress in attaining the Millennium Development Goals, particularly in health and education has been sluggish (Figure 10). At the same time, taming unemployment and reducing income inequality continue to feature prominently among the government's developmental priorities. Hence the new PRS recently

[2] Excluding iron ore-related imports that were financed by foreign direct investment.

launched by the government focuses on eight key pillars—(i) economic diversification and inclusive growth; (ii) managing natural resource wealth; (iii) accelerating human development; (iv) improving competitiveness; (v) employment and labor strategy; (vi) social protection; (vii) governance and public sector reform; and (viii) gender and women empowerment (MEFP ¶ 16–26).

37. **The authorities recognized the challenges in making progress towards inclusive growth in a stable macroeconomic environment**. Under the new PRS, they plan to focus on measures to advance economic diversification, improve access to education and health services, strengthen social protection, empower women, and increase employment opportunities (Annex III).

38. **To achieve the economic transformation expected from the new PRS, the authorities plan to implement a number of large-scale projects in agriculture, energy and transportation**. The envisaged projects include irrigation and rice production to continue supporting agricultural supply and employment, the construction of hydro electric plants to increase power production by an estimated 475 Mega Watts, and the construction of a new airport in the mainland. The cost of the airport project is estimated at US$312 million (6.6 percent of 2013 GDP); the authorities informed staff that preparatory work to identify financing has already started (MEFP ¶ 21).

39. **The authorities concurred with staff's analysis and policy recommendations on inclusive growth**. They explained that addressing infrastructure gaps in energy, telecommunication, and water supply are key priorities for poverty reduction under the new PRS. The authorities view the implementation of the Agenda for Prosperity as the main organizing principle for discussions of medium-term fiscal sustainability. They see the transition to a resource dependent economy as a prerequisite for economic and social progress. However, they expressed concerns about the financing of the new PRS, notably for large-scale infrastructure projects in the energy and transportation sectors.

F. Other Surveillance Issues

40. **Data provision quality**. Data provision is adequate for surveillance purposes despite shortcomings. There has been some progress in data quality and timeliness in the last few years, partly thanks to technical assistance from the IMF and other donors. Further improvements are needed for balance of payments and international investment position statistics, government finance statistics, and social indicators. In addition, with the advent of iron ore production, it has become urgent to develop adequate statistical tools for the proper accounting of activities in the natural resources sector.

41. **Extractive Industries Transparency Initiative (EITI)**. While some progress has been made in recent years, Sierra Leone has yet to achieve EITI-compliant status. Its candidacy was accepted in February 2008 and renewed in July 2011. It is currently on hold as the authorities are working towards the conclusion of the validation exercise aimed at addressing discrepancies uncovered by successive reconciliation reports.

PROGRAM ISSUES

42. **The authorities decided to cancel the ECF arrangement approved by the Board in June 2010, and to request a new IMF-supported program**. Following four successful reviews, the authorities believed that key objectives under the program, particularly in the fiscal area, were no longer realistic or achievable. In late May, they informed staff of their decision to request a new medium-term arrangement that would provide a sounder framework for the implementation of needed reforms. They are, therefore, requesting a new ECF arrangement for 2013–16, to consolidate recent progress in macroeconomic stabilization, strengthen the fiscal position and the management of public resources, build external buffers, and advance structural reforms to boost inclusive growth, in line with key objectives under the new PRS.

43. **Staff proposes an access level equivalent to 60 percent of quota (SDR 62.22 million)**. This level is based on the strength of the adjustment under the proposed program, and the country's vulnerabilities. As a small open economy driven by exports of minerals and dependent on oil and food imports, Sierra Leone is vulnerable to fluctuations in global commodity and food prices, which generate protracted balance of payments needs. Fund disbursements under the proposed program will help cover financing requirements for 2013–16 and improve the reserve coverage from 3.1 months of imports in 2012, to 3.9 months in 2016. It will also play an important catalytic role for much needed donor support for Sierra Leone. Total Fund credit will amount to 103 percent of quota at the end of the proposed program period. Donors have committed to continue supporting reform implementation in Sierra Leone, with a focus on public financial management, tax administration, and management of natural resources. Their financial support is projected at US$264 million for 2013–16 (Tables 9 and 10).

44. **Sierra Leone's capacity to meet its obligations to the Fund is adequate**. Debt service to the Fund is projected to increase from 0.4 percent of exports of goods and services in 2014 to 0.6 percent at the end of the arrangement; and from 1.5 percent of gross international reserves to 2.7 percent during the same period (See Table 9). In addition, Sierra Leone has established a good record of timely payment of external debt obligations, including to the Fund. The strong level of donor support combined with Sierra Leone's favorable medium-term export prospects would also strengthen Sierra Leone's capacity to discharge its external debt obligations, including to the Fund.

45. **Consistent with IMF policy on lending into arrears, Staff has determined that the proposed ECF-supported program will provide an essential support to the implementation of Sierra Leone's economic and financial program for 2013–16**, as discussed above, including for the resolution of arrears to private creditors, accumulated before and during the civil war, totaling US$221 million at end–2012. The government has maintained prudent borrowing policies, and has not accumulated arrears on external debt since the beginning of engagement with the IMF under ECF-supported programs. In addition, it has been making good faith efforts to reach collaborative agreement with its creditors, including goodwill payments to avoid litigation, and working with the World Bank to access the IDA debt-buy-back program. A road map to fast track the process has been agreed upon and preparatory work would be initiated in coming months.

46. **Program performance will be assessed through semi-annual reviews**. The reviews will be based on macro-critical prior actions for the first year of the program; quantitative performance criteria, indicative targets, and structural benchmarks. For the purpose of these reviews, the program sets quantitative performance criteria for end-December 2013, end-June 2014 and end-December 2014; and indicative targets for end-March and end-September 2014. The first and second reviews will assess program performance at end-December 2013 and end-June 2014 respectively, and the third review will cover performance at end-December 2014. To set fiscal policy implementation on a sound footing and prevent the reoccurrence of slippages, the program sets two prior actions: (i) the submission to parliament of a supplementary budget consistent with program objectives; and (ii) the preparation of a budget execution report on capital expenditure at end-June 2013. This, combined with other programmed PFM measures aimed at controlling spending commitments, would help the authorities ensure that capital expenditure execution is consistent with budgetary appropriations.

47. **An update safeguards assessment of the BoSL will be carried out by the first ECF review**. The latest safeguards assessment was completed on November 24, 2010. It concluded that the BoSL continues to maintain important elements of the safeguards framework. Since the assessment, BoSL has been addressing identified weaknesses in internal audit through training and recruitment.

48. **Program implementation is subject to downside risks**. Key risks to the economic outlook discussed in paragraph 12 above would also adversely affect program performance if they materialize. In addition, the authorities' ability to restore fiscal discipline and break away from past practices in budget execution will be critically important for the achievement of programmed fiscal targets.

49. **Policy coordination needs further improvement**. The close monitoring of fiscal operations under the Cash Management Committee has been instrumental in addressing past fiscal slippages and improving coordination between fiscal and monetary policy. Staff urged the authorities to enhance policy coordination further through capacity building initiatives, including training, further TA, and enhanced information sharing among government agencies. The successful implementation of the program would also depend on progress in this area.

STAFF APPRAISAL

50. **Sierra Leone achieved strong macroeconomic gains in the last decade**. Agriculture, construction, services, and iron ore more recently, have been the main contributors to sustained economic growth. Large-scale FDI inflows in the mining sector added a temporary growth surge in construction and other services; while the scaling-up of infrastructure investment in the last three years supported economic activity in the non-mining economy. The medium-term outlook is positive with continued strong growth, declining inflation and robust external position.

51. **Staff urges the authorities to strengthen fiscal discipline**. Staff welcomes the authorities' efforts to boost revenue mobilization and create fiscal space for priority spending, and encourages them to increase efficiency in revenue collecting agencies through administrative measures, and to broaden the tax base to reach the revenue targets. Staff urges the authorities to strengthen budget execution procedures, particularly for the monitoring of spending commitments and for the

management of capital expenditure, in the context of their medium-term PFM reform strategy. Staff believes that PFM reforms planned for 2014–17 are appropriately ambitious given existing administrative capacity constraints. It stresses the need for an efficient and timely implementation of envisioned reforms to enhance fiscal policy credibility and support macroeconomic stability.

52. **Staff believes that a continued tight monetary policy stance is needed to lower inflation expectations further**. The trend decline in inflation since mid-2011 is starting to form inflation expectations and should be supported by continued tight monetary policy to support the single-digit inflation target. Staff encourages the BoSL to continue its ongoing efforts to improve liquidity forecasting and enhance monetary operations.

53. **The debt sustainability analysis (DSA) shows that the risk of debt distress remains moderate**. All debt indicators remain below the policy-dependent thresholds under the baseline scenario. The debt outlook is, however, vulnerable to shocks affecting revenue and export, as well as unfavorable borrowing conditions. The DSA also indicates that limited external borrowing on nonconcessional terms for priority investment in infrastructure is consistent with the medium- to long-term debt sustainability. However, staff recommends that the authorities continue to cover financing needs mostly with grants and concessional loans, particularly for large-scale infrastructure projects under the new PRS (*Agenda for Prosperity)*. Staff urges the authorities to ensure that before proceeding with such projects, they are well prioritized, assessed as economically viable, and consistent with external debt sustainability.

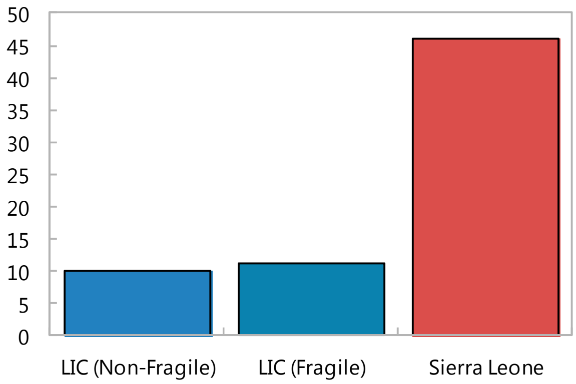
54. **Staff supports the authorities request for a three-year arrangement under the ECF, with access level of 60 percent of quota**. The new program will help the authorities enhance macroeconomic stability and growth prospects. The program is appropriately ambitious, particularly in the fiscal area. This, combined with Sierra Leone's balance of payments needs and its adequate capacity to discharge external debt obligations, justifies the proposed access level.

55. **Staff recommends that the next Article IV consultation with Sierra Leone takes place in accordance with the 2010 Decision on consultation cycles for program countries**.

Figure 1. Sierra Leone: Development Indicators

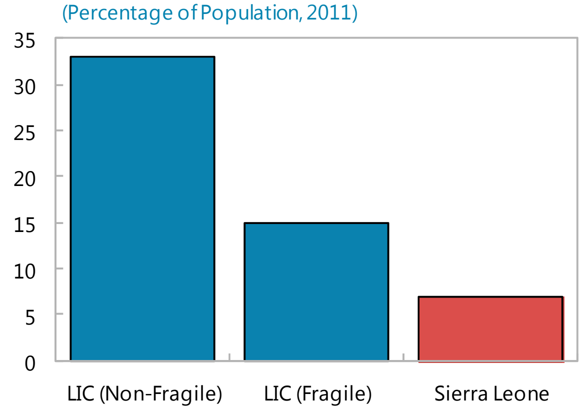
Key development indicators, including supply of electricity, access to water and sanitation, and quality of infrastructure, remain weak while trailing behind regional averages.

Power Outages
(Days per year, 2011)



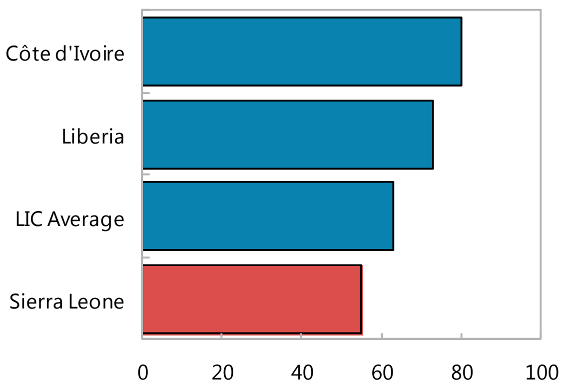
Source: Government of Sierra Leone, Millennium Challenge Corporation

Access to Electricity
(Percentage of Population, 2011)



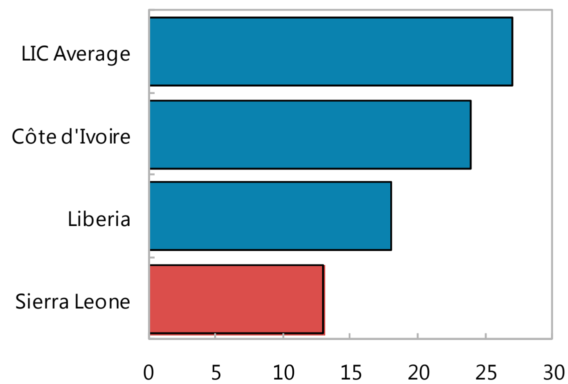
Sources: Government of Sierra Leone, Millennium Challenge Corporation

Access to an Improved Water Source
(Percentage of Population, 2010)



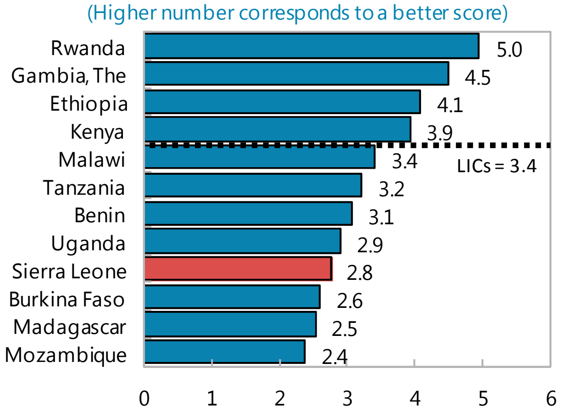
Sources: World Bank Development Indicators

Access to Improved Sanitation Facilities
(Percentage of Population, 2010)



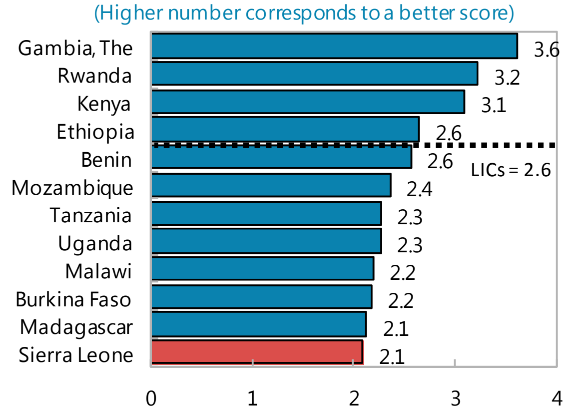
Sources: World Bank Development Indicators

Quality of Roads
(Higher number corresponds to a better score)



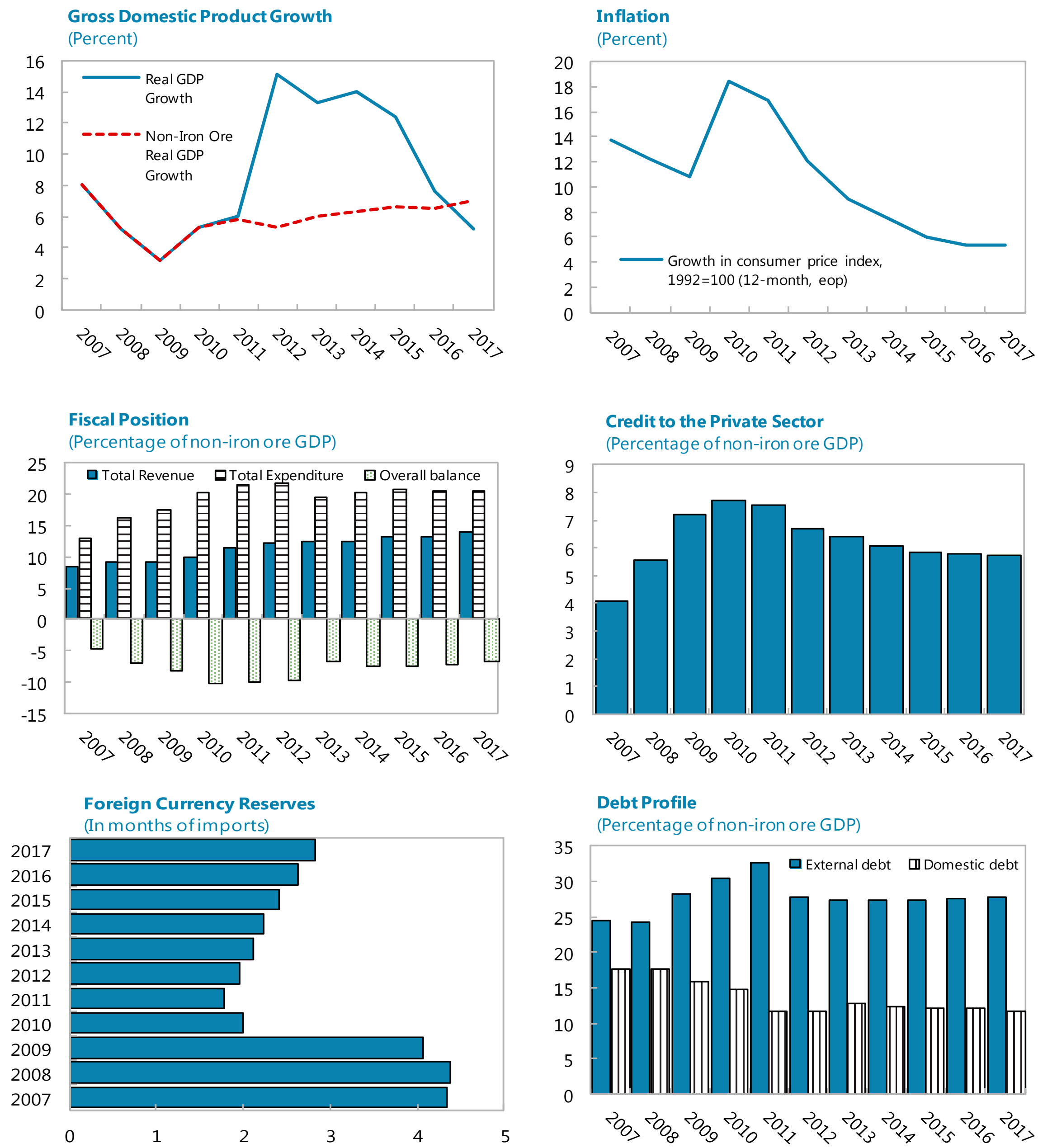
Sources: World Economic Forum Global Competitiveness Report, 2013

Overall Infrastructure Score
(Higher number corresponds to a better score)



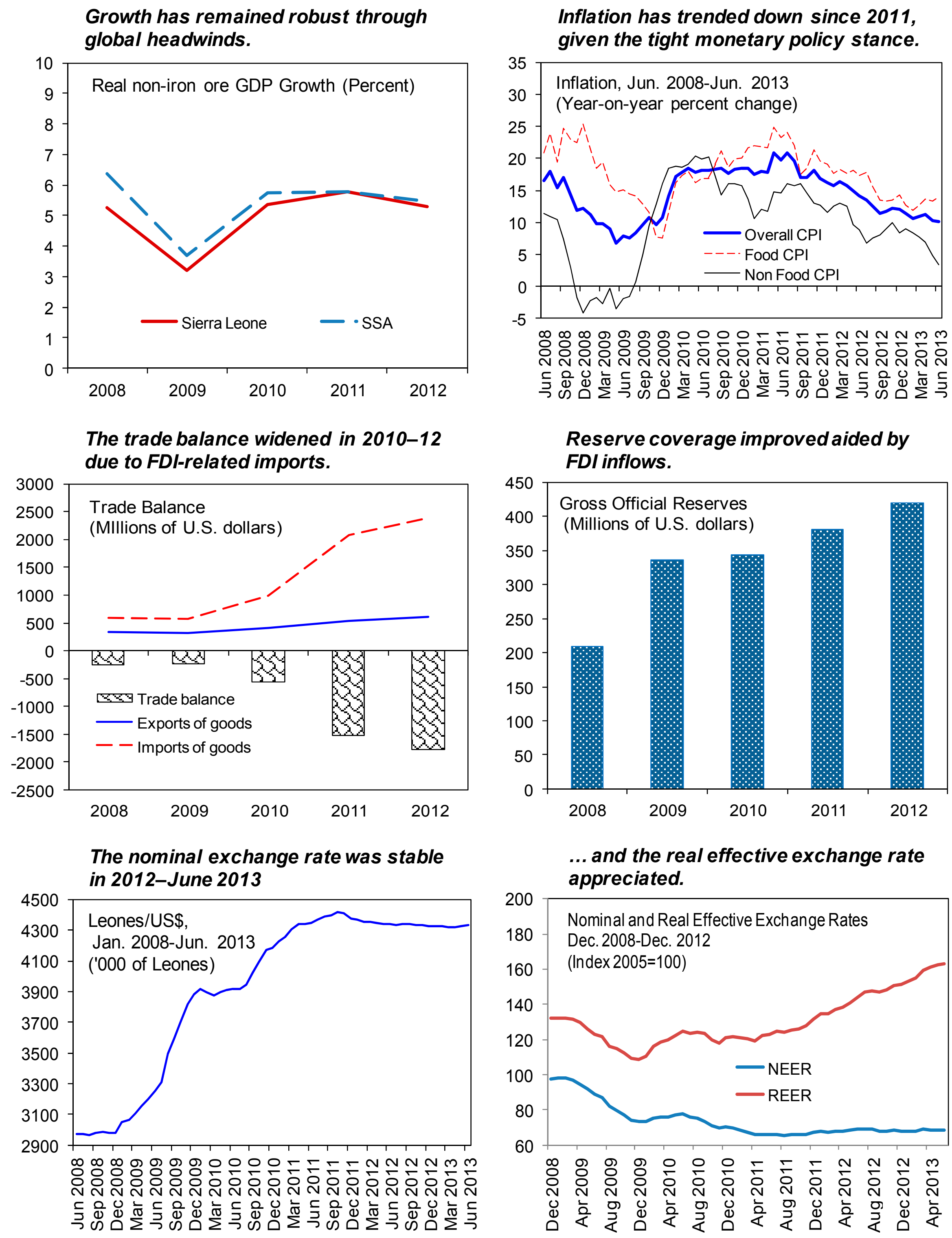
Sources: World Economic Forum Global Competitiveness Report, 2013

Figure 2. Sierra Leone: Recent Economic Developments and Medium-Term Outlook, 2007–17



Source: IMF staff calculations.

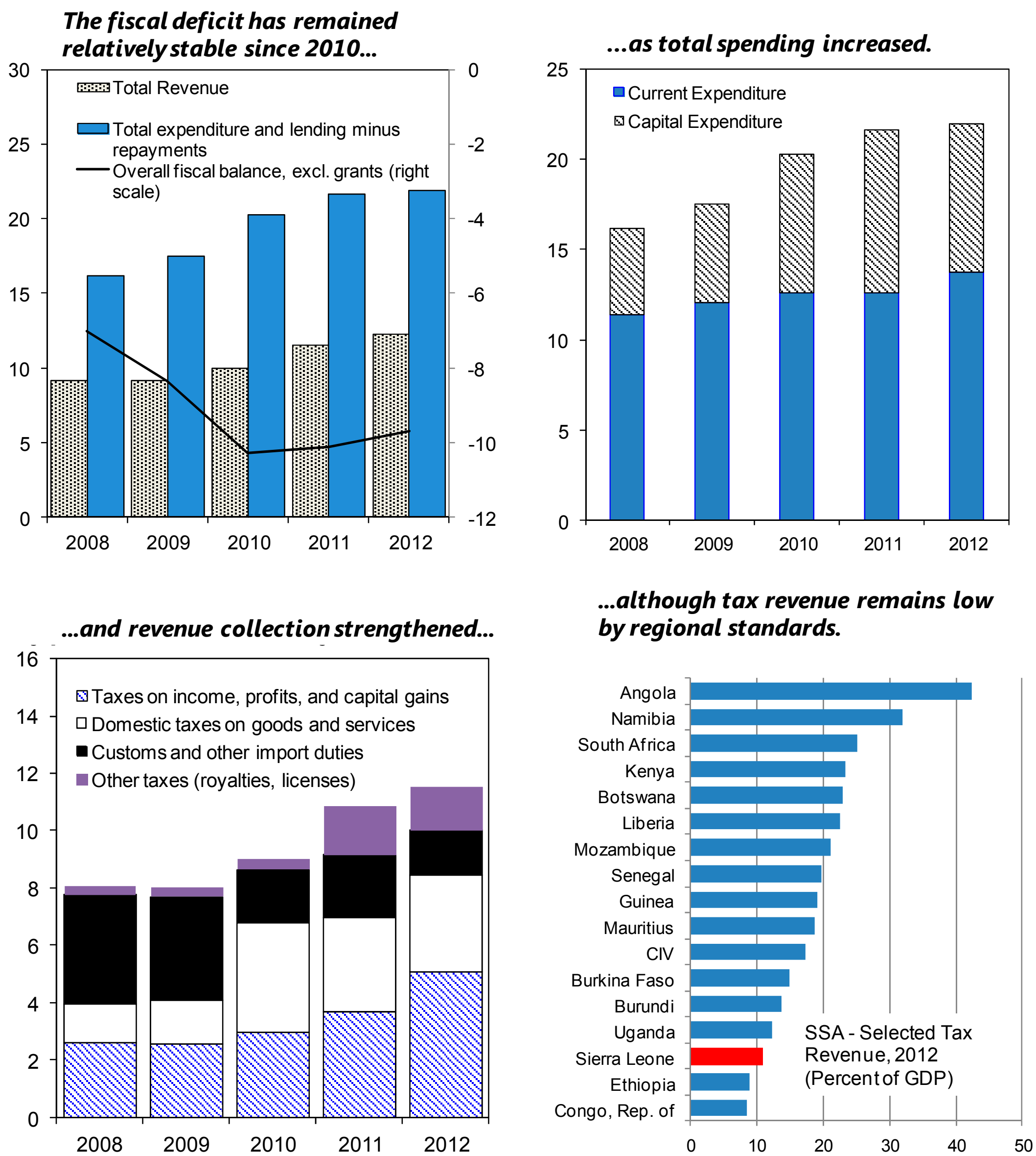
Figure 3. Sierra Leone: Real and External Sectors, 2008–June 2013



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

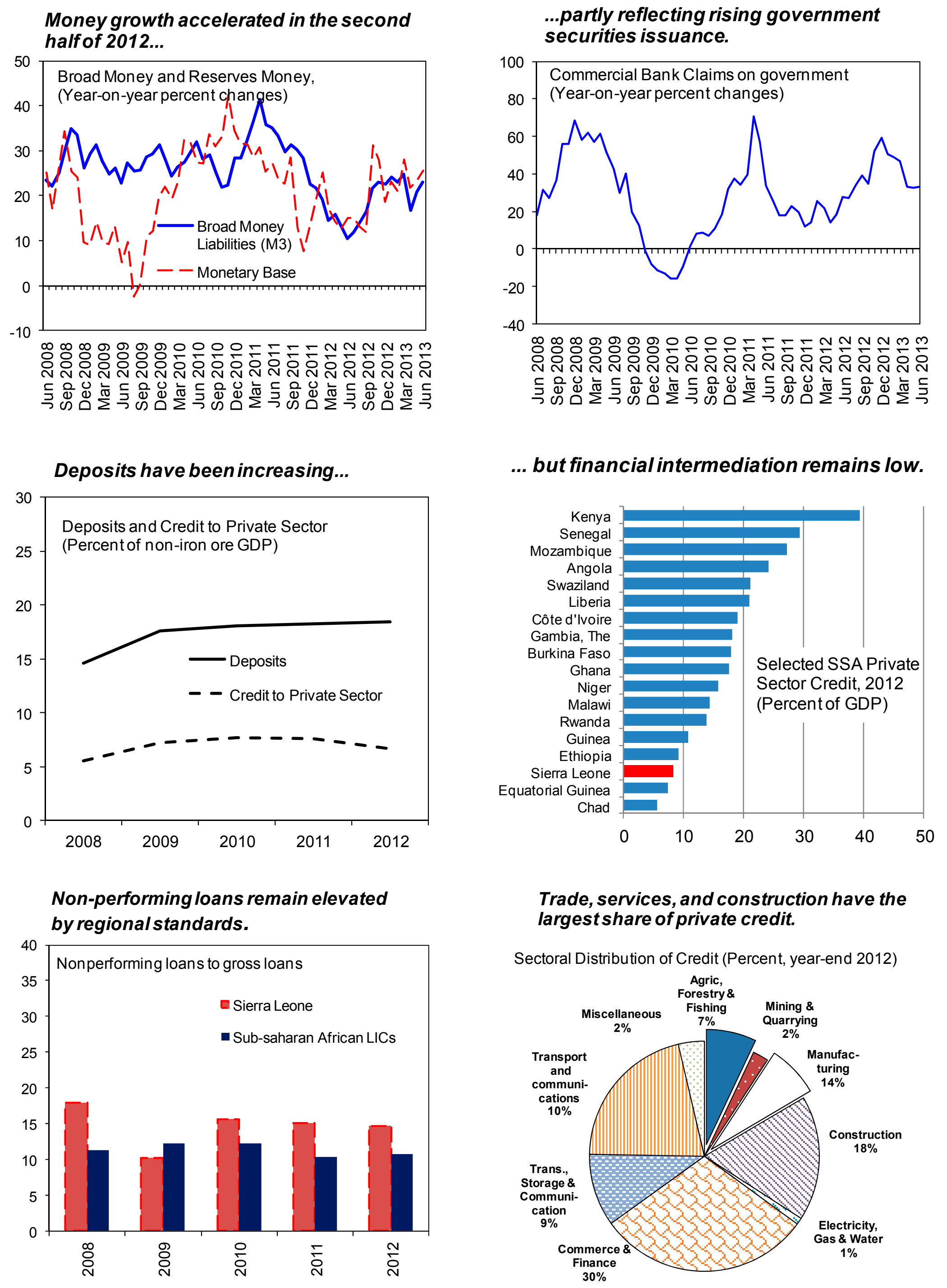
Figure 4. Sierra Leone: Fiscal Sector, 2008–12

(Percent of Non-Iron Ore GDP)



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

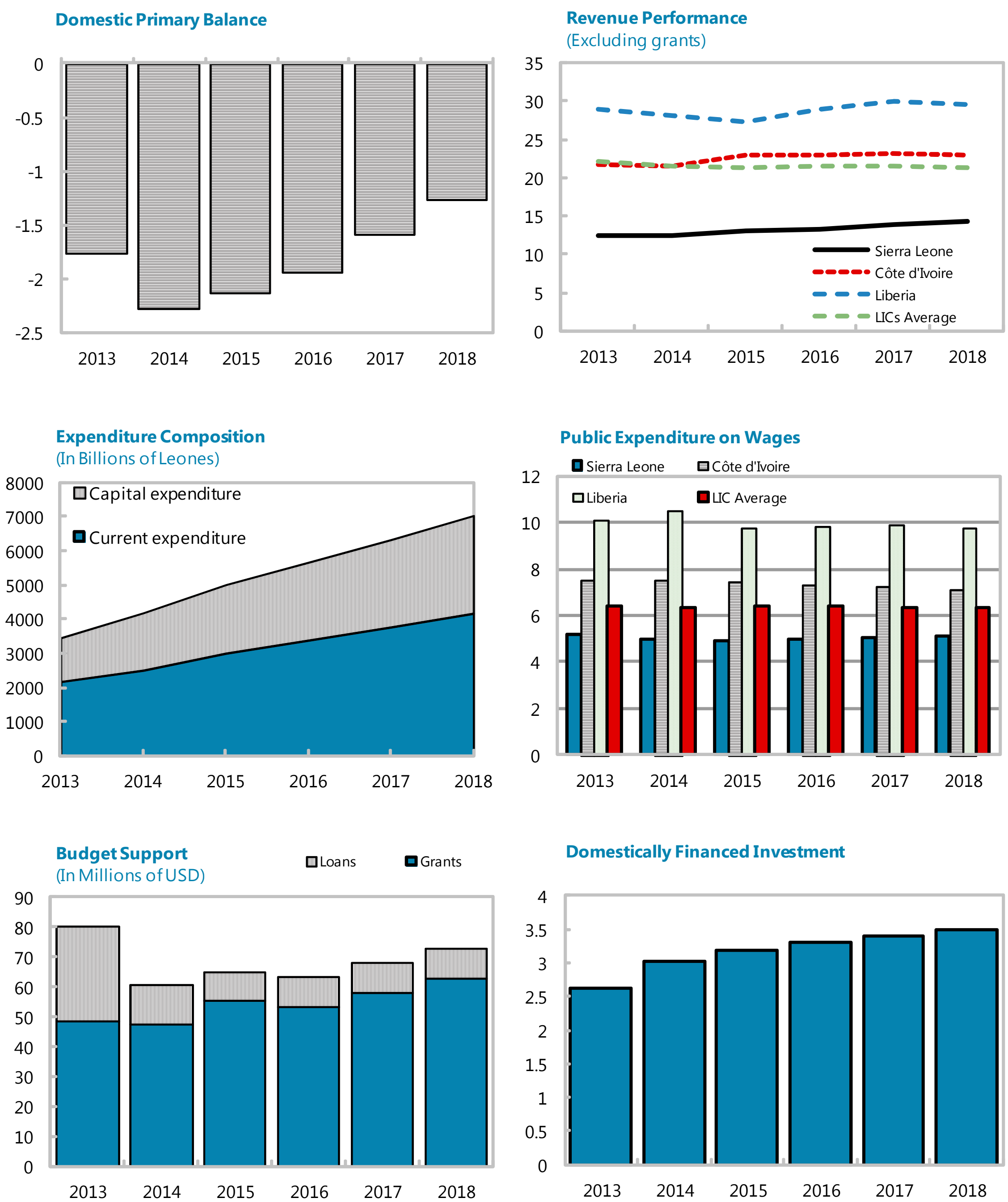
Figure 5. Sierra Leone: Monetary and Financial Sector Indicators, 2008–13



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

Figure 6. Sierra Leone: Medium-Term Fiscal Outlook, 2013–18

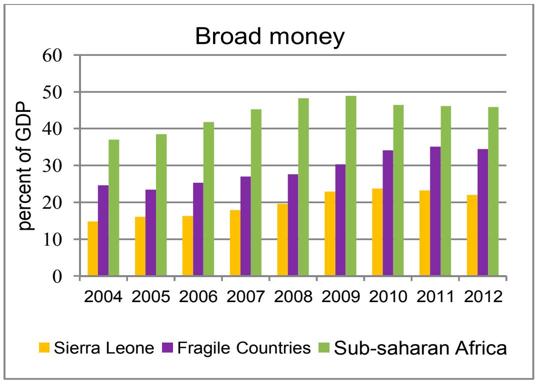
(In Percentage of Non-Iron Ore GDP, Unless Otherwise Indicated)



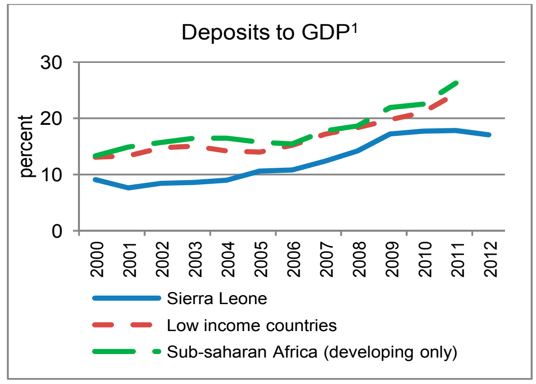
Source: IMF Staff Calculations

Figure 7. Sierra Leone: Selected Indicators on Financial Sector Depth and Inclusiveness

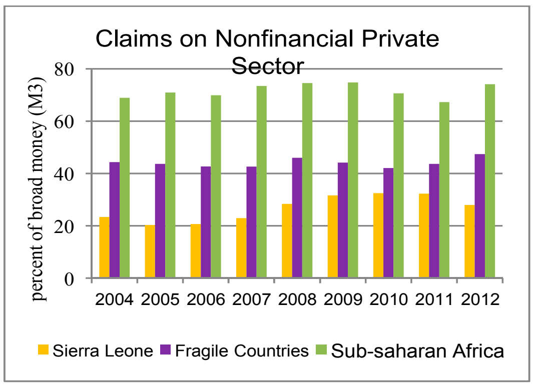
Broad money has grown relative to GDP…



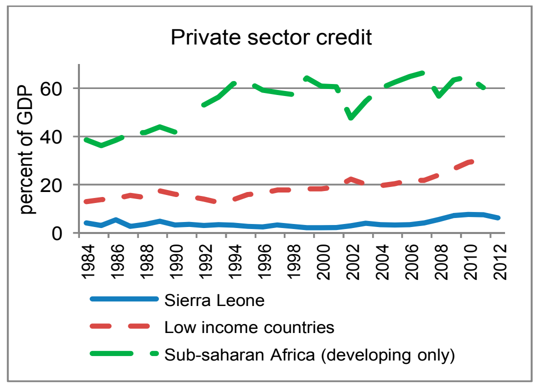
… with a growing deposit base…



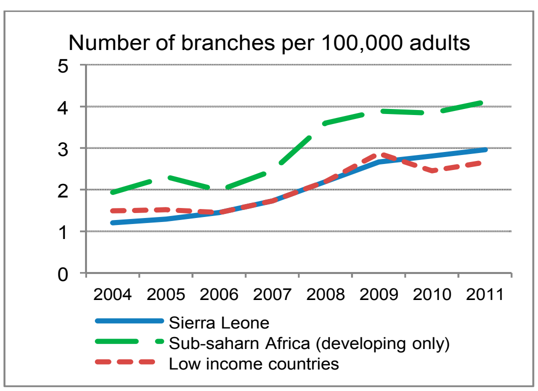
…but transformation remains low…



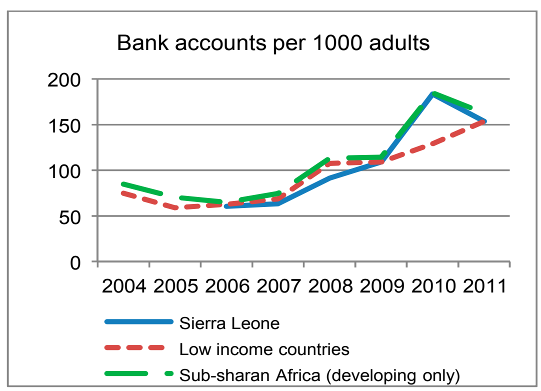
… and the role of credit in the economy is small.



Continued development should be encouraged by expanding networks…

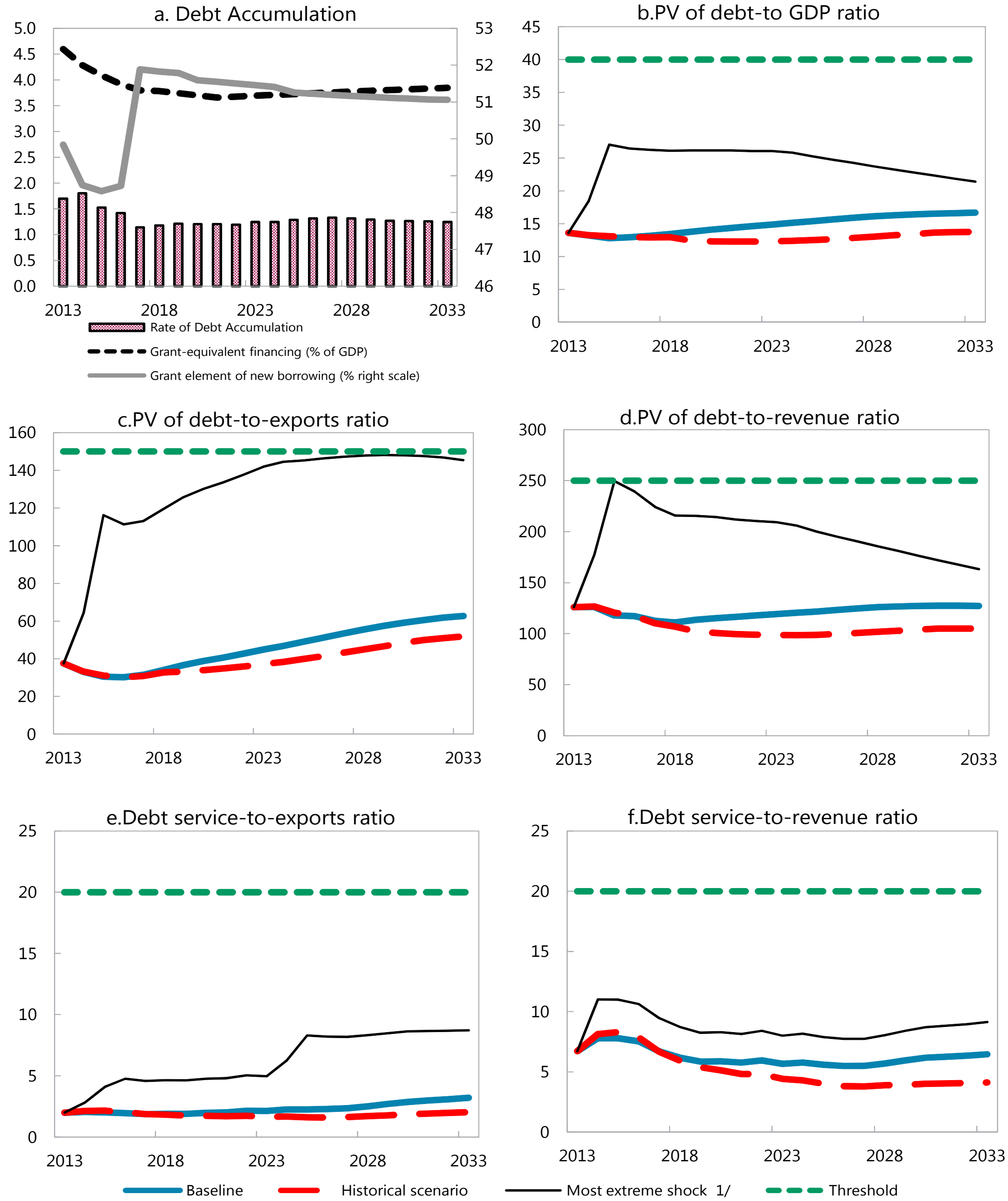


… and more widespread use of bank accounts.



Sources: Regional Economic Outlook, World Development Indicators, and IMF staff estimates
[1] Regional data for 2012 was unavailable at the time of publication.

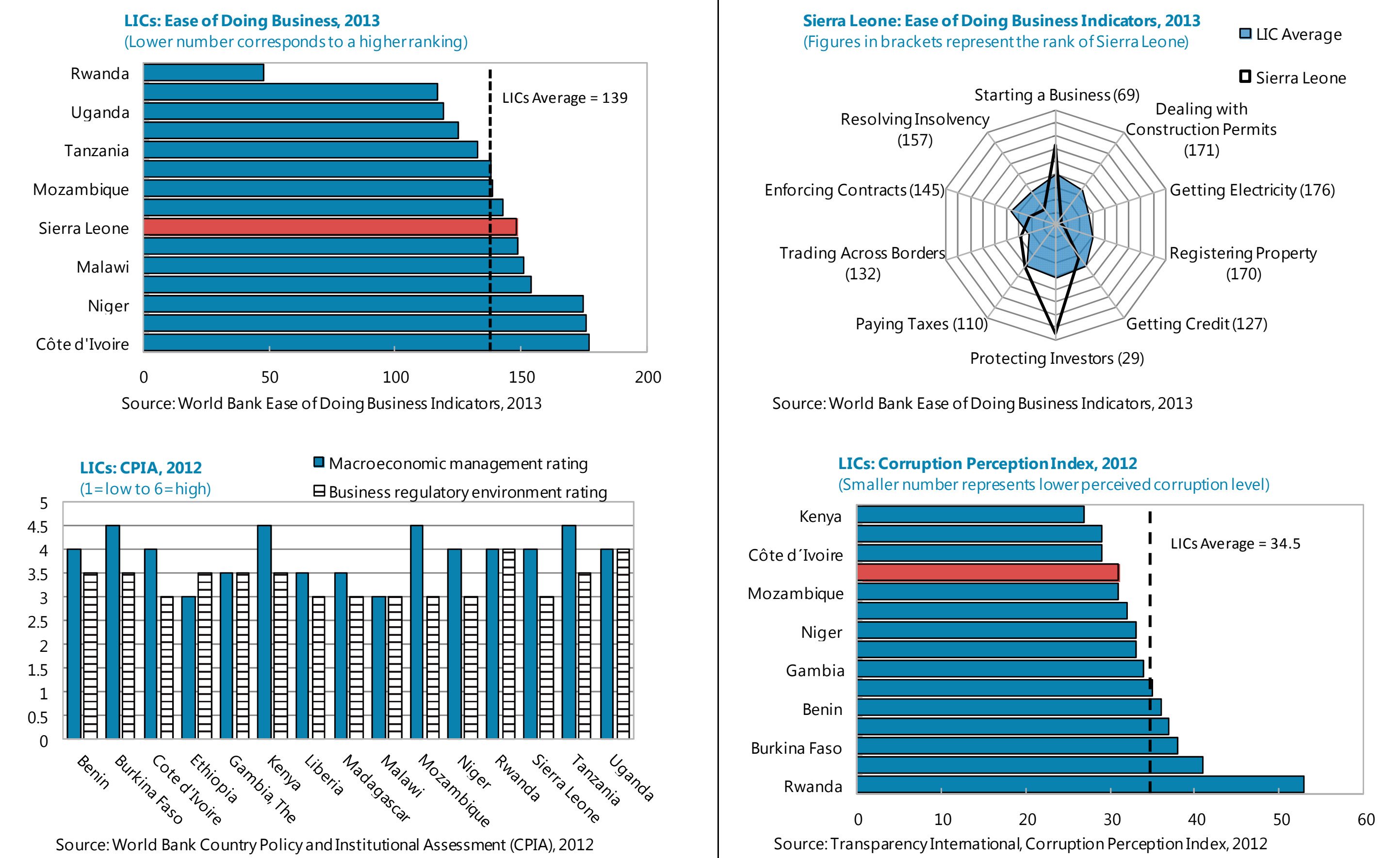
Figure 8. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2013–33[1]



Sources: Country authorities; and staff estimates and projections.

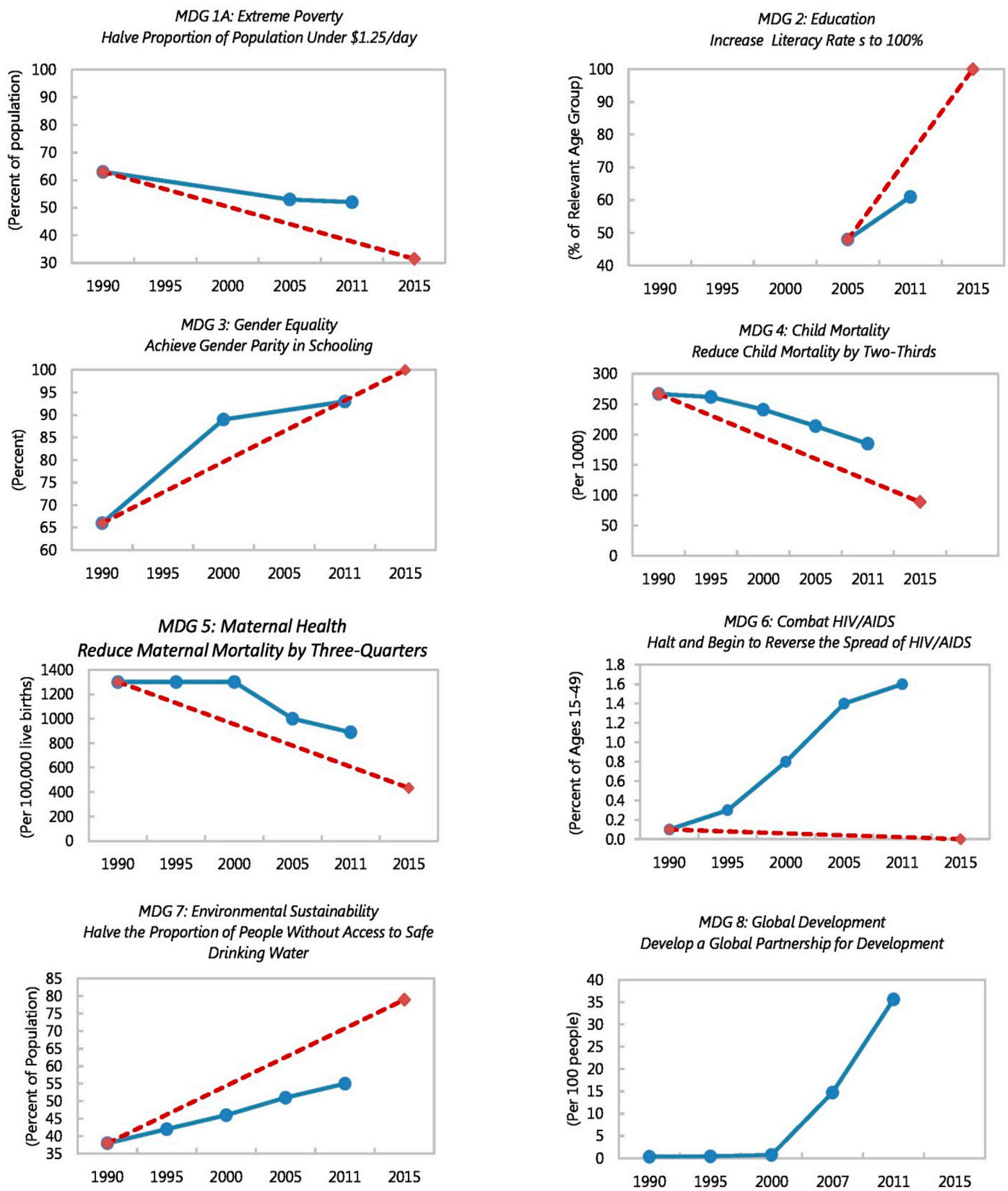
1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 9. Sierra Leone: Business Environment Indicators[1]



[1] As pointed out in an independent evaluation of the Doing Business survey (see www.worldbank.org/ieg/doingbusiness), care should be exercised when interpreting these indicators given subjective interpretation, limited coverage of business constraints, and a small number of informants which tend to overstate the indicators' coverage and explanatory power.

Figure 10. Sierra Leone: Progress Towards the MDGs, 1990–2015



Source: World Bank, Millennium Development Goals database.

Note: Solid line indicates observed performance, while dotted line indicated required achievement.

Table 1. Sierra Leone: Selected Economic Indicators, 2010–18

	2010	2011	2012 1/ Prel.	2013	2014	2015	2016	2017	2018
			(Annual percent change, unless otherwise indicated)						
National account and prices									
GDP at constant prices	5.3	6.0	15.2	13.3	14.0	12.4	7.7	5.2	5.3
Excluding Iron ore	5.3	5.8	5.3	6.0	6.3	6.6	6.6	7.0	7.0
GDP deflator	17.2	17.3	12.1	9.1	6.5	5.9	5.1	4.9	4.7
Excluding Iron ore	17.2	17.3	14.3	8.8	10.6	9.5	6.7	4.8	4.5
Consumer prices (end-of-period)	18.4	16.9	12.0	9.0	7.5	6.0	5.4	5.4	5.4
Consumer prices (average)	17.8	18.5	13.8	10.3	7.7	6.7	5.7	5.4	5.4
External sector									
Terms of trade (deterioration -)	6.8	-0.7	4.9	-1.6	-4.9	-0.6	-0.2	0.3	0.1
Exports of goods (US$)	33.9	6.2	147.3	56.9	29.9	22.0	12.2	4.5	0.2
Imports of goods (US$)	92.3	85.2	-3.6	18.6	5.8	3.5	4.5	7.0	6.9
Average exchange rate (leone per US$)	3,978	4,349	4,344	...	...	...	...	...	...
Nominal effective exchange rate change (depreciation -)	-8.2	-4.1	1.0	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	11.5	8.7	14.7	...	...	...	...	...	...
Gross international reserves, months of imports 2/	2.0	1.8	2.0	2.1	2.2	2.4	2.6	2.8	3.1
Excluding iron ore related imports, months of imports 3/	3.4	2.8	3.1	3.2	3.4	3.6	3.9	4.1	4.4
Money and credit									
Domestic credit to the private sector	31.5	21.8	6.3	10.8	11.0	12.6	12.1	11.9	11.8
Base money	34.6	13.0	18.5	14.2	17.1	15.2	13.8	12.0	11.3
M2	21.8	20.0	23.1	14.8	18.8	16.5	15.0	13.3	11.9
91-day treasury bill rate (in percent)	24.5	23.4	19.0	...	...	...	...	...	...
			(Percent of non-iron ore GDP, unless otherwise indicated)						
National accounts									
Gross capital formation	31.1	42.2	28.6	18.2	19.1	19.3	19.3	19.3	19.3
Government	7.7	9.0	8.2	7.2	8.1	8.3	8.3	8.3	8.3
Private	23.4	33.1	20.3	11.0	11.0	11.0	11.0	11.0	11.0
National savings	11.4	-2.8	-10.8	-0.8	8.6	11.7	12.2	12.4	13.8
External sector									
Current account balance									
(including official grants)	-19.7	-45.0	-39.4	-19.1	-10.5	-7.7	-7.2	-7.0	-6.2
(excluding official grants)	-26.0	-48.8	-41.2	-20.6	-11.9	-9.1	-8.6	-8.4	-7.6
External public debt (including IMF)	30.4	32.6	27.8	27.3	27.4	27.3	27.6	27.7	27.9
Central government budget									
Domestic primary balance 4/	-5.9	-3.8	-3.8	-1.8	-2.3	-2.1	-1.9	-1.6	-1.3
Overall balance	-5.0	-4.6	-5.6	-3.1	-4.5	-4.3	-4.2	-3.7	-3.4
(excluding grants)	-10.3	-10.1	-9.7	-6.6	-7.6	-7.4	-7.1	-6.7	-6.2
Revenue	9.9	11.5	12.2	12.4	12.4	13.1	13.4	13.9	14.2
Grants	5.3	5.6	4.1	3.6	3.1	3.1	2.9	2.9	2.9
Total expenditure and net lending	20.2	21.6	21.9	19.1	20.0	20.5	20.5	20.6	20.4
Memorandum item:									
GDP at market prices (billions of Leone) 5/	10,256	12,755	16,459	20,357	24,713	29,421	33,298	36,752	40,535
Excluding iron ore	10,256	12,725	15,330	17,673	20,775	24,248	27,571	30,903	34,563
Excluding iron ore in millions of US$	2,578	2,926	3,529	4,000	4,531	5,112	5,637	6,134	6,661
Per capita GDP (US$)	441	489	615	729	832	933	998	1,042	1,088

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

1/ The commencement of iron ore mining causes a structural break in key macroeconomic variables in 2012.

2/ Refers to reserves in current year and imports in following year.

3/ Excludes import of capital goods and service related to the iron ore project that is externally financed.

4/ Revenue less expenditures and net lending adjusted for interest payments.

5/ Statistics Sierra Leone revised the National Accounts Statistics, based on IMF TA recommendations.
This resulted in approximately a 30 percent increase in nominal GDP for the period 2001-11.

Table 2a. Sierra Leone: Fiscal Operations of the Central Government, 2010–18
(Billions of leone)

	2010	2011	2012		2013	2014	2015	2016	2017	2018
			Budget	Prel.						
Total revenue and grants	1,561	2,171	2,526	2,506	2,827	3,220	3,944	4,493	5,198	5,897
Revenue	1,017	1,462	1,826	1,874	2,197	2,581	3,188	3,681	4,300	4,906
Tax revenue	925	1,383	1,746	1,767	2,013	2,360	2,938	3,413	4,015	4,605
Personal Income Tax	204	393	689	571	547	643	750	880	1,018	1,142
Corporate Income Tax	88	73	71	203	227	260	370	449	549	666
Goods and Services Tax	246	351	410	419	458	523	635	750	887	1,061
Excises	143	55	3	99	276	335	378	409	433	459
Import duties	190	282	271	237	267	299	360	424	526	648
Mining royalties and license	24	202	278	222	217	261	400	450	547	567
Other taxes	31	24	24	18	21	40	45	50	56	62
Non-tax	92	80	80	106	184	220	250	268	285	302
Grants	544	709	701	633	630	640	756	812	898	991
Budget support	244	220	196	204	181	185	229	261	292	327
Project grants	277	428	348	302	417	422	495	551	606	664
Other	22	61	156	126	32	32	32	0	0	0
Expenditures and net lending	2,074	2,752	2,812	3,360	3,368	4,151	4,981	5,641	6,356	7,064
Current expenditures	1,286	1,603	1,926	2,097	2,180	2,514	3,013	3,397	3,784	4,188
Wages and salaries	536	681	878	936	1,058	1,229	1,455	1,654	1,854	2,074
Goods and services	426	396	356	464	487	569	679	772	865	968
Subsides and transfers 1/	165	275	418	406	302	376	475	532	586	646
Interest	159	250	274	291	333	340	404	438	478	500
Domestic	142	226	247	256	293	301	364	391	427	442
Foreign	17	24	27	35	40	39	40	47	50	58
Capital Expenditure	787	1,149	981	1,263	1,281	1,683	2,013	2,288	2,565	2,869
Foreign financed	432	787	683	799	818	1,056	1,237	1,379	1,514	1,659
Domestic financed	355	362	298	464	463	626	776	910	1,051	1,210
Net lending 2/	0	0	-95	0	-99	-52	-52	-52	0	0
Contingent expenditure 3/	0	0	0	0	5	6	7	7	8	8
Domestic primary balance 4/	-607	-479	-277	-589	-313	-476	-516	-534	-492	-441
Overall balance including grants	-513	-581	-286	-854	-541	-931	-1,037	-1,148	-1,158	-1,167
Overall balance excluding grants	-1,057	-1,290	-986	-1,487	-1,172	-1,571	-1,793	-1,960	-2,056	-2,158
Financing	513	581	286	854	541	931	1,037	1,148	1,158	1,167
External financing (net)	162	305	346	523	454	590	668	756	843	917
Borrowing	222	359	438	601	541	694	789	876	959	1,047
Projects	155	359	335	497	401	634	742	827	909	995
Budget	67	0	104	104	141	61	47	49	50	52
Amortization	-61	-54	-92	-77	-88	-104	-121	-120	-116	-130
Domestic financing (net)	357	274	-61	339	87	341	368	392	316	250
Bank	413	67	133	222	246	245	219	180	175	81
Central bank	298	10	-14	-94	46	16	19	30	25	31
Ways and means	...	...	...	...	46	16	19	30	25	31
Drawing	...	...	...	...	94	110	129	159	184	215
Repayment	...	...	...	...	48	94	110	129	159	184
Commercial banks	116	57	146	316	200	229	200	150	150	50
Nonbank	-56	208	-194	117	-158	96	149	212	141	169
Non bank financial institutions	30	54	33	125	91	67	149	212	141	169
Privatization proceeds	0	34	35	9	14	44	0	0	0	0
Change in arrears	-94	-47	-78	-84	-22	-14	0	0	0	0
Float (checks payable)	8	167	-183	68	-241	0	0	0	0	0
o/w accumulated	0	183	0	251	0	0	0	0	0	0
o/w repaid	0	...	-183	-183	-241	0	0	0	0	0
Errors and omissions/financing gap	-6	2	0	-8	0	0	0	0	0	0
Memorandum item:										
Total poverty expenditures	275	538	570	869	1,063	1,155	1,376	1,595	1,824	2,081
Public domestic debt 5/	1,519	1,482	1,596	1,786	2,241	2,552	2,920	3,312	3,628	3,878
Bank and non-bank financing	443	121	166	347	337	312	368	392	316	250

Sources: Sierra Leonean authorities; and Fund staff estimates and projections.
1/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP)
2/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile
3/ Contingent expenditure introduced in the budget process in 2013
4/ Revenue less expenditures and net lending adjusted for foreign interest payments and foreign financed capital spending.
5/ Public domestic debt includes marketable treasury instruments and ways and means, excludes accounts payable.

Table 2b. Sierra Leone: Fiscal Operations of the Central Government, 2010–18

(Percent of Non-Iron Ore GDP)

	2010	2011	2012 Budget	2012 Prel.	2013	2014	2015	2016	2017	2018
Total revenue and grants	15.2	17.1	16.5	16.3	16.0	15.5	16.3	16.3	16.8	17.1
Revenue	9.9	11.5	11.9	12.2	12.4	12.4	13.1	13.4	13.9	14.2
Tax revenue	9.0	10.9	11.4	11.5	11.4	11.4	12.1	12.4	13.0	13.3
Personal Income Tax	2.0	3.1	4.5	3.7	3.1	3.1	3.1	3.2	3.3	3.3
Corporate Income Tax	0.9	0.6	0.5	1.3	1.3	1.2	1.5	1.6	1.8	1.9
Goods and Services Tax	2.4	2.8	2.7	2.7	2.6	2.5	2.6	2.7	2.9	3.1
Excises	1.4	0.4	0.0	0.6	1.6	1.6	1.6	1.5	1.4	1.3
Import duties	1.9	2.2	1.8	1.5	1.5	1.4	1.5	1.5	1.7	1.9
Mining royalties and license	0.2	1.6	1.8	1.4	1.2	1.3	1.6	1.6	1.8	1.6
Other taxes	0.3	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Non-tax	0.9	0.6	0.5	0.7	1.0	1.1	1.0	1.0	0.9	0.9
Grants	5.3	5.6	4.6	4.1	3.6	3.1	3.1	2.9	2.9	2.9
Budget support	2.4	1.7	1.3	1.3	1.0	0.9	0.9	0.9	0.9	0.9
Project grants	2.7	3.4	2.3	2.0	2.4	2.0	2.0	2.0	2.0	1.9
Other	0.2	0.5	1.0	0.8	0.2	0.2	0.1	0.0	0.0	0.0
Expenditures and net lending	20.2	21.6	18.3	21.9	19.1	20.0	20.5	20.5	20.6	20.4
Current expenditures	12.5	12.6	12.6	13.7	12.3	12.1	12.4	12.3	12.2	12.1
Wages and salaries	5.2	5.4	5.7	6.1	6.0	5.9	6.0	6.0	6.0	6.0
Goods and services	4.2	3.1	2.3	3.0	2.8	2.7	2.8	2.8	2.8	2.8
Subsides and transfer 1/	1.6	2.2	2.7	2.6	1.7	1.8	2.0	1.9	1.9	1.9
Interest	1.6	2.0	1.8	1.9	1.9	1.6	1.7	1.6	1.5	1.4
Domestic	1.4	1.8	1.6	1.7	1.7	1.4	1.5	1.4	1.4	1.3
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital Expenditure	7.7	9.0	6.4	8.2	7.2	8.1	8.3	8.3	8.3	8.3
Foreign financed	4.2	6.2	4.5	5.2	4.6	5.1	5.1	5.0	4.9	4.8
Domestic financed	3.5	2.8	1.9	3.0	2.6	3.0	3.2	3.3	3.4	3.5
Net lending 2/	0.0	0.0	-0.6	0.0	-0.6	-0.2	-0.2	-0.2	0.0	0.0
Contingent expenditure 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance 4/	-5.9	-3.8	-1.8	-3.8	-1.8	-2.3	-2.1	-1.9	-1.6	-1.3
Overall balance including grants	-5.0	-4.6	-1.9	-5.6	-3.1	-4.5	-4.3	-4.2	-3.7	-3.4
Overall balance excluding grants	-10.3	-10.1	-6.4	-9.7	-6.6	-7.6	-7.4	-7.1	-6.7	-6.2
Financing	5.0	4.6	1.9	5.6	3.1	4.5	4.3	4.2	3.7	3.4
External financing (net)	1.6	2.4	2.3	3.4	2.6	2.8	2.8	2.7	2.7	2.7
Borrowing	2.2	2.8	2.9	3.9	3.1	3.3	3.3	3.2	3.1	3.0
Project	1.5	2.8	2.2	3.2	2.3	3.1	3.1	3.0	2.9	2.9
Budget	0.7	0.0	0.7	0.7	0.8	0.3	0.2	0.2	0.2	0.2
Amortization	-0.6	-0.4	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Domestic financing (net)	3.5	2.2	-0.4	2.2	0.5	1.6	1.5	1.4	1.0	0.7
Bank	4.0	0.5	0.9	1.4	1.4	1.2	0.9	0.7	0.6	0.2
Central bank	2.9	0.1	-0.1	-0.6	0.3	0.1	0.1	0.1	0.1	0.1
Commercial banks	1.1	0.4	1.0	2.1	1.1	1.1	0.8	0.5	0.5	0.1
Nonbank	-0.5	1.6	-1.3	0.8	-0.9	0.5	0.6	0.8	0.5	0.5
Non bank financial institutions	0.3	0.4	0.2	0.8	0.5	0.3	0.6	0.8	0.5	0.5
Privatization proceeds	0.0	0.3	0.2	0.1	0.1	0.2	0.0	0.0	0.0	0.0
Change in arrears	-0.9	-0.4	-0.5	-0.5	-0.1	-0.1	0.0	0.0	0.0	0.0
Float (checks payable)	0.1	1.3	-1.2	0.4	-1.4	0.0	0.0	0.0	0.0	0.0
o/w accumulated	0.0	1.4	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
o/w repaid	0.0	…	-1.2	-1.2	-1.4	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Total poverty expenditures	2.7	4.2	3.7	5.7	6.0	5.6	5.7	5.8	5.9	6.0
Public domestic debt 5/	14.8	11.6	10.4	11.6	12.7	12.3	12.0	12.0	11.7	11.2
External public debt (including IMF)	30.4	32.6	28.3	27.8	27.3	27.4	27.3	27.6	27.7	27.9
Bank and non-bank financing	4.3	0.9	1.1	2.3	1.9	1.5	1.5	1.4	1.0	0.7
Non-iron ore GDP (Le billions)	10,256	12,725	15,330	15,330	17,673	20,775	24,248	27,571	30,903	34,563

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

1/ Includes foreign financed election spending in 2012, Le 177.5 billion (1.2 percent of non-iron ore GDP)

2/ Transfer to the budget from a maturing EU grant onlent to Sierra Rutile

3/ Contingent expenditure introduced in the budget process in 2013

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

5/ Public domestic debt includes marketable treasury instruments and ways and means, excludes accounts payable

Table 3. Sierra Leone: Statement of Government Operations (GFSM 2001), 2010–18
(Billions of leone)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Transactions affecting net worth:									
Revenue	1,561	2,171	2,506	2,827	3,220	3,944	4,493	5,198	5,897
Taxes	889	1,168	1,536	1,786	2,084	2,520	2,941	3,445	4,012
Taxes on income, profits, and capital gains	303	473	778	779	910	1,130	1,339	1,579	1,821
Taxes on goods and services	396	413	521	740	875	1,030	1,177	1,341	1,543
Taxes on international trade and transactions	190	282	237	267	299	360	424	526	648
Grants	544	709	633	630	640	756	812	898	991
Other revenue 1/	128	294	337	411	497	668	740	854	895
Expense	1,286	1,603	2,097	2,186	2,520	3,020	3,404	3,791	4,195
Non-interest expenditure	1,127	1,353	1,807	1,852	2,181	2,616	2,966	3,313	3,695
Interest payment	159	250	291	333	340	404	438	478	500
Domestic	142	226	256	293	301	364	391	427	442
External	17	24	35	40	39	40	47	50	58
Gross operating balance	274	568	409	641	700	924	1,089	1,407	1,702
Transactions in nonfinancial assets:									
Net acquisitions of nonfinancial assets	787	1,149	1,263	1,281	1,683	2,013	2,288	2,565	2,869
Net lending(+)/borrowing(-)	-513	-581	-854	-640	-983	-1,088	-1,199	-1,158	-1,167
Transactions in financial assets and liabilities:									
Net acquisition of financial assets	0	-34	-9	-14	-44	0	0	0	0
Domestic	0	-34	-9	-14	-44	0	0	0	0
Net incurrence of liabilities	513	547	846	626	939	1,088	1,199	1,158	1,167
Domestic	357	274	339	87	341	368	392	316	250
Foreign	162	305	523	454	590	668	756	843	917
Statistical discrepancies	0	0	0	0	0	0	0	0	0
(In percent of non-iron ore GDP)									
Transactions affecting net worth:									
Revenue	15.2	17.1	14.2	13.6	13.3	14.3	14.5	15.0	15.5
Taxes	8.7	9.2	8.7	8.6	8.6	9.1	9.5	10.0	10.5
Taxes on income, profits, and capital gains	3.0	3.7	4.4	3.7	3.8	4.1	4.3	4.6	4.8
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	3.9	3.2	2.9	3.6	3.6	3.7	3.8	3.9	4.0
Taxes on international trade and transactions	1.9	2.2	1.3	1.3	1.2	1.3	1.4	1.5	1.7
Grants	5.3	5.6	3.6	3.0	2.6	2.7	2.6	2.6	2.6
Other revenue	1.3	2.3	1.9	2.0	2.0	2.4	2.4	2.5	2.3
Expense	12.5	12.6	11.9	10.5	10.4	11.0	11.0	11.0	11.0
Non-interest expenditure	11.0	10.6	10.2	8.9	9.0	9.5	9.6	9.6	9.7
Interest payment	1.6	2.0	1.6	1.6	1.4	1.5	1.4	1.4	1.3
Domestic	1.4	1.8	1.4	1.4	1.2	1.3	1.3	1.2	1.2
External	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0
Gross operating balance	2.7	4.5	2.3	3.1	2.9	3.4	3.5	4.1	4.5
Transactions in nonfinancial assets									
Net acquisitions of nonfinancial assets	0.0	-0.3	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0
Net lending(+)/borrowing(-)	-5.0	-4.6	-4.8	-3.1	-4.1	-3.9	-3.9	-3.4	-3.1
Transactions in financial assets and liabilities									
Net acquisition of financial assets	0.0	-0.3	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0
Domestic	0.0	-0.3	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.0	4.3	4.8	3.0	3.9	3.9	3.9	3.4	3.1
Domestic	3.5	2.2	1.9	0.4	1.4	1.3	1.3	0.9	0.7
Foreign	1.6	2.4	3.0	2.2	2.4	2.4	2.4	2.4	2.2
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Sierra Leone authorities; and IMF staff estimates and projections.
1/ includes mining royalties

Table 4. Sierra Leone: Monetary Accounts, 2010–18[1]
(Billions of leone, unless otherwise indicated)

	2010	2011	2012 Prel.	2013	2014	2015	2016	2017	2018
I. Monetary Survey									
Net foreign assets	1,645	2,053	2,485	2,657	3,087	3,612	4,154	4,684	5,304
Net domestic assets	769	905	1,138	1,505	1,813	2,095	2,412	2,752	3,017
Domestic credit	1,938	2,190	2,505	2,878	3,248	3,625	3,976	4,339	4,630
Claims on central government (net)	1,067	1,134	1,356	1,601	1,846	2,065	2,246	2,420	2,501
Claims on other public sector 2/	54	54	75	70	70	70	70	70	70
Claims on private sector	790	963	1,023	1,134	1,259	1,417	1,588	1,776	1,986
Other items (net) 3/	-1,169	-1,285	-1,367	-1,374	-1,435	-1,530	-1,565	-1,587	-1,613
Money and quasi-money (M3)	2,414	2,958	3,623	4,161	4,900	5,707	6,566	7,436	8,322
Broad money (M2)	1,755	2,107	2,594	2,979	3,539	4,122	4,742	5,371	6,010
Foreign exchange deposits	659	851	1,029	1,182	1,361	1,585	1,824	2,066	2,311
II. Bank of Sierra Leone									
Net foreign assets 4/	959	1,118	1,303	1,396	1,658	1,964	2,330	2,631	2,993
Net domestic assets	-198	-258	-284	-232	-295	-394	-544	-630	-765
Claims on other depository corporations	22	6	14	-3	-82	-200	-381	-491	-657
Claims on central government (net)	591	601	507	552	568	587	618	642	673
Claims on other public sector 2/	0	0	0	0	0	0	0	0	0
Claims on private sector	7	7	9	16	16	16	16	16	16
Other items (net) 3/	-822	-877	-817	-803	-803	-803	-803	-803	-803
Reserve money	761	860	1,019	1,164	1,363	1,570	1,786	2,001	2,227
Currency in circulation	632	708	903	931	1,077	1,240	1,411	1,581	1,760
Commercial bank deposits	91	109	94	188	202	238	278	318	359
Other deposits	39	43	22	45	84	91	97	102	109
Memorandum items:									
(Annual percent change unless otherwise indicated)									
Base money	34.6	13.0	18.5	14.2	17.1	15.2	13.8	12.0	11.3
M3	28.5	22.6	22.5	14.8	17.8	16.5	15.0	13.3	11.9
Credit to the private sector	31.5	21.8	6.3	10.8	11.0	12.6	12.1	11.9	11.8
Velocity (GDP/M3)	4.2	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Money multiplier (M3/base money)	3.2	3.4	3.6	3.6	3.6	3.6	3.7	3.7	3.7
Credit to the private sector (in percent of non iron ore GDP)	7.7	7.6	6.7	6.4	6.1	5.8	5.8	5.7	5.7
Gross Reserves (in US$ millions)	345	382	420	452	505	563	639	732	835
Program exchange rate (Leones/US$)	4,198	4,378	4,334	…	…	…	…	…	…

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

1/ End of period

2/ Include public enterprises and the local government.

3/ Including valuation.

4/ Net foreign assets are presented at program exchange rates

Table 5. Sierra Leone: Balance of Payments, 2010–18

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

	2010	2011	2012 Prel.	2013	2014	2015	2016	2017	2018
Current account	-507.0	-1,315.4	-1,388.8	-764.9	-477.5	-392.1	-408.2	-431.8	-411.3
Trade balance	-517.7	-1,245.5	-619.5	-368.6	-30.0	328.1	525.3	495.5	344.8
Exports, f.o.b.	363.1	385.6	953.4	1,496.4	1,943.5	2,371.2	2,659.6	2,779.1	2,785.8
Of which: diamonds	127.5	154.1	161.7	211.1	238.6	262.0	235.0	252.3	263.5
iron ore	0.0	0.0	417.3	854.6	1,174.6	1,524.4	1,662.3	1,662.3	1,662.3
Imports, f.o.b	-880.7	-1,631.1	-1,572.9	-1,865.0	-1,973.5	-2,043.1	-2,134.2	-2,283.6	-2,441.0
Of which: oil	-127.7	-214.5	-283.4	-313.5	-341.8	-365.3	-377.9	-385.8	-397.2
Services (net)	-150.4	-283.2	-850.2	-544.8	-387.8	-429.1	-404.8	-356.8	-376.9
Income (net)	-49.1	-35.3	-138.6	-89.7	-323.1	-589.9	-853.9	-918.3	-751.4
Of which: interest on public debt	-4.3	-5.5	-7.9	-9.3	-9.0	-9.2	-10.9	-11.6	-13.4
Transfers	210.2	248.6	219.5	238.2	263.4	298.9	325.1	347.8	372.2
Official transfers	162.9	112.8	66.4	59.8	60.7	70.9	78.1	85.4	93.4
Other transfers	47.2	135.8	153.2	178.5	202.8	228.0	247.0	262.4	278.8
Capital and financial account	439.0	1,352.8	1,437.6	789.8	515.9	438.3	474.1	543.5	534.7
Capital account	97.3	127.0	98.9	96.5	94.4	111.7	120.4	128.2	136.2
Of which: project support grants	69.7	98.5	69.5	94.4	92.1	104.3	112.7	120.2	127.9
Financial account	341.6	1,225.8	1,338.8	693.3	421.4	326.5	353.7	415.2	398.5
Foreign direct and portfolio investment	335.0	1,073.9	1,175.2	602.6	311.7	223.9	227.6	285.9	259.1
Other investment	6.6	152.0	163.6	90.7	109.8	102.6	126.0	129.3	139.4
Public sector (net)	40.3	72.5	119.2	97.7	136.1	138.5	151.4	163.5	176.7
Disbursements	55.6	84.9	137.0	125.0	160.2	166.4	179.1	190.3	201.8
Amortization	-23.0	-11.6	-17.7	-27.2	-24.1	-27.9	-27.8	-26.9	-25.1
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets of comm. banks	-24.1	-50.3	-59.2	-7.1	-26.3	-35.9	-25.3	-34.2	-37.4
Other sectors net	-12.3	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	42.4	-9.4	-13.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-25.7	28.0	35.4	24.9	38.4	46.2	65.9	111.7	123.4
Financing									
Central bank net reserves (- increase)	25.7	-28.0	-35.4	-24.9	-38.4	-46.2	-65.9	-111.7	-123.4
Gross reserve change	-8.4	-36.9	-38.7	-31.5	-53.3	-58.4	-75.2	-93.1	-103.4
Use of Fund loans	34.1	8.9	3.3	6.6	14.8	12.2	9.4	-18.6	-20.0
Purchases	36.3	14.0	6.8	13.7	27.3	27.3	27.3	0.0	0.0
Repurchases	-2.1	-5.2	-3.5	-7.1	-12.5	-15.2	-17.9	-18.6	-20.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
(Percent of non-iron ore GDP unless otherwise indicated)									
Current account	-19.7	-45.0	-39.4	-19.1	-10.5	-7.7	-7.2	-7.0	-6.2
Trade Balance	-20.1	-42.6	-17.6	-9.2	-0.7	6.4	9.3	8.1	5.2
Capital and Financial Account	17.0	46.2	40.7	19.7	11.4	8.6	8.4	8.9	8.0
Overall Balance	-1.0	1.0	1.0	0.6	0.8	0.9	1.2	1.8	1.9
Official aid (grants and loans)	7.0	3.9	2.6	1.9	1.3	1.2	1.2	1.3	1.3
Budget support in US$ (grants and loans)	179.7	115.3	90.4	74.3	56.7	62.9	70.2	77.4	85.4
Gross International Reserves									
US$ millions	345	382	420	452	505	563	639	732	835
Months of imports	2.0	1.8	2.0	2.1	2.2	2.4	2.6	2.8	3.1
Excluding iron ore, months of imports	3.4	2.8	3.1	3.2	3.4	3.6	3.9	4.1	4.4
National currency per US dollar (average)	3,978	4,357	4,344	…	…	…	…	…	…

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

Table 6. Sierra Leone: Indicators of Capacity to Repay the Fund, 2010–24

				Projection											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	1.4	1.9	2.3	4.6	8.1	9.9	11.7	12.1	13.0	9.5	6.4	2.7	0.9	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	1.4	1.9	2.3	4.6	8.1	9.9	11.7	12.1	13.0	12.2	12.6	12.4	13.3	12.4	9.8
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0
Total obligations based on existing and prospective credit															
In millions of SDRs	1.4	1.9	2.3	4.6	8.1	10.1	11.9	12.4	13.2	12.4	12.7	12.6	13.4	12.5	9.8
In millions of US$	2.1	3.0	3.5	7.0	12.3	15.4	18.3	19.1	20.5	19.1	19.7	19.5	20.8	19.4	15.2
In percent of exports of goods and services	0.5	0.5	0.3	0.4	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.5	0.4
In percent of debt service 1/	7.3	13.3	12.1	16.0	27.0	29.5	32.3	33.4	35.0	32.5	32.1	30.7	30.7	29.1	20.9
In percent of GDP	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
In percent of Gross International Reserves	0.6	0.8	0.8	1.5	2.4	2.7	2.9	2.6	2.5	2.1	2.0	1.8	1.7	1.4	1.0
In percent of quota	1.4	1.8	2.2	4.5	7.8	9.7	11.5	11.9	12.7	11.9	12.3	12.1	13.0	12.1	9.5
Outstanding Fund credit															
In millions of SDRs	73.4	79.0	78.8	83.1	92.7	100.6	106.7	94.6	81.6	69.5	56.9	44.4	31.1	18.7	8.9
In millions of US$	111.9	124.7	120.7	125.5	140.6	153.5	163.7	145.9	126.5	107.6	88.1	68.9	48.2	28.9	13.8
In percent of exports of goods and services	26.5	22.9	11.0	7.5	6.6	5.9	5.6	4.8	4.1	3.5	2.7	2.1	1.4	0.8	0.4
In percent of debt service	380.9	560.5	413.2	288.2	308.4	293.6	289.3	255.5	216.5	182.8	143.1	108.7	71.1	43.4	18.9
In percent of GDP	4.3	4.3	3.2	2.7	2.6	2.5	2.4	2.0	1.6	1.3	1.0	0.7	0.5	0.3	0.1
In percent of Gross International Reserves	32.5	32.7	28.7	27.8	27.8	27.2	25.6	19.9	15.1	11.8	8.8	6.3	4.0	2.1	0.9
In percent of quota	70.7	76.2	76.0	80.1	89.4	97.0	102.9	91.2	78.7	67.0	54.9	42.9	30.0	18.0	8.6
Net use of Fund credit (in millions of SDRs)	22.4	5.6	2.1	4.3	9.8	8.0	6.1	-12.1	-12.9	-11.2	-10.4	-9.1	-9.1	-6.5	-4.1
Disbursements	23.8	8.9	4.4	9.0	18.0	17.9	17.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	1.4	3.3	2.3	4.7	8.2	9.9	11.7	12.1	12.9	11.2	10.4	9.1	9.1	6.5	4.1
Memorandum items:															
Exports of goods and services (in millions of US$)	423	546	1,099	1,670	2,147	2,605	2,916	3,054	3,080	3,118	3,208	3,328	3,439	3,556	3,692
Debt service (in millions of US$)	29	22	29	44	46	52	57	57	58	59	62	63	68	67	73
Nominal GDP (in millions of US$)	2,578	2,933	3,789	4,607	5,390	6,203	6,808	7,295	7,812	8,313	8,852	9,433	10,058	10,730	11,453
Gross International Reserves (in millions of US$)	345	382	420	452	505	563	639	732	835	913	999	1,100	1,217	1,348	1,493
Quota (millions of SDRs)	104	104	104	104	104	104	104	104	104	104	104	104	104	104	104

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 7. Sierra Leone: Actual and Proposed Disbursements Under the ECF Arrangement, 2013–16

Availability	Disbursements		Conditions for Disbursement
	In millions of SDRs	In percent of quota	
October 21, 2013	8.89	8.57	Effectiveness of the three-year ECF arrangement
June 15, 2014	8.89	8.57	Board completion of the first review based on observance of performance criteria for December 31, 2013
December 15, 2014	8.89	8.57	Board complettion of the second review based on observance of performance criteria for June 30, 2014
June 15, 2015	8.89	8.57	Board completion of the third review based on observance of performance criteria for December 31, 2014
December 15, 2015	8.89	8.57	Board completion of the fourth review based on observance of performance criteria for June 30, 2015
June 15, 2016	8.89	8.57	Board completion of the fifth review based on observance of performance criteria for December 31, 2015
September 10, 2016	8.88	8.56	Board completion of the sixth review based on observance of performance criteria for June 30, 2016
Total disbursements	**62.22**	**60.00**	

Table 8. Sierra Leone: Millennium Development Goals, 1990–2010

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	64	64	63	65	65
Employment to population ratio, ages 15-24, total (%)	39	38	39	42	42
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..
Income share held by lowest 20%	..	..	..	6	..
Malnutrition prevalence, weight for age (% of children under 5)	25	..	25	28	21
Poverty gap at $1.25 a day (PPP) (%)	45	..	..	20	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	63	..	..	53	..
Vulnerable employment, total (% of total employment)	..	..	..	92	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	..	37	48
Literacy rate, youth male (% of males ages 15-24)	..	..	..	60	68
Persistence to last grade of primary, total (% of cohort)	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	74
Total enrollment, primary (% net)	..	..	..	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	6	9	15	13
Ratio of female to male primary enrollment (%)	66	..	67	..	93
Ratio of female to male secondary enrollment (%)	49	..	68	..	..
Ratio of female to male tertiary enrollment (%)	..	..	78	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	23.2	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	..	..	37	71	82
Mortality rate, infant (per 1,000 live births)	162	159	142	128	114
Mortality rate, under-5 (per 1,000 live births)	276	271	233	202	174
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	151	146	144	120
Births attended by skilled health staff (% of total)	..	..	42	43	42
Contraceptive prevalence (% of women ages 15-49)	3	..	4	5	8
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1300	1300	1000	890
Pregnant women receiving prenatal care (%)	..	..	68	81	87
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	28
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	61	52	30
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	5
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	18
Incidence of tuberculosis (per 100,000 people)	207	279	377	509	682
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	1.5
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.6
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.9	1.5	1.6
Tuberculosis case detection rate (%, all forms)	8	18	24	26	32
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	43.5	..	40.8	39.4	38.1
Improved sanitation facilities (% of population with access)	11	11	11	12	13
Improved water source (% of population with access)	38	42	46	51	55
Marine protected areas (% of territorial waters)	0	0	0	0	0
Net ODA received per capita (current US$)	15	54	44	66	80
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	10	62	46	9	4
Internet users (per 100 people)	0	0	0.1	0.2	0.3
Mobile cellular subscriptions (per 100 people)	0	0	0	14	34
Telephone lines (per 100 people)	0	0	0	1	0
Fertility rate, total (births per woman)	6	6	6	5	5
Other					
GNI per capita, Atlas method (current US$)	200	200	150	230	340
GNI, Atlas method (current US$) (billions)	0.8	0.8	0.6	1.2	2
Gross capital formation (% of GDP)	10	5.6	6.9	17	15.8
Life expectancy at birth, total (years)	39	37	40	44	47
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	35	41
Population, total (millions)	4.0	3.9	4.1	5.1	5.8
Trade (% of GDP)	46.2	45.1	57.4	60.1	46.6

Source: World Development Indicators

Table 9. Sierra Leone: Financial Soundness Indicators of the Banking System, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013 Mar
	(Percent, end of period, unless otherwise indicated)								
Capital adequacy									
Regulatory capital ratio 1/	35.7	33.3	35.0	43.5	34.0	30.7	27.0	27.7	31.8
Regulatory tier 1 capital ratio 2/	10.3	17.0	16.7	18.7	18.8	17.5	14.0	12.5	14.1
Asset quality									
Nonperforming loans to total gross loans	…	…	31.7	23.4	16.5	15.6	15.1	14.7	17.6
Nonperforming loans (net of provisions) to regulatory capital	…	…	35.5	26.8	22.4	13.1	19.6	19.2	23.1
Earnings and profitability									
Return on assets	8.1	5.8	3.1	2.2	1.6	3.4	3.8	3.4	1.3
Return on equity	28.0	17.0	10.3	7.2	4.0	12.1	15.6	16.1	6.0
Liquidity									
Ratio of net loans to total deposits	27.5	26.5	27.7	33.9	41.5	42.8	41.3	33.9	33.3
Liquidity ratio 3/	53.0	58.9	53.3	62.0	53.4	54.1	54.6	40.7	64.1
Statutory minimum liquidity ratio 3/ 4/	34.0	28.5	25.7	25.0	29.0	41.5	29.7	54.9	52.5
Share of foreign exchange deposits in total deposits	30.7	32.4	36.5	32.2	34.5	40.4	41.5	40.8	38.7
	(Number of banks not complying)								
Prudential ratios at year-end									
Capital adequacy	0	0	0	0	1	0	2	0	…
Minimum liquidity ratio	0	0	0	0	1	1	3	0	…
Minimum capital	0	1	1	1	2	0	4	1	…
Limit of single large exposure 5/	0	2	1	2	4	5	3	5	…
Memorandum Item:									
Number of banks	7	8	10	13	14	13	13	13	13

Source: Bank of Sierra Leone.

1/ Capital requirement over risk-weighted assets (solvency ratio).

2/ Core capital (Tier I) over total assets.

3/ Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities.

4/ Effective November 2007, minimum liquidity includes 40 percent of demand deposits and 20 percent of quasi-money to be held in either cash or treasury bills.

5/ A single large exposure of an institution is any exposure that is 2 percent or more of its capital base.

Table 10. Sierra Leone: External Financing Requirements and Sources, 2013–16
(Millions of U.S. dollars, unless otherwise indicated)

	2013	2014	2015	2016
1. Gross financing requirements	877.5	634.0	579.8	611.9
Current account deficit (excluding grants)	806.7	520.2	445.0	468.4
Debt amortization	27.2	24.1	27.9	27.8
Gross reserve accumulation	31.5	53.3	58.4	75.2
Fund repayments	7.1	12.5	15.2	17.9
Other flows	5.0	24.0	33.4	22.5
2. Available financing	863.8	606.7	552.5	584.5
Foreign direct investment, net	602.6	311.7	223.9	227.6
Identified disbursements	261.2	295.0	328.6	356.9
Grants	136.2	134.8	162.1	177.8
Project	94.4	92.1	109.2	117.7
Program	41.8	42.7	52.9	60.2
United Kingdom	23.3	24.2	28.2	32.1
European Union	18.5	18.5	21.6	24.6
African Development Bank	0.0	0.0	3.1	3.5
Loans	125.0	160.2	166.4	179.1
Project	92.5	146.2	156.4	169.1
Program	32.5	14.0	10.0	10.0
World Bank/IDA	32.5	14.0	10.0	10.0
3. Financing gap	13.7	27.3	27.3	27.3
4. Possible financing	0.0	0.0	0.0	0.0
5. Residual financing	13.7	27.3	27.3	27.3
Of which: Proposed ECF disbursements	13.7	27.3	27.3	27.3

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

Table 11. Sierra Leone: Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Impact and Policy Response
Sustained decline in commodity prices.	**Low**	**Low to Medium** A sustained decline in commodity prices would result in a higher external current account deficit and a shortfall in government revenue from the mining sector. It could also delay expected investment in iron ore production expansion. *Policy response:* Delay scaling up of public investment and strengthen efficiency in non-resource revenue mobilization.
Uncertain forecast for iron ore production volume.	**Medium**	**Low to Medium** A lower-than projected iron ore production would result in a shortfall in revenue from iron ore royalties, lower growth, and higher external current account. *Policy response:* Same as for a "sustained decline in commodity prices."
Global oil price shock triggered by geopolitical events.	**Low**	**Medium** As was the case in 2011–12, a sharp rise in the world oil price is not likely to be passed through to domestic consumers, as Sierra Leone lacks social safety nets to mitigate the impact of higher prices on vulnerable groups. The budget would absorb the cost, likely resulting in lower domestic investment or higher borrowing from the securities market. *Policy response:* Gradual pass-through of higher global prices combined with social safety nets measures for the most vulnerable groups; and lower domestically-financed investment.
Aid shortfall.	**Medium**	**Medium** A shortfall in aid would compromise the anticipated fiscal consolidation efforts. It may result in postponement of domestic investment, and lead to increased borrowing from the securities market that could potentially crowd out of private sector borrowing. *Policy response:* Ensure strong implementation of donors' disbursement conditions for committed aid, and scale back domestically financed investment.
Poor implementation of fiscal policy.	**Medium**	**Medium** A higher than anticipated fiscal deficit would lead to increased borrowing from the securities market and an accumulation of domestic arrears, with adverse impact for the monetary program and the financial sector. *Policy response:* Continue close monitoring of budget execution, and stop nonwage expenditure commitments two months prior to the end of the fiscal year.

[1] The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in staff's view.

Appendix I. Letter of Intent

October 1, 2013
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Madame Lagarde:

1. On behalf of the government of Sierra Leone, I am pleased to submit herewith a Memorandum of Economic and Financial Policies (MEFP) for which Sierra Leone is requesting a three-year arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) for the period 2013–16. The objectives of the program and measures envisaged for achieving them are described in the memorandum. Reflecting the government's poverty reduction and growth objectives, the program focuses on (i) consolidating the gains from the previous ECF-supported program, including macroeconomic stability supported by prudent fiscal and monetary policies; (ii) strengthening revenue performance and improving public financial management to efficiently channel adequate resources to infrastructure and poverty-reducing spending; and (iii) stepping up financial sector reforms to support financial deepening and economic growth.

2. The government requests that the MEFP be supported under a three-year arrangement under the ECF in an amount equivalent to SDR 62.22 million (or 60 percent of quota). We also request that the first disbursement, in an amount equivalent to SDR 8.89 million, be made available after approval of the ECF arrangement by the Executive Board of the IMF. To monitor progress in implementing our reform agenda, the program includes a set of quantitative criteria, indicative targets, and structural benchmarks outlined in the MEFP and the Technical Memorandum of Understanding (TMU).

3. Sierra Leone's new poverty reduction strategy for 2013–18 (PRSP III) launched in July this year—*The Agenda for Prosperity*—focuses on addressing the infrastructure deficit and growing the private sector to support inclusive growth, enhancing the efficiency and access to social services to support human development, and improving governance and transparency to support effective public service delivery. Development partners, in accordance with the *Busan* principles of aid effectiveness, have pledged to assist the government to attain these broad objectives.

4. To help achieve the objectives of the Agenda for Prosperity, the government plans to implement a number of transformational investment projects, including a new airport on the mainland, hydro electric dams, and agriculture irrigation projects. The government will seek concessional borrowing for these transformational projects. The government believes, in particular, that the construction of a new airport will support private sector development and economic growth, increase tourism, and generate new sources of revenue for the government budget. The government

will pursue the project if it is economically viable. It will work closely with Sierra Leone's development partners, notably the World Bank on the project's feasibility and with IMF staff on its macroeconomic and program implications.

5. The government of Sierra Leone has made substantial progress during 2001–13 in laying the foundations for macroeconomic stability, sustained economic growth, and financial sector expansion in the context of three previous programs. The previous ECF-supported program for 2010–13 had to be cancelled to enable the newly elected government to take stock of progress in strengthening institutions, including procedures for public financial management, and to transition to a new economic program that would support the *Agenda for Prosperity*. Nonetheless, reform measures and policies put in place have helped improve macroeconomic stability, advance social policies, and enhance prospects for broad-based and inclusive economic growth. This progress demonstrates the government's commitment to meet performance criteria and structural benchmarks set for 2013–14 (MEFP, Tables 1–2).

6. The economic outlook for the rest of this year and over the medium term remains favorable. We expect to use prudent fiscal and monetary policies to dampen inflationary pressures—consumer price inflation fell to 9.5 percent (year-on-year) at end-July, the first time since the onset of the global financial crisis, and interest rates on government securities declined considerably, from 19–26 percent at end-2012 to 3–9 percent in late August, reflecting tight expenditure management in the first half of the year, with limited issuance of short-term securities. As a result, the Monetary Policy Committee of the Bank of Sierra Leone (BoSL) reduced the monetary policy interest rate. Going forward, any further declines in the monetary policy rate (MPR) would be carefully calibrated in line with the use of other monetary instruments to support the single-digit inflation target while encouraging financial intermediation. We expect a careful execution of government spending, in the context of the cash management committee and envisaged further improvements in public financial management, to help alleviate infrastructure bottlenecks, enhance the business environment for job creation, and maintain macroeconomic stability. Nonetheless, the global economic outlook presents risks to the economic outlook that call for vigilance in policy implementation. We stand ready to take corrective measures should adverse shocks materialize and compromise the attainment of programmed objectives.

7. Sierra Leone believes that the policies set forth in the attached Memorandum of Economic and Financial Policies are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. Sierra Leone will consult with the IMF on the adoption of these measures in advance to the revisions to the policies contained in the Memorandum of Economic and Financial Policies in accordance with IMF policies in such consultation. Further, and in line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report, including placement of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's approval of the request.

Very truly yours,

/s/	/s/
Kaifala Marah Minister of Finance and Economic Development	Sheku S. Sesay Governor of Bank of Sierra Leone

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

Supplemental Letter of Intent

October 17, 2013
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Madame Lagarde:

On behalf of the government of Sierra Leone, it is our pleasure to send you this supplement to the Letter of Intent (LOI) dated October 1, 2013, to welcome the change in the policy on discount rate approved by the Executive Boards of the International Monetary Fund (IMF) and the World Bank on October 11, 2013. We note that under the new policy, a unified 5 percent discount rate will be used for the calculation of the present value of external debt in the Debt Sustainability Framework for Low Income Countries and for the assessment of the concessionality of individual loans. To reflect this change, and in consultation with IMF staff, we have revised paragraph 13 of the Technical Memorandum of Understanding attached to the LOI signed on October 1, 2013.

Very truly yours,

/s/	/s/
Kaifala Marah	Sheku S. Sesay
Minister of Finance and Economic Development	Governor of Bank of Sierra Leone

Attachment 1. Memorandum of Economic and Financial Policies for 2013–16

Freetown, October 1, 2013

Introduction

1. The government of Sierra Leone implemented in 2010–13 an economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). Progress on policy implementation, combined with support from Sierra Leone's other development partners helped strengthen macroeconomic stability, advance structural reforms in key areas, and achieve important objectives under the second-generation Poverty Reduction Strategy (PRS), *The Agenda for Change*. To consolidate these gains and address remaining developmental challenges for Sierra Leone, the government has prepared a new medium-term economic program for the period 2013–16.

2. This Memorandum presents the economic and financial policies that the government intends to implement under the new program, to achieve key objectives under *The Agenda for Prosperity*, its new PRS, communicated to the IMF and World Bank on July 15.

3. Under the new ECF-supported program, the government's overarching objective is to accelerate economic growth and reduce poverty further, under policies that are environmentally, socially, and economically sustainable. This calls for scaling up infrastructure and energy investment; providing adequate social services; and managing renewable and nonrenewable natural resources efficiently. Hence, policies under the program will be geared toward creating fiscal space for improving basic infrastructure and social services while maintaining macroeconomic stability; strengthening revenue performance and improving public financial management (PFM) systems; effectively managing the fiscal regime for extractive industries; and supporting private sector development.

Recent Economic Developments and Short-Term Outlook

4. Economic growth accelerated and inflation declined in 2012. Real GDP growth is estimated at 15.2 percent, reflecting increased iron ore production, from 137,000 tons in 2011 to 6.6 million tons in 2012. Non-iron ore growth is estimated at 5.3 percent (5.8 percent in 2011), driven by output expansion in agriculture, manufacturing, construction, and services. In agriculture growth has been sustained since 2010 with the introduction of the government and donor-supported Small Holder Commercialization Program (SHCP), which encourages small holder farmers to work under organized

Agriculture Business Centers. With support from the government and development partners, the SHCP provides improved inputs, tractors, and processing equipment. Projections for 2013 indicate that real GDP growth would reach about 13.3 percent, driven by increasing value-added from iron ore production, but also a healthy 6 percent growth in the non-iron ore economy, with key contributions from other minerals, agriculture, services, tourism, and sustained investment in infrastructure.

5. Good progress has been made in containing consumer price inflation, and price pressures have eased during 2012–July 2013. The inflation rate declined from 16.9 percent at end-2011 to 12 percent at end-2012, and 9.5 percent at end-July 2013. Key contributing factors include moderation of food inflation, a tight monetary policy stance, and a stable exchange rate.

6. The external position improved in 2012. A significant increase in FDI flows during 2011 and 2012 has led to a surge in investment-driven imports, and helped finance the resultant current account deficit. FDI flows moderated in 2012, as the new iron ore projects shifted from the investment to the export phase, contributing to an improving trade balance and a decline in the current account deficit. The overall balance of payments recorded a surplus, thus contributing to reserve accumulation, with coverage of about 3 months of imports (excluding imports related to iron ore).

7. Broad money (M2) accelerated by 23.1 percent in 2012, up from 20 percent in 2011. Private sector credit growth decelerated in 2012 reflecting some crowding out from significantly higher government borrowing from commercial banks in the securities market, as well as the impact of the newly established credit reference bureau, which now provides commercial banks a facility to better establish creditworthiness. Interest rates were relatively stable throughout much of 2012; the Monetary Policy Rate remained at 20 percent while the average rate on savings stood at 6.5 percent and lending rates at 20–30 percent. During the same period, the one-year Treasury bond rate was unchanged at 20 percent and the 91-day Treasury bill rate remained around 23 percent for much of the year. These rates dropped to 6 percent and 3.2 percent respectively in late August 2013 reflecting the sharp slowdown in government borrowing from the securities market.

8. Fiscal policy implementation was challenging in 2012 because of the elections. Revenue collection reached 12.2 percent of non-iron ore GDP compared with 11.5 percent in 2011 reflecting higher than anticipated taxes from the extractive sector that helped compensate for weak performance in other tax categories, particularly the windfall in signature bonuses from petroleum exploration, the one-off payments of advanced payroll tax by one of the iron ore mining companies and the sale of government shares (in lieu of personal income tax) held in Sierra Rutile Limited.

Expenditure stabilized at about 22 percent of non-iron ore GDP, partly reflecting a decline in foreign-funded capital expenditure that compensated a one percentage point increase in current spending to 13.7 percent of non-iron ore GDP. The increase in current expenditure was partly due to spending related to the November elections. The wage bill increased from 5.4 percent of non-iron ore GDP in 2011 to 6.1 percent in 2012, driven by the hiring of 1,589 teachers, and health workers; partly financed through savings from the retirement of senior staff under the pay reform plan. Domestically financed capital spending increased from 2.8 percent of non-iron ore GDP in 2011 to 3 percent in 2012, covering mostly infrastructure projects. The overall budget deficit (including grants) reached Le 854 billion (5.6 percent of non-iron ore GDP), up from 581 billion in 2011 (4.6 percent of non-iron ore GDP). It was mostly financed with project and program loans and issuance of domestic securities. The latter reached 2.3 percent of non-iron ore GDP, up from 0.9 percent in 2011.

Program Implementation—Taking Stock

9. Significant progress was made in the implementation of the ECF-supported program that was cancelled prior to its expiration at end-June. Reform measures and policies put in place have helped improve macroeconomic stability, advance social policies, and enhance prospects for broad and inclusive growth.

10. The program was broadly successful in facilitating growth and macroeconomic stability while reducing inflation. The advent of large-scale iron-ore mining boosted private sector development and revenue performance. Overall fiscal performance, however, was challenging, as gaps in budget execution resulted in recurrent end-year fiscal expenditure overruns. In response, in 2011, corrective measures were taken to limit by law the Treasury's access to credit from BoSL to 5 percent of previous year's revenue at any time, and eliminate BoSL participation in the primary securities' market. Subsequently, in 2012, the government established a Cash Management Committee to improve Treasury cash management and enhance coordination between fiscal and monetary policies.

11. While the fiscal position was relatively robust at the outset of the program it weakened over time due to expenditure overruns and excessive borrowing from the securities market. Expenditure rose from 17.7 percent of non-iron ore GDP in 2009 to almost 22 percent in 2012 with current expenditure and domestically-financed investment consistently above the budgeted level. In 2010–12, on average, spending on wages and salaries exceeded program targets by about 5 percent, goods and services by about 20 percent, and domestically financed capital spending by 56 percent. While one-off revenue from mining and oil exploration helped finance the additional expenditure,

higher-than-budgeted spending was met with a build-up of unpaid bills and domestic debt. This led to mixed results on fiscal performance, highlighting important challenges to efficient PFM.

12. Monetary and exchange rate policies were consistent with program's objectives. Monetary policy was tightened in mid-2011, which, combined with stability in the exchange rate contributed to decelerating inflation. Increased foreign exchange inflows supported the stability of the leone against other currencies, and the flexible exchange rate regime was preserved. The Bank of Sierra Leone's interventions in the market were limited to smoothing volatility in the market.

13. On external debt, although higher borrowing for investment in infrastructure added to the debt stock, the results of the Debt Sustainability Analysis (DSA) showed that the risk of debt distress remained moderate. However, stress test results from the DSA showed that it was crucial to sustain fiscal consolidation efforts, promote growth-enhancing policies, and maintain prudent borrowing policies in view of the Sierra Leone's vulnerability to exogenous shocks. While the government did not accumulate arrears on external debt obligations under the program, it contracted some loans on non-concessional terms breaching a quantitative performance criterion under the program; waivers were granted by the IMF Executive Board in the context of program reviews.

14. An extensive structural reforms agenda was pursued under the program. Most objectives were met, albeit with delays in some instances. A review of petroleum pricing was carried out to restore taxes on retail sales of petroleum products; the Domestic Tax Department (DTD) was created; GST administration was integrated within the Large Taxpayer Office; amendments to the Government Budget and Accountability Act and the Financial Management Regulation were submitted to parliament to ensure that only viable capital projects enter into the budget; a pay reform plan for public servants was put in place; all eligible taxpayers were transferred to the Medium Taxpayer Office (MTO); regulations to implement a Public Investment Plan, fully integrated with the budget process, were published; a high-level cash management committee was established; BSL credit to government was formally capped at 5 percent of previous years' revenue to reduce fiscal dominance; regulation and supervision of the financial sector improved and central bank independence increased under amendments to the BSL and Banking Acts adopted by parliament in late 2011; the government's shares in Rokel Commercial Bank were offered for sale through the stock exchange; BoSL prepared revised prudential guidelines consistent with the Banking Act; and a credit reference bureau was set up.

15. In spite of progress discussed above, important challenges remain. Poverty, unemployment, and underemployment are high, and access to public and social services is limited. In addition,

growth prospects are hindered by numerous obstacles, including insufficient power supply and road networks, and limited access to financial services.

Agenda for Prosperity

16. Although significant progress has been made since the end of the civil conflict toward social stability and a sustainable macroeconomic position, more durable poverty reduction and growth efforts are needed in conjunction with sound macroeconomic management. Building on recent progress, the government intends to address remaining challenges and accelerate Sierra Leone's development through steadfast implementation of the PRS, the Agenda for Prosperity (AfP). It is recognized under the AfP that economic growth is fundamentally important for poverty reduction and that growth-promoting policies must be environmentally, socially, and economically, sustainable. Moreover, it is hoped that effective management of natural resources holds the key to unlocking wide-ranging environmental and socio-economic benefits to the population at large. A key objective of the PRS is inclusive, diversified, and sustainable, economic growth, which goes hand in hand with employment generation and income equality. The ECF-supported program seeks to underpin this effort by facilitating high quality public investment and growth enhancing reforms in the context macroeconomic stability. In addition to addressing the efficiency of public investment, the structural benchmarks under the program focus on Public Financial Management Reforms and the legal and operational infrastructure for effective revenue mobilization, particularly as it relates to natural resource revenue. Gaps in private sector development and financial sector development are addressed in parallel. An indicative floor on social spending under the program ensures consistency with poverty reduction and growth objectives.

17. The AfP defines the development path for the country for the period 2013–18. The Agenda comprises eight sectoral pillars: (i) economic diversification to promote inclusive growth; (ii) natural resources management; (iii) human development; (iv) competitiveness; (v) labor and employment; (vi) social protection systems; (vii) governance and public sector reforms; and (viii) gender equality and women's empowerment.

18. **Economic diversification to promote inclusive growth**. The long term economic growth target is annual GNI growth of 6.7 percent, and GNI per capita growth of 4.8 percent. Private sector-led growth and diversification across several competitive sectors would increase value-added and generate gender-equitable employment. Policy measures in the agriculture sector, historically the largest sector of the economy, would address smallholder commercialization and larger-scale agro-based production. A number of regulatory, educational, and investment related sector-specific measures will be taken to improve the conditions for growth in fisheries, manufacturing, and

tourism, all of which currently perform below potential. The ECF-supported program seeks specifically to support private sector development of small- and medium-sized enterprises in the sectors and reduce transaction costs with respect to trade.

19. **Managing natural resources**. Natural resources revenue from both renewable and non-renewable sources would contribute significantly to growth and poverty reduction. Strong coordination across-sectors and among agencies and actors within sectors would be essential. Resource sector activities include mineral resources, fisheries and marine resources, water resources, land management, forestry management, and oil and gas development. The government would channel natural resource revenues to transformation activities and to sustain inclusive economic development. The ECF-supported program seeks to advance the fiscal regime for extractive industries particularly with respect to the legislative framework and revenue mobilization and management. A Transformation Development Fund would be established under the umbrella of a broader Natural Resource Revenue Fund. Strategies are being devised with respect to the management of key resource categories, including:

- **Mineral resources**. The National Minerals Agency will lead in implementing detailed sector strategies to ensure that Sierra Leone benefits from minerals exploitation and that negative externalities are minimized. In addition to regulating larger-scale mines, strategies focus on regulation and efficiency of artisanal mines. Community Development Agreements will facilitate improved welfare in mining communities.

- **Marine Resources**. Priority areas include the reduction of over-fishing, which will be addressed by taking action against illegal fishing, and the slowing of coastal erosion that will be addressed in consultation with relevant stakeholders.

- **Water resource management**. Given ample water resources but an underdeveloped distribution system, the government would take action to develop water resources, responding sustainably to the needs of society and the economy.

- **Land management**. Key priorities include a legal framework for land ownership, developing land-use planning, creating sustainable infrastructure for social improvement and economic growth, and training farmers in sustainable land and water practices.

- **Forests**. Redesigned institutional and policy frameworks will coordinate the forestry sector to address competing demands. Sustainable management would seek to address a broad range of objectives: forest conservation, watershed regulation, traditional exploitation, economic development and job creation, eco-tourism, biodiversity and climate change.

- **Oil and Gas**. Oil exploration has yielded promising results and commercial production could be developed shortly. The government is putting in place an institutional and fiscal framework to regulate the industry and ensure that Sierra Leone benefits from oil and gas in a transparent manner.

- **Electromagnetic Spectrum**. Future potential in this sector will be explored.

20. **Accelerating human development**. Human development would be accelerated through improving education quality and access, providing extensive health services, controlling HIV/AIDS, providing safe water and improved sanitation, population policy, including reducing migration to the cities and slowing fertility and teenage pregnancy, and mainstreaming gender parity. Education access, equity, and quality, would be improved at all levels, achieving high literacy, and developing a labor force with the skills demanded by the employment-generating sectors of the economy. Health care will build on the free health care initiative, scaled-up nutrition programs, expanding immunization, and increased access to water and sanitation.

21. **Promoting competitiveness**. Economic growth will be determined by the success of Sierra Leone's companies and industries, enabled by a supportive business environment, including an institutional framework conducive to private sector development, adequate infrastructure, access to credit, and availability of skilled labor. Infrastructure investment would have to increase in the areas of transportation, power, water, ICT, and financial services. Competitiveness will require partnership between public and private sectors, and coordination among MDAs and development partners. Government is giving priority to removing the wide range of identified constraints to private sector development, and to building the necessary supportive environment and infrastructure. Agriculture, energy and transportation are being given priority in the implementation of the AfP. Hence, key transformational projects under the AfP would include agriculture irrigation projects, hydro electric dams, and a new airport on the mainland. The government believes, in particular, that the construction of a new airport will alleviate the high cost, both time and financial, and help circumvent the risks in travelling across the Rokel Bay to and from the current airport (Lungi International Airport). In doing so, it would facilitate unhindered access to the capital city and the interior of the country. Furthermore, the new airport will help promote regional integration, increase freight and passenger traffic, enhance government revenue, employment, and other linkages with the rest of the economy. Also, given Sierra Leone's geographical location, the new airport has the potential to serve as a regional hub between Africa and North and South America. Preliminary estimates put the cost of the project at US$312 million (6.6 percent of 2013 GDP). The government is looking into options for its financing from its creditors, notably Exim Bank China, under the Chinese Preferential Concessional Loan Facility. The government is aware of the large

magnitude of the project cost, and its potential implications for government finances. It will, therefore, seek to obtain concessional terms for the selected financing option, to ensure consistency with policy commitments under the ECF-supported program being requested from the IMF. The government will pursue the project if it is economically viable. It will work closely with Sierra Leone's development partners, including the World Bank to assess the project's economic feasibility, and with IMF staff on the project's macroeconomic impact, particularly for external debt and fiscal sustainability. To facilitate these assessments all documentation, including agreements related to the airport as well as other large infrastructure projects and their financing will be made available before they are finalized and prior to the execution of the projects.

22. **Labor and employment**. Unemployment and under-employment are high, especially among youth and women and much of the labor force has little training or education. Informal employment remains pre-dominant and growing but quality and productivity of informal work is low. Training and education, small-enterprise development, and access to credit, are seen as potential drivers of progress while employment quality is crucial for pro-poor growth. The AfP strategy is to encourage all economic actors to provide productive and adequately remunerative employment opportunities, for all who are willing to work, including vulnerable groups, while improving working conditions.

23. **Strengthen social protection**. Over half the population lives in poverty and 45 percent of households are food insecure. Inequity based on gender, age, location, education and income are commonplace. Malnutrition is widespread. Barriers to female education include high teenage pregnancy and early marriage. Social protection services are fragmented and inadequate in coverage and targeting. The AfP stresses implementation of the 2011 National Social Protection Policy, to complement the positive and general benefit of economic growth. Strategies to develop social protection policies and increase capacity are under discussion. The aim is to extend social insurance interventions, provide basic social protection packages for the vulnerable, and strengthen support for nutrition, health care, education, and housing.

24. **Governance and public sector reforms**. Key reforms measures are focused on developing a capable and transparent public service with an appropriate skills mix underpinned by public sector pay reform, the development of agencies, institutions, policies, and data systems. Extensive PFM measures at the central and local government levels address budgeting, expenditure management, revenue mobilization, auditing, public procurement, and fiscal decentralization.

25. **Gender equality and women's empowerment**. The government has committed to gender equality and women's empowerment, signing a range of policy declarations and enacting legislation. A number of specific measures are being developed.

26. **The cost of implementing the AfP**. Over the implementation period 2013–18, the cost is estimated at around US$5.7 billion of which US$3.2 billion are identified partner commitments and US$0.5 billion government allocations. The funding gap remaining is approximately US$2 billion. A consultative group meeting to raise funds for the strategy is being planned. The government will explore the potential for attracting both traditional and non-traditional sources of funding through the following initiatives:

- **Intensify domestic revenue mobilization**. In addition to raising new mining revenue, domestic revenue mobilization will entail improving the efficiency of tax and non-tax collection and enforcing compliance. The NRA will continue to implement its modernization plan and improve on field audits, collection of tax arrears and curbing smuggling activities. The implementation of GST will be strengthened, and investment incentives streamlined and better applied.

- **Broaden and deepen development partner support**. To facilitate increased support from traditional donors, the government will work toward further improving its Country Policy and Institutional Assessment (CPIA) score.

- **Access funding through the Millennium Challenge Corporation (MCC)**. MCC offers a way to fight poverty through economic growth and good governance.

- **Prioritize Public-Private Partnerships (PPP)**. Private sector participation in the funding and implementation of key projects, particularly in power, water, roads, ports, airports, and telecom, will be maximized through PPPs.

- **Explore carbon trading**. Government will explore the carbon trading potential.

- **Explore issuance of Diaspora bonds**. Such bonds would finance large scale infrastructure development projects.

- **Intensify and broaden corporate social responsibility**. Corporate social responsibility would provide fiscal space for government to pursue certain programs.

- **Access to international capital markets**. The government is working with partners to obtain a sovereign credit rating.

Medium-Term Macroeconomic Framework

27. Medium-term objectives are to: (i) achieve a real GDP growth (excluding iron ore) of 7 percent by 2017; (ii) reduce inflation from 12 percent in 2012 to about 5.4 percent by 2017; and (iii) improve gross reserve coverage to about 4 months of non iron-ore related imports by the end of the program period.

28. Economic growth (excluding iron ore) is projected to reach 7 percent in 2017, up from 6 percent in 2013, due to continued public investment scaling up, increased productivity, notably in agriculture, and sustained activity in construction and services. Non-iron ore activity will also benefit from upstream activity in iron ore mining where production (under phase I of the largest mine) is expected to increase through 2015, and level off starting in 2016. Consequently, total real GDP growth is forecast to rise from 13.3 percent in 2013 to 14 percent in 2014 and decelerate to 12.4 percent in 2015 and 5.2 percent by 2017.

29. Inflation is projected to decline from 9 percent in 2013 to 5.4 percent in 2017, on account of continued prudent monetary and exchange rate policies. It is also expected that government-supported programs in agriculture would contribute to increased supply of rice and other key food crops, and help dampen food inflation. In addition, monetary policy would be adequately calibrated to contain inflationary pressures, and macro-prudential measures would be geared towards a healthy expansion of private credit.

30. In the external sector, the current account deficit would narrow from about 20 percent of non-iron ore GDP in 2013 to around 7 percent by 2017 as exports are projected to increase, notably in mining and agriculture, while imports would moderate over the medium term, partly reflecting lower FDI flows than in 2011–12. The improvement in the external current account, combined with sustained capital inflows is expected to increase gross international reserves from 3.2 months of imports (excluding iron-ore related imports) in 2013, to 4.1 months by 2017.

31. The government's medium-term fiscal strategy aims to strengthen revenue collection, improve expenditure management, and reduce domestic debt. The revenue efforts will focus on: (i) broadening the tax base; (ii) reducing customs and GST duty waivers; (iii) combating tax evasion; and (iv) strengthening the National Revenue Administration through administrative reforms and increased use of Information Technology. The projected expansion in economic activity and increased iron ore exports will also support the government's revenue mobilization efforts. On this basis, revenue is projected to increase from 12.4 percent of non-iron ore GDP in 2013, to 13.5 percent in 2017; with revenue from mining rising from 1.2 percent of non-iron ore GDP to

1.8 percent for the period. Total expenditure will decline from 21.9 percent of non-iron ore GDP in 2012 to 19.7 percent in 2013, which reflects the unwinding of one-off expenditure related to elections and emergency programs. Total expenditure is projected to average about 20.5 percent of non-iron ore GDP for 2014–17, with more resources channeled to investment. It is projected that wages and salaries will stabilize at 6 percent of non-iron ore GDP under the ongoing pay reform. Under this strategy, domestic borrowing would gradually decline, allowing the stock of public domestic debt to decline from 12.7 percent of non-iron ore GDP in 2013, to 11.2 by 2018.

32. The government has initiated a long-term PFM Reform Strategy and begun the process of modernizing the PFM system. The 2014–17 phase of the strategy will target improvements in the quality of public financial management to bolster fiscal discipline, the strategic allocation of resources, and the efficiency of public service delivery. The necessity of addressing these weaknesses and establishing a tightly controlled fiscal environment is made much more urgent by the need to manage the substantial streams of revenue expected by 2015. Revenue mobilization and rigorous planning and control of investment spending are needed to achieve the transformation aimed for under the *Agenda for Prosperity*.

Policies and Reforms for 2013–14

A. Fiscal Policy and Public Financial Management Reforms

33. Fiscal consolidation efforts will continue through enhanced revenue mobilization and expenditure controls. For 2013, the revised budget, tabled in parliament in early July (**Prior Action**), aims to enhance fiscal consolidation efforts As revenue mobilization actions are intensified and expenditure controls are strengthened through public financial management measures, the overall deficit (excluding grants) is budgeted at Le 1,172 billion, down from Le 1,487 in 2012. To meet the fiscal program targets, expenditure on goods and services, transfers and domestically financed investment will be scaled back in 2013 and domestic bank and nonbank financing will decline from 2.3 percent of non-iron ore GDP in 2012, to 1.9 percent. For 2014, the overall deficit is projected to increase to Le 1,571 billion. In both years, however, domestic financing is expected to decline from Le 347 billion in 2012 to Le 337 billion in 2013 and Le 311 billion in 2014. Other sources of financing include privatization receipts, net external borrowing, and external budget support. In the event of a shortfall in expected domestic revenue, the government will take corrective measures, including scaling back non-priority spending and domestically financed investment in order to avoid a buildup of unpaid bills and domestic debt.

34. Revenue is projected at Le 2,197 billion and Le 2,581 for 2013 and 2014 respectively. Revenue performance will be supported by continuing sustained economic activity in the non-iron ore economy, and the projected increase in royalties from the mineral sector. Specific measures to support the revenue target include: (i) the strengthening of the system for collecting taxes on petroleum products to increase efficiency, and curb fraud. To this end, special NRA accounts will be opened at the commercial banks for effective monitoring of collections; (ii) the reduction of duty waivers, with a revenue impact of Le 16.9 billion; (iii) strengthening of Information Technology systems at the National Revenue Authority (NRA) to increase audit capacity and enhance monitoring of payments for the goods and services tax; and (iv) the setting up of a resource revenue administration unit at NRA (**structural benchmark**).

35. Total expenditure is budgeted at Le 3,368 billion for 2013, compared with Le 3,360 billion in 2012. This marginal decline reflects the net impact of: (i) the unwinding of expenditure executed in 2012 for the general elections; (ii) the 12 percent wage increase that took effect in June, in the context of the civil service pay reform including teachers, police and the military personnel, and planned recruitment in priority sectors estimated at 280 people; and (iii) higher interest payments on domestic debt due to the conversion of the existing stock of non-negotiable non-interest bearing bonds (NNIB) held by BoSL into marketable instruments for the conduct of monetary policy. After the significant increase in 2012, domestically financed investment will stabilize at Le 463 billion, with the focus on completing ongoing infrastructure projects. It is projected to increase by 35 percent in 2014, as implementation of programs under the *Agenda for Prosperity* begins.

36. Measures introduced in 2012 to enhance expenditure and Treasury cash flow management will be maintained and enhanced in 2013 to consolidate progress in monitoring budget execution processes, align expenditure commitments with available resources, and continue supporting coordination between fiscal and monetary policy. Consequently, a rolling treasury cash flow table has been prepared monthly since the approval of the revised 2013 budget by parliament in July. New measures were also taken in early 2013 to improve budget execution and enhance fiscal discipline: (i) a memorandum of understanding was signed with commercial banks to reduce delays in transferring balance on NRA transit accounts to the Treasury account at the BoSL; and (ii) the 2013 expenditure commitments and issuance of payment orders will be stopped at end-October and end-November respectively. The government is confident that with these measures float transactions will be limited.

37. The government will continue implementing measures needed to improve public financial management. In this context: (i) the budget preparation process will be strengthened to ensure its timely transmittal to parliament; (ii) budget execution will be improved to avoid accumulation of

float transactions and accumulation of arrears at the end of the year, as well as extrabudgetary spending. The government has taken actions in 2013 to streamline NRA's transition accounts, establish a Treasury Single Account (**structural benchmark**) for end-June 2014), and enhance the functioning of the Cash Management Committee. In addition, a new PFM bill will be introduced in parliament by June 2014 (**structural benchmark**), notably to clarify provisions on supplementary budgets and contingency funds needed to avoid extrabudgetary spending. The new PFM bill will also introduce provisions for the establishment of a Natural Resource Revenue Fund; (iii) the preparation and execution of the public investment program will be enhanced to ensure that selected projects are consistent with priorities in the *Agenda for Prosperity,* and that adequate feasibility studies as well as realistic costing of projects are carried out before execution. A survey of ongoing public investment projects was carried out in early 2013, and its results will be used to enhance the predictability of expected payments on ongoing projects, and enhance project preparation to contain budget overruns. To strengthen the monitoring of public capital expenditure execution, bi-annual reports will be prepared to provide information on expenditure commitments, payments and remaining balances compared with budgetary appropriations. The first report was prepared for budget execution at end-June 2013 (**Prior Action**). In 2013–14, the government plans to take the following measures, all structural benchmarks under the IMF-supported program:

- Submit to parliament the Extractive Industries Revenue Bill, including a resource rent tax (December 2013);
- Implement the small taxpayer regime (December 2013), to improve voluntary compliance and broaden the tax base;
- Introduce a new Tax Administration Act to harmonize and clarify tax procedures, particularly with regard to extractive industries (December 2014);
- Establish and staff an operative public investment program unit in the Ministry of Finance and Economic Development.
- Set up of a transparent Natural Resource Revenue Fund sub-account under the Treasury Single Account (TSA) to support transparent management of expected higher resource revenue (June 2014); and
- Complete a three-year public investment plan (PIP), fully integrated with the budget process and the revised MTEF for 2014–18, to be submitted to parliament with the 2015 budget, to support the implementation of the new PRSP, and enhance selectivity in public investments.

38. In preparation for higher mining revenue, the government is working towards a medium-term framework that will anchor domestic fiscal balance around a sustainable level. In line with best practice modalities for managing planned budget surpluses, a counter-cyclical fiscal rule has been devised with technical assistance from the IMF Fiscal Affairs Department, based on a non-resource fiscal balance. The GBAA would be amended to incorporate the fiscal rule, the stabilization and savings structures for natural resource revenues, and the use of resource revenues within the budget. These amendments will be part of the abovementioned new PFM law.

B. Monetary and Exchange Rate Policies and Financial Sector Issues

39. Monetary policy will continue to target price stability over the medium term. Although price pressures have been declining since mid-2011, reaching and maintaining single-digit inflation levels will require a continuing tight monetary policy stance to enhance policy credibility and anchor inflation expectations. Consistent with this objective, reserve money growth is projected to decline to 14.2 percent in 2013 (18.5 percent in 2012).

40. The Bank of Sierra Leone (BoSL) and the Ministry of Finance and Economic Development will undertake steps to improve the efficiency of the government securities market and foster the development of the money market. The BoSL will finalize guidelines for a primary dealer system for government securities by June 2014 **(structural benchmark)**. This will facilitate market efficiency by making government securities easier to buy and sell, encourage secondary market trading, promote demand for government securities (including for new types of securities, such as longer-term bonds), and facilitate efficient liquidity management through open market operations. An issuance calendar for government securities is also being prepared. By announcing a plan in advance for all maturities and having fewer but larger issues, market participants will be able to plan for and market these issues, which will enhance the success of issues and encourage more active liquidity management by the banks.

41. The BoSL will maintain the flexible exchange rate regime. Interventions in the foreign exchange market will be limited to transactions aimed at smoothing excessive short-term fluctuations. The BoSL will remain attentive to challenges arising from the management of foreign currency denominated government revenue. It will introduce a wholesale foreign exchange auction system by June 2014 **(structural benchmark**), to replace the current retail auction system offered to selected importers. In addition, the BoSL will finalize a revised Foreign Exchange Act, which aligns Sierra Leone's legislation in this area with that of its Economic Community of West African States (ECOWAS) and West African Monetary Zone (WAMZ) partners.

42. The Bank of Sierra Leone recognizes the need to build up foreign exchange reserves in light of the economy's vulnerability to external shocks. It aims to accumulate an adequate level of foreign international reserves to gradually increase the coverage to 3.9 months of imports (excepting imports related to iron ore projects) by 2016, to buttress macroeconomic stability while creating policy buffers.

43. The Bank of Sierra Leone will actively pursue initiatives aimed at strengthening the financial system. It will enhance its supervisory capacity, and offsite supervision through the credit reference bureau and the rolling out of a new software platform for real time reporting of deposit money bank balances, as well as preparing a road map to guide the transition to risk-based supervision by June 2014 (**structural benchmark**). This will help BoSL to better monitor vulnerabilities in the financial system and facilitate eventual adoption of Basel II Core Principles of Banking Supervision. To support financial intermediation, the authorities have prepared the Securities Act, which is intended to promote the development of the Stock Exchange, and the Collective Investment Scheme Act that will establish the legal framework for investment fund managers. Both measures will be adopted by cabinet in coming weeks.

44. To strengthen financial inclusion and broaden access to financial services, BoSL will seek to improve the credit environment, notably by: (i) preparing a development strategy for small- and medium-sized enterprises by mid-2014 (**structural benchmark**), in collaboration with the Ministry of Finance and Economic Development and with the support of the International Finance Corporation; (ii) expanding the existing credit reference database to assess credit worthiness; and (iii) enacting the Borrowers and Lenders Act, which is needed for establishing a collateral registry to support execution of collateral on bad loans and improve the credit culture. The monetary authorities will also work together with development partners on a Financial Inclusion Strategy to improve financial literacy and business practices.

C. Debt Policy and Management

45. The government will ensure that borrowing policies are compatible with medium- to long-term debt sustainability. Therefore, it will continue to give priority to grants and highly concessional loans in meeting financing needs, particularly for infrastructure projects. In view of increasing challenges for Sierra Leone to obtain external financing on highly concessional terms, the government would like to request flexibility under the new ECF-supported program for the financing, on nonconcessional terms, of some socially and economically viable projects for which concessional funding could not be secured. For 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

46. To enhance debt management capacity, a comprehensive Medium-Term Debt Management Strategy (MTDS) will be prepared by December 2013 **(structural benchmark**) with assistance from the IMF and World Bank staffs; and the preparation of a quarterly report on debt commitments initiated in mid-2012 will continue (**structural benchmark**). Preparatory work is underway to link the Debt Recording and Management System (CS-DRMS) with the IFMIS.

Other Structural Reforms

47. The government intends to accelerate implementation of structural reforms, to support private sector development and enhance growth prospects in the non-mineral economy. The following actions are planned for 2013–14:

- Rehabilitation of the Bumbuna hydroelectric power plant and thermal power generators to increase energy supply.
- Completion of teacher biometric verification exercise and the civil service remuneration survey; and implementation of measures to strengthen the Public Service Commission.
- Simplify processes related to business registration and licensing and construction permits, and strengthening the fast track commercial courts.
- Establish an SME Fund to finance new centers for training and skills development, including business management, accounting, and project design.
- Introduce a one-stop window for imports clearance (**Structural benchmark**).

48. The government is aware that additional efforts are needed to improve the quality and timeliness of economic statistics. It plans to request TA from IMF and other development partners to address existing weaknesses, including for the producer price index, balance of payments statistics, mainly for the capital and financial accounts, and agriculture data.

Program Monitoring

49. The program will be monitored on a semi-annual basis, through quantitative targets and structural benchmarks (Tables 1 to 2). Quantitative targets for end-December 2013, end-June and end-December 2014 are performance criteria, while those for end-September 2013, end-March and end-September 2014 are indicative targets. The first review under the program will be completed by June 15, 2014; the second and third reviews will be completed by December 15, 2014 and June 15, 2015, respectively.

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2013–14[1]

(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2012	2013		2014			
	Stock	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
Performance criteria							
Net domestic bank credit to the central government (ceiling)	1,356	230	246	71	145	105	245
Net domestic assets of the central bank (ceiling)	-284	92	43	-18	-32	-50	32
Gross foreign exchange reserves of the central bank, US$ millions (floor)	420	11	31	13	34	39	53
Ceiling on new nonconcessional external debt (in $ million) 2/ 3/	...	30	30	30	30	30	30
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 2/	...	0	0	0	0	0	0
External payment arrears of the public sector (ceiling) 2/	...	0	0	0	0	0	0
Indicative target							
Total domestic government revenue (floor)	...	1,604	2,197	598	1,262	1,884	2,581
Poverty-related expenditures (floor)	...	631	1,063	262	559	815	1,155
Domestic primary balance (floor)		-132	-313	-128	-255	-325	-476
Memorandum items:							
External budgetary assistance (US$ million) 4/	...	37.2	74.3	20.0	28.7	50.7	56.7
Net credit to government by nonbank sector 5/	...	63.4	91.1	-1.3	13.2	15.4	66.7
ECF disbursements (SDR millions)		13.7	0.0	0.0	13.7	0.0	13.7
Exchange rate (Leones/US$)	4,334	4,334	4,334	4,334	4,334	4,334	4,334

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-June and end-December are performance criteria, and end-March and end-September are indicative targets.

2/ These apply on a continuous basis.

3/ The ceiling covers priority loans for the energy sector; for 2013–14, such projects include the construction of two mini dams to provide access to electricity in a rural area.

4/ Including grants and loans.

5/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.

Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2013–14

Measures	Timing	Macro Rationale
Immediate Measures		
• Submit to parliament a supplementary 2013 budget consistent with program objectives (MEFP ¶ 33).	Prior action.	Enhance expenditure management and budget execution monitoring.
• Prepare a budget execution report on capital spending at end-June, with a Table providing data on budgetary appropriations, commitments, payments, and balances (MEFP ¶ 37).	Prior action and bi-annual thereafter	Strengthen execution of the capital budget.
Revenue Mobilization		
• Submit to parliament the Extractive Industries Revenue Bill, including a resource rent tax (MEFP ¶ 37).	Dec. 2013	Improve the fiscal framework for natural resources management, including with respect to transparency and revenue collection.
• Set up a resource revenue administration unit at NRA (MEFP ¶ 34).	Dec. 2013	Formalize the responsibilities of NRA with respect to natural resource revenue and risk management of large companies.
• Implement a new small taxpayer regime (MEFP ¶ 37).	Dec. 2013	To improve voluntary compliance and raise tax revenue.
• Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts (MEFP ¶ 37).	June 2014	Facilitate improvement in cash management, including with respect to the timeliness of revenue receipts.
• Establish a Natural Resource Revenue Fund with legal and procedural characteristics as recommended by FAD TA under the Topical Trust Fund for Managing Natural Resource Wealth (MEFP ¶ 37).	December 2014	Support transparent management of expected large resource revenue.
• Introduce a new Tax Administration Act (MEFP ¶ 37).	Dec. 2014	Harmonize and clarify tax procedures, particularly with respect to extractive industries.

Table 2. Sierra Leone: Structural Benchmarks Under the ECF Program, 2013–14 (concluded)

Measures	Timing	Macro Rationale
Expenditure Management		
• Submit to parliament the new PFM Bill that includes amendments and clarifications on supplementary budgets and contingency funds, as well as provisions for the establishment of a Natural Resource Revenue Fund (MEFP ¶ 37).	June 2014	Strengthen budget preparation and execution, and facilitate management of increasing resource revenues.
• Prepare a monthly rolling Treasury cash flow table consistent with the revised 2013 budget (MEFP ¶ 36).	Continuous	Enhance expenditure management.
• Establish and staff an operative public investment program (PIP) unit in the Ministry of Finance and Economic Development (MEFP ¶ 37).	Dec. 2013	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.
• Prepare a bi-annual report on PIP execution (MEFP ¶ 37).	Dec. 2013 Continuous	Enhance PIP execution and monitoring.
• Complete a three-year PIP, fully integrated with the budget process and the revised MTEF for 2015–18, to be submitted to parliament with the 2015 budget (MEFP ¶ 37).	Oct. 2014	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.
Debt Management		
• Complete a Medium-Term Debt Management Strategy (MEFP ¶ 37) . • Prepare a quarterly report on external debt commitments, agreements and disbursements.	December 2013 Continuous	Enhance debt management capacity and borrowing policies.
Financial Sector Development		
• Prepare a road map for developing and implementing risk-based supervision (MEFP ¶ 43)	June 2014	Support financial sector stability.
• Establish a primary dealer agreement system for the government securities market (MEFP ¶ 40).	June 2014	Develop interbank transactions in the securities market
• Introduce a wholesale foreign exchange auction (MEFP ¶ 41).	June 2014	Facilitate the development of the interbank foreign exchange market.
Business Environment		
• Prepare a development strategy for small- and medium-sized enterprises (MEFP ¶ 44)	June 2014	Support private sector development.
• Introduce a one-stop window for imports clearance (MEFP ¶ 37).	Dec. 2014	Reduce transaction costs.

Attachment 2. Technical Memorandum of Understanding

Freetown, October 1, 2013

Introduction

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 3 of the Memorandum of Economic and Financial Policies (MEFP).

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2013 will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4334/US$ and cross rates as of end December 2012.[2]

Quantitative Performance Criteria

A. Gross Foreign Exchange Reserves of the Bank of Sierra Leone

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

4. **Adjustment clauses**. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance[3]—the downward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the ECF arrangement; and (c) upward (downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

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

[2] For calculating program targets for 2013, all end 2012 stock variables will be based on program exchange rate of Le 4334/US$.

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

B. Net Domestic Assets of the BSL

5. **Definition**. Net domestic assets (NDA) of the BoSL are defined as the end-period stock of the reserve money less the end-period stock of net foreign assets calculated at the program exchange rates. Reserve money includes currency issued (equal to currency outside banks plus cash in vaults), deposits of commercial banks with the BoSL and the BoSL liabilities to other private sector. Net foreign assets of the BSL are defined as gross foreign exchange reserves (defined above) minus foreign liabilities. Foreign liabilities are defined as foreign currency-denominated liabilities of the BSL to nonresidents and the outstanding use of Fund credit. For program purposes, foreign liabilities exclude SDR allocation.

6. **Adjustment clauses**. The ceiling on changes in NDA of the BoSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million.

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

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

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

b. the net position of the government with the BoSL, including: (a) treasury bills and bonds, excluding holdings of special bonds provided by government to cover the BSL losses; (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) the difference between converted NNNIBS into treasury bills and proceeds from their sales; (d) ways and means; and (e) any other type of direct credit from the BoSL to the government; less (a) central government deposits; and (b) HIPC and MDRI relief deposits.

8. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upward (downward) by up to the leone value of the shortfall (excess) in external budgetary assistance—the upward adjustment will be capped at the equivalent of US$20 million; (b) downward (upward) by the excess (shortfall) in the leone value of net issues of government securities to the nonbank private sector vis-à-vis the program assumption (as specified in the memorandum items in Table 3 of the MEFP).

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

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

D. External Payment Arrears of the Public Sector

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

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

12. **Definition**. Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector) based on the residency of the creditor. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416-(09/91)) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling. For the purposes of this PC, the "public sector" is as defined in paragraph 11 above. This PC will apply on a continuous basis.

13. Any external debt of which the net present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. The discount rate used for the purpose of calculating concessionality is 5 percent. The government will report any new external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government.

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

14. **Definition**. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector (see paragraph 11 for definition of public sector). Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports. For the purposes of this PC, the public sector is as defined in paragraph 11 above. This PC will apply on a continuous basis.

Quantitative Indicative Target

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

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

C. Poverty-Related Expenditures

17. **Definition**. Poverty-related expenditures refer to those expenditures in the areas identified in Table 2 of the Sierra Leone HIPC Decision Point Document.

Program Monitoring

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

Annex. 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 sometime 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 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". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements."

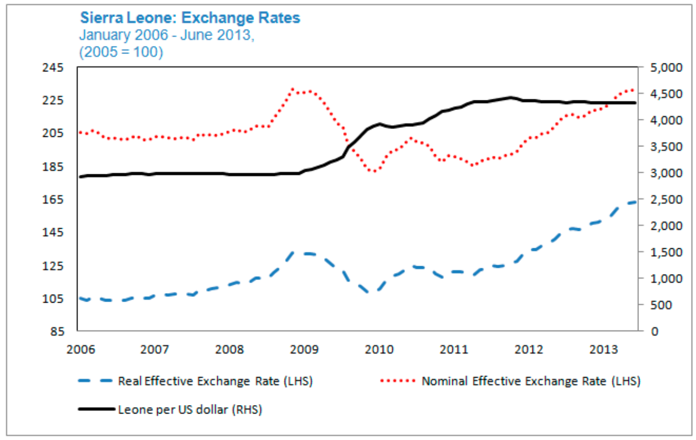
Sierra Leone: Summary of Data Reporting to IMF Staff

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

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

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

Annex I. Sierra Leone: Competitiveness and External Stability Assessment[1]



1. The application of the three standard methodologies for the exchange rate assessment suggests that the real exchange rate is broadly in line with its long-run equilibrium, consistent with the previous Article IV Consultation staff report (Country Report No. 10/370). External stability is particularly difficult to benchmark for a post-conflict economy like Sierra Leone (SLE) partly because of short historical time series. While staff analysis suggests that the current account deficit may exceed sustainable levels based on external sustainability methodology, with large uncertainties surrounding estimates due to data limitations and structural changes in the economy, there is no strong evidence of real exchange rate misalignment that could lead to external instability in the medium term. Equilibrium current account deficit estimates are between 4.8–6.8 percent of GDP compared to an underlying deficit of 5.7 percent. The result shows a small overvaluation of 3.5 percent under the external sustainability, and 4.5 to 6.0 percent of undervaluation under macro balance and equilibrium exchange rate approaches.

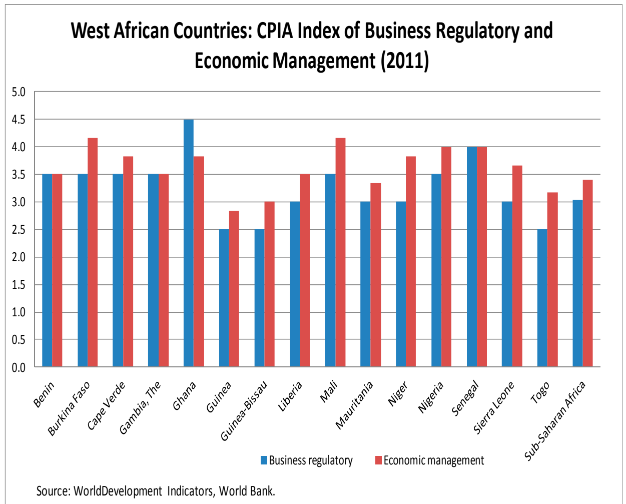
Sierra Leone: Exchange Rate Assessment 1/

Approach	Current Account/GDP Norm	Current Account/GDP Underlying	REER Overvaluation (+) / Undervaluation (-)
Macroeconomic Balance	-6.8	-5.7	-4.5
External Sustainability	-4.8	-5.7	3.5
Equilibrium Real Exchange Rate	NA	NA	-6.0

1/ Based on IMF CGER methodology and extension by Vitek (IMF, 2009).

[1] Prepared by Friska Parulian.

2. **The non-model analysis demonstrates Sierra Leone's steady progress in competitiveness indicators**. Though SLE is a weak performer under the World Bank CPIA, the 2012 Ease of Doing Business score shows an impressive performance, improving from a 150 position to 141 over 183 countries. Compared to other Sub-Saharan African countries, SLE is above average, ranking 19 over 46 countries. Despite progress in these indicators, important impediments to private sector development remain, requiring continued implementation of structural reforms to reduce transaction costs and create an environment conducive to private sector-led growth.



Source: WorldDevelopment Indicators, World Bank.

3. Sierra Leone's international reserves were US $420.0 million (3.1 months of prospective imports)[2] in 2012. The reserve level, as measured by import coverage is on the low end of the spectrum for comparable countries in the region. For example, ECF countries[3] import coverage ranges from 1 to 7 months of imports and SADC has an informal target of 6 months of imports.

4. Dabla-Norris, et. al. (2011) and IMF (2011) have proposed a new methodology to assess reserve adequacy for low income countries, taking account of both costs and benefits of holding reserves. In this framework, a crisis is defined as a sharp drop in absorption, and the optimal level of reserves is determined when the crisis prevention and mitigation benefits of reserves are balanced against the net financial cost of reserves, defined as foregone investment opportunities measured by the marginal product of capital. An important feature of the model is that optimal reserve holdings depend on country characteristics and policy fundamentals.

5. This methodology was applied to Sierra Leone with the following assumptions: shock variables (terms of trade, external demand, FDI to GDP ratio, and aid to GDP ratio) were set at the bottom 10 percentile of the country specific distribution over the past decade (2002–2012);[4] The

[2] Excluding iron ore-related imports that were financed by foreign direct investment (FDI).

[3] ECF countries are Cape Verde, Mozambique, Rwanda, Senegal, Tanzania, and Uganda. Countries that qualify for ECF are normally considered to be in a broadly stable and sustainable macroeconomic position.

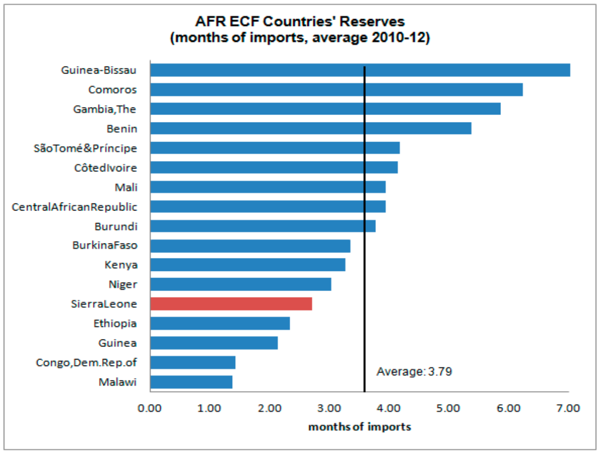
[4] Longer time series may be more ideal, but we focus on the past 10 years given the significant structural changes experienced by the Sierra Leonean economy.

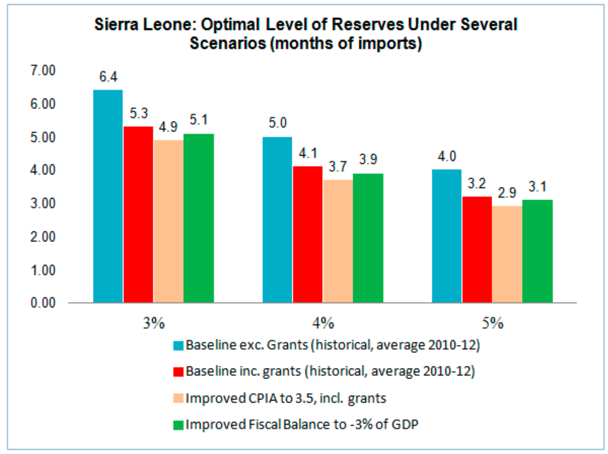
CPIA and the fiscal balance were set at a three-year average for 2010–12. The values used for this baseline analysis are summarized in the table below.

Variables[1/]	
Overall balance, percent of GDP	-4.92
CPIA[2/]	3.29
External demand growth, percent	-0.38
Terms of trade growth, percent	-6.08
Change in FDI to GDP	-43.39
Change in Aid to GDP	-21.20

1/ Historical data, unless indicated
2/ World Bank

6. Reserve holdings would be interpreted as the optimal level of reserves in the face of large shocks. Under the baseline scenario, the fiscal deficit (including grants) is 4.92 percent of GDP and the CPIA index, which measures institutional strength is 3.29. Given a higher CPIA score (e.g., 3.5, improving from a weak performer to a medium performer), optimal reserve holdings would be lower than the baseline as stronger institutions lower the probability of a crisis. The outcome would be broadly similar for an improved fiscal position (a deficit of 3 percent), optimal reserve holdings would be even lower.





7. Optimal reserve holdings for Sierra Leone range from 2.9 months of imports to 6.4 months of imports.[5] The openness of the economy and exposure to international commodities prices would argue for import coverage towards the high end of this spectrum in order to be in a position to weather external shocks. In light of large infrastructure investment needs, however, the opportunity costs of holding reserves is relatively high so a target closer to the middle of this range might be more appropriate. Targeting the level of reserves closer to 4 months of imports would bring reserves coverage more in line with comparable countries.

[5] Note that this estimate is based on current imports. Import coverage based on prospective imports tends to be slightly lower than that based on current imports.

Annex II. Sierra Leone: Financial Sector Development Issues[1]

Profile of the Financial Sector

A. Institutional Structure

1. **The financial sector has expanded rapidly in recent years**. Banks represent the bulk of the financial system, with over 80 percent of all assets, equivalent to 22 percent of GDP in 2012. The number of commercial banks rose from 8 in 2006 to 13 in 2013, with new foreign entrants into the market.[2] Bank assets and deposits have tripled since 2006, but the banks remain relatively small, with an average of total assets of about $64 million. Concentration is relatively high, as the two largest banks hold 37 percent of assets, and 49 percent of the aggregate loan portfolio (Table 1). There are three medium-sized banks, and eight small banks. Efficiency is low; noninterest expense is equal to 58 percent of gross income, while interest rate spreads have averaged some 13 percentage points since 2011.

2. **The rest of the financial system is relatively small, with assets accounting for less than 20 percent of system assets, or about 5 percent of GDP**. The nonbank financial institutions include ten insurance companies, nine community banks, nine insurance companies, three housing finance companies, two savings and loans, the Finance and Trust Corporation, two discount houses, some forty-two foreign exchange bureaus, and six non-deposit taking microfinance institutions. The state pension fund institution—National Social Security and Insurance Trust (NASSIT)—is the key nonbank financial institution, with assets of around 10 percent of GDP. The stock exchange was launched in July 2009, and currently trades irregularly as the sole listing is one commercial bank.

[1] Prepared by Toomas Orav and Francis Y. Kumah.

[2] Three banks are locally owned, one is a regional bank, and six are subsidiaries of Nigerian banks.

Table 1. Sierra Leone: Banking Sector, December 2012

Classification	Large	Medium	Small
Number of banks	2	3	8
Share of			
Assets	36.8	31.7	31.6
Loans	49.1	24.0	26.9
Deposits	40.1	32.0	27.8
Capital	24.0	26.9	49.1

Source: Sierra Leonean authorities.

3. **The inter linkages between the banks and other financial institutions appear limited**. Banks' core business is basic traditional banking activities with very limited insurance services or securities trading. The NASSIT has some deposit placement and about 20 percent of its institutional investment of pension funds in the shares of commercial banks. The lack of reliable data on nonbank financial institutions transactions makes it impossible to assess the degree of exposure of the banks to these institutions.

4. **Transactions in the economy are mainly cash based with very limited use of electronic payment methods**. To date, banks are engaged mostly in retail business and there is virtually no use of credit cards, internet payment, or ATMs.[3] The clearing and payment system is based on manual data entry. The process of settlements across the banks is not yet automated, due to lack of a national switch system and absence of adequate IT and power systems. The Sierra Leonean authorities, with the technical and financial assistance from the African Development Bank and the West African Monetary Zone, are in the process of developing an electronic, large-value national payments system.

B. Access to Financial Services

5. **Despite the fast growth of the banks, access to financial services is still low**. The level of financial intermediation has grown steadily since the end of the civil conflict in 2001, both in terms of level of broad money and loan creation relative to GDP (Figure 1). However, when benchmarking against regional and low income country data, credit levels and deposit transformation are very low. World Bank data for 2011 indicates that other measures of financial inclusiveness, such as branch

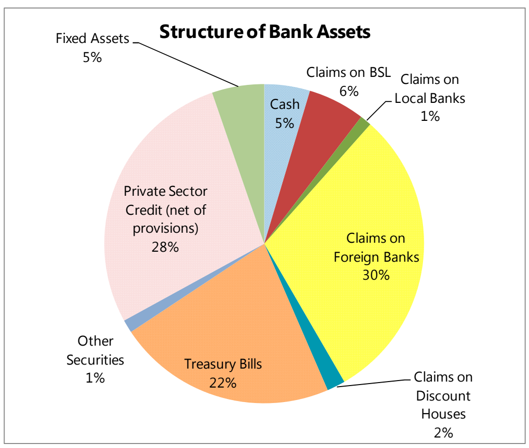
[3] The World Bank estimates that at end-2011 there were approximately 25 ATMs in operation in Sierra Leone.

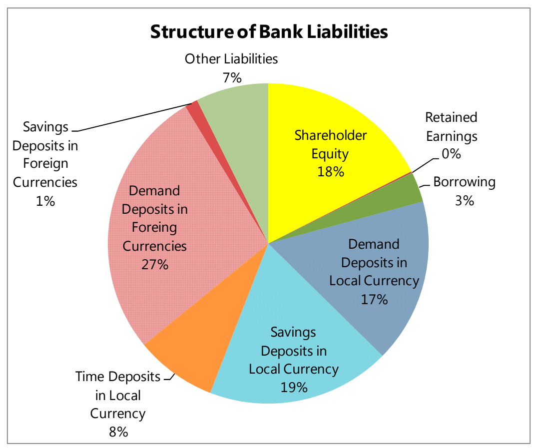
penetration and account prevalence are catching up to peer group norms. In 2012, there were 89 bank branches in Sierra Leone, up from 57 in 2008, roughly equivalent to three branches per 100,000 persons. However, rural areas remain largely unbanked. As of 2011, household survey data indicate that around one in seven have deposit accounts in commercial banks, up from 9 percent in 2008, but only 1 percent are borrowers.[4] Mobile banking services are still embryonic.

6. **The development of financial intermediation is hampered by the structure of the market**. A range of factors are hindering the deepening of financial intermediation, including market structure, the business environment, and the infrastructure of the financial sector.

- **Market structure**. Sierra Leone lacks markets for trading of longer-term securities or bonds. Bank liabilities tend to be short-term demand and savings deposits (Figure 1). Although relative share of demand deposits is gradually declining, banks continue to invest largely in short-term government treasury bills and extend credit for only short terms at high rates to avoid risks.

Figure 1. Sierra Leone: Commercial Banks' Assets and Liabilities (end-March 2013)





- **Macroeconomic instability**. Sierra Leone has experienced bouts of high inflation and currency depreciation (most recently 2009–10) due to both domestic and international shocks. This has contributed to negative real interest rates on deposits, slowing financial deepening.

- **The business environment**. Sierra Leone is ranked 10th among low income countries in the World Bank Doing Business ranking index (Table 3). However, Sierra Leone is a relatively weak performer in areas important for the development of financial intermediation, such as red tape and high administrative costs on property registration, contract enforcement, and building permits.

[4] World Bank World Development Indicators (2011).

- **The infrastructure of the financial sector**. As noted above, Sierra Leone lacks many ingredients for developing the financial sector, including interbank markets, branch networks that extend beyond major urban areas, an automated payments mechanism, and adequate supervisory capacity.

C. The Regulatory System

7. **The BSL has made strides toward building supervisory capacity and putting in place the fundamental components for a modern financial system**. The BSL and Banking Acts have been revised to strengthen compliance toward Basel Core Principles; prudential bank guidelines have been drafted; a benchmark policy rate has been introduced to improve monetary policy signaling; and a credit reference bureau was established in 2011. The African Development Bank is providing support to create an automated payment system, which is expected to go live in 2013. Nevertheless, significant gaps remain, and technical assistance will continue in the areas of banking supervision and monetary and foreign exchange operations and markets. Looking ahead, the authorities intend to given special emphasis to enhancing access to finance. The BSL is already actively supporting initiatives to encourage the development of microfinance institutions in rural areas and credit facilities for small- and medium-sized enterprises, and is developing a financial literacy campaign.

Progress in Reform Implementation and Challenges

8. **The authorities' reform agenda is informed by their comprehensive Financial Sector Development Plan (2009), which sets out a long-term program to foster financial intermediation**. The FSDP was prepared based on recommendations from the 2006 FSAP, which found a number of financial sector weaknesses, including institutional, administrative, legal, and physical impediments (e.g., power supply). The preparation of the plan was spearheaded by the BSL, with input and financial support from development partners, and in consultation with stakeholders in the Sierra Leonean financial sector. This plan feeds into Sierra Leone's two most recent poverty reduction strategies, the Agenda for Change (2009–12) and the Agenda for Prosperity (2013–16), which aim to grow the private sector from a very low base of financial development.

9. **The FSDP emphasizes four priority areas**:

- Creating an enabling environment in line with best international practice, through legislative and regulatory reforms and maintenance of macroeconomic stability, *inter alia* to bolster financial system stability.

- Strengthening the central bank infrastructure, particularly supervisory capacity and IT systems, and installing an electronic payments system.
- Increasing access to finance by improving financial literacy, strengthening microfinance and rural credit governance and supervision.
- Improving mobilization and investment of long-term funds by strengthening savings institutions and the capital market;

10. **Progress under the FSDP has accelerated, particularly in areas concerning legislative and regulatory framework**. An FSDP Secretariat was established at the BSL to coordinate the work plan. Implementation was initially slow as technical challenges delayed disbursements, but several milestones were completed in 2011–12:

- Comprehensive revisions of the legal framework have been completed, including the Bank of Sierra Leone Act (2011), Banking Act (2011), and AML/CFT Act (2012);
- A bad debtor database was established through the Credit Reference Act (2011);
- Revised commercial bank prudential guidelines came into effect January 2013;
- The BSL has added and trained staff to the Banking Supervision Department.

11. **Progress has been more modest in areas concerned with physical infrastructure and structural capacity**. Resource constraints and donor coordination have proven challenging in areas requiring significant capital investment and broad technical skill development, e.g., the modernization of the payments system, establishment of a liquid interbank market, and the transition to risk-based supervision.

Financial Stability and Risks

12. **The overall situation in the banking sector has improved, but financial soundness indicators (at end-December 2012) suggest vulnerabilities at certain banks** (see Table 2 and Figures 4–5). This assessment broadly restates the vulnerabilities highlighted by the 2011 Financial Stability Analysis.

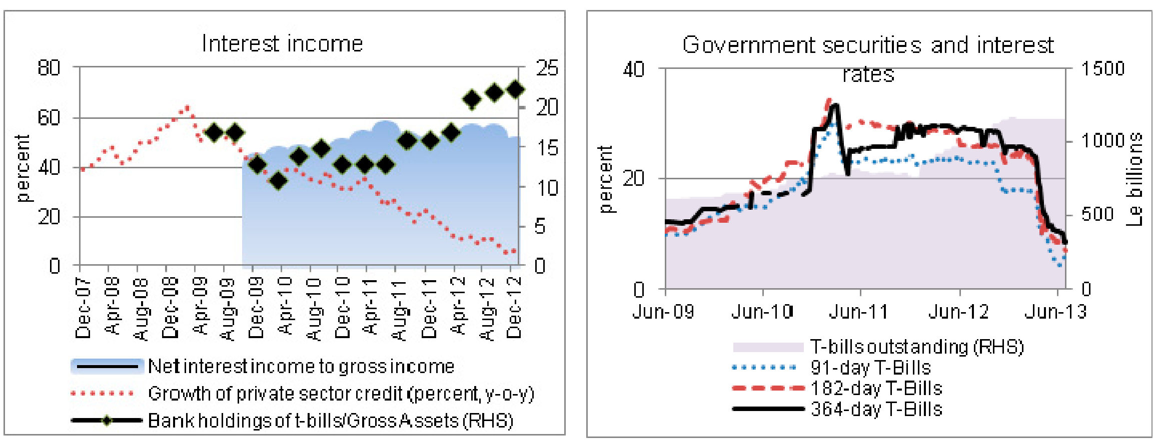
13. **The system-wide capital adequacy ratio remains comfortable**. Banks' risk-weighted capital adequacy ratios are generally well above the statutory norm of 15 percent, except at the two largest banks, both of which have a state participation. With regard to the latter, banking supervisory procedures have been invoked to address the weak capital positions, although progress

in this area has been slow. Across the system bank capital ratios declined from 2008 to 2011 as lending to the private sector increased, raising the proportion of assets held at higher risk weights. The regulatory capital ratio stabilized during 2012, in line with slowing private credit and higher government securities issuance.

14. **Credit risk remains high, and banks are vulnerable to high concentration in lending**. While lending activity has increased substantially during the last five years, the level of non-performing loans has declined from over 30 percent in 2007 to 14 percent in 2012, higher than the mean for Sub-Saharan Africa. The level of nonperforming loans (net of provisions) to regulatory varies widely from bank to bank, and a few banks exhibit a very high risk appetite. Lending appears relatively diversified across sectors, with international trade, construction, and services (business and government) accounting for approximately two-thirds of all loans. However, loan concentration is high; banks' total largest exposures rose sharply at end-2012 to 300 percent, and substantially higher than the 400 percent prudential norm at the two largest banks.

15. **Earnings have remained strong**. Bank returns have improved, with net interest income rising despite a slowdown in lending to the private sector, boosted by high yields on short-term government securities. However, as a result, income has become increasingly dependent on the spread between deposits and government securities, highlighting interest rate risks (Figure 2).

Figure 2. Sierra Leone: bank Interest Income and Treasury Bill Interest Rates



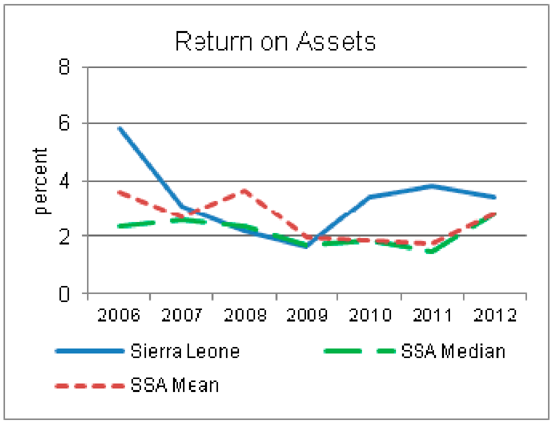
16. **The system is highly liquid, although prone to volatile flows**. Bank liquidity ratios are generally high, but volatile liquidity conditions, as reflected by substantial swings in excess reserves levels, can result in short falls at the aggregate level relative to the required statutory minimum. Systemic conditions are influenced by large and irregular inflows, particularly bunchy government payments on ongoing domestic infrastructure investment projects. Lacking an established domestic

money market, banks are also critically dependent on the ability to cash in their holdings of treasury bills.

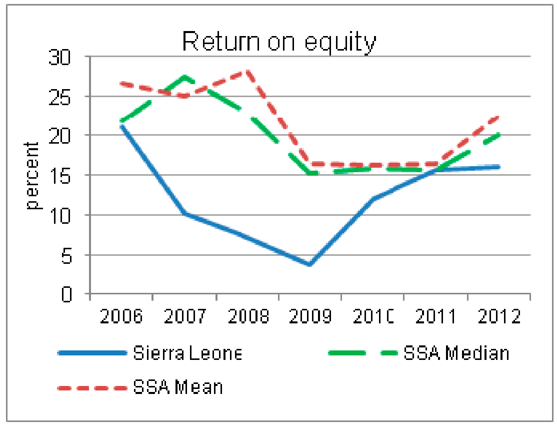
17. **Foreign exchange risk appears limited**. The share of foreign liabilities to total deposits remains at around 25 percent, but recent exchange rate stability has helped to stabilize the level of deposit dollarization. Foreign currency lending is not permitted.

Figure 3. Sierra Leone: Selected Indicators on Financial Sector Breadth and Efficiency

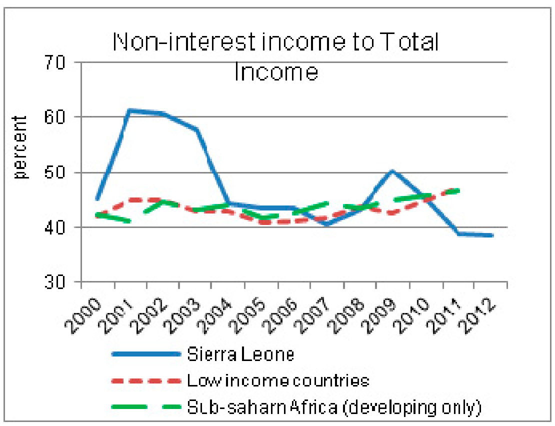
Profitability has improved, as shown by ROA…



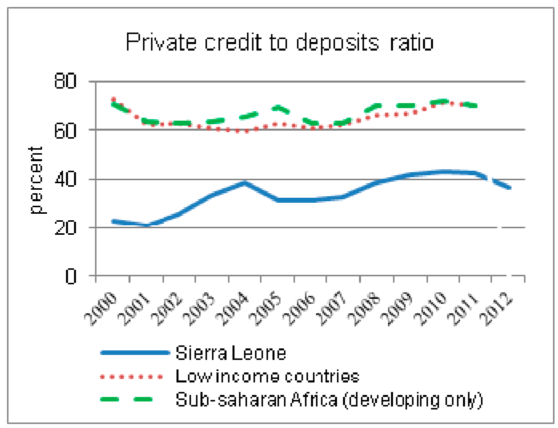
… and ROE….



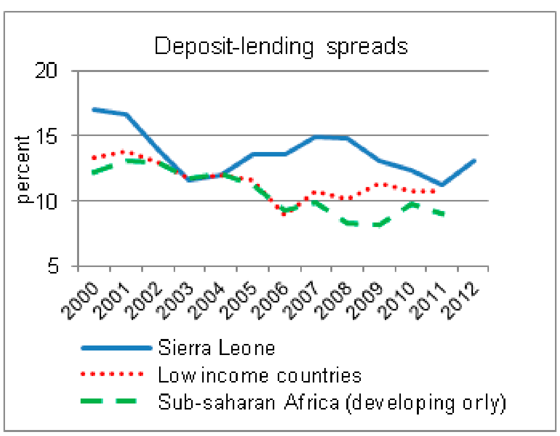
… although efficiency has deteriorated.



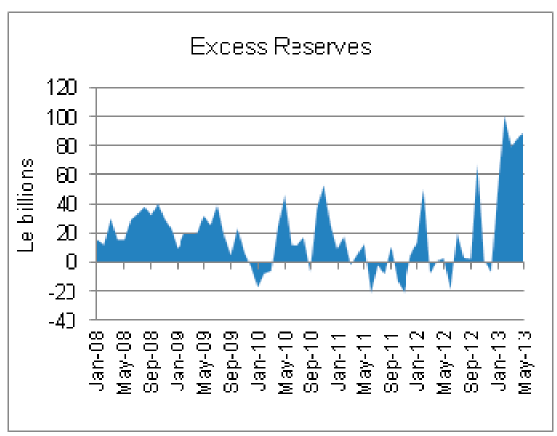
Deposit transformation is low….



… while spreads remain high…



..in a context of volatile liquidity.



Sources: World Development Indicators, Sierra Leonean authorities and IMF staff estimates.

Annex III. Sierra Leone: In Search of Inclusive Growth—Key Lessons from the Literature[1]

Sierra Leone started well at independence, but was battered by external and domestic factors, including adverse terms of trade shocks, ill-advised policy response to the financial impact of hosting the summit of the Organization of African Unity in 1980, and political instability. The civil conflict that resulted from these economic and political frustrations ended in 2002 but post-conflict challenges remain visible. However, all is not lost—there are new opportunities amidst old challenges. The country is poised for a boom in extractive industry activity, with the commencement of iron ore mining in 2011 and prospects for oil and gas. However, it trails behind in human development indicators and institutional reform. The current policy challenge is to efficiently manage these resources to enhance employment opportunities and reduce poverty. This note draws on stylized facts from the literature and country experiences, and outlines key guideposts for policy in Sierra Leone.

A. Background

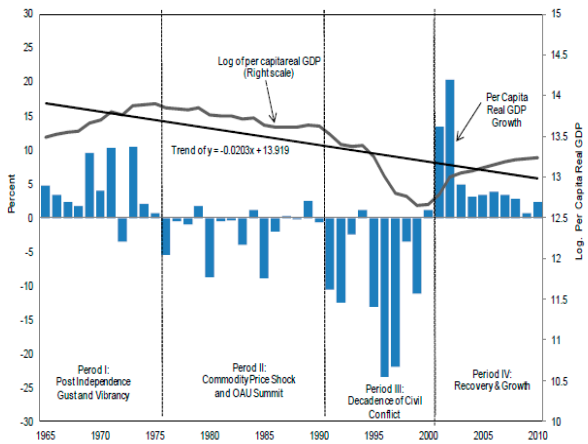
1. **Sierra Leone used to be characterized by solid natural resource base, robust macroeconomic trends, and exemplary educational standards**. In the decade following independence in 1961—a period of post-independence gust and vibrancy—the economy of Sierra Leone was booming, supported by abundant natural resources, agriculture and tourism. The country was popular for diamonds, rutile, iron ore, gold, food sufficiency, and was a prime tourist destination in West Africa. It was also referred to as the *Athens of West Africa* because it served as the hub for tertiary education in English-speaking West Africa—mainly the Gambia, Ghana, Liberia, and Nigeria. During this period, which pre-dates onset of the civil conflict in 1975, per capita real GDP growth averaged 4 percent per annum (a high level by regional standards) and inflation averaged 6 percent.

2. **Adverse terms of trade shocks coupled with build-up of economic pressures in the aftermath of the OAU summit eroded productivity, stoked price pressures, and instigated political and civil conflict**. Given its buoyant economy, the country was called upon by the African Union to host the OAU summit of heads of state in 1983. Coupled with adverse impact of a decline in iron ore prices in the mid-1970s, the financial decadence that followed the Organization of African Unity (OAU) meetings in 1983 eroded these gains even prior to the onset of the civil conflict in 1991. The main iron ore mining company, Delco mines, had to shut down and this triggered

[1] Prepared by Francis Y. Kumah (IMF Resident Representative in Sierra Leone) and Mathew Sandy (economist, IMF Office in Sierra Leone).

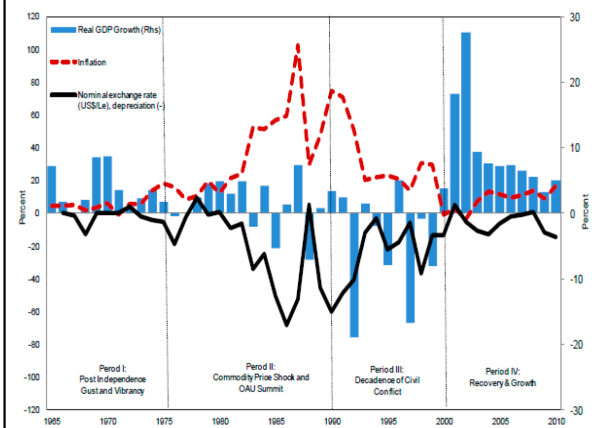
deterioration in the balance of payment as well as exchange rate and inflationary pressures that laid the foundations for political instability. During this period—of internalized adverse external shocks—per capita real GDP growth declined by 2 percent per year and inflation averaged 40 percent (Figures 1 and 2). While per capita real GDP growth declined on average by 2 percent per year, inflation averaged 40 percent as the local currency depreciated by 24 percent relative to the dollar. The confluence of these factors visited untold hardship on the citizens and, coupled with the onset of the civil conflict in neighbouring Liberia, fueled the civil conflict that raged during 1991–2001—a period of heightened per capita misery.

Figure 1. Sierra Leone: Dynamics of Per Capita Real GDP, 1960–2010



Sources: World Economic Outlook, and authors' estimates.

Figure 2. Sierra Leone: Real GDP Growth, Exchange Rate Movements, and Consumer Price Inflation, 1960–2010



Sources: World Economic Outlook, and authors' estimates.

3. **The civil conflict halted all economic activity, institutions deteriorated, and human indicators plummeted**. There was a cobweb of coups and counter coups in the early 1990s that culminated into a decade-long costly civil conflict. Per capita real GDP declined during this period as productivity sank, and inflation soared. In fact, this was the period of highest inflation, if the period before it is adjusted for the

Table 1. Sierra Leone: Selected Social Indicators, 2000–10 (In indicated measures)[1]

	Per Capita Income	Poverty Headcount	Income Distribution	Adult Literacy Rate (%, 15 and older)	Human Development Index
Gambia	633	33.6	47.3	42	0.368
Ghana	301	28.6	42.8	62	0.473
Guinea	478	49.8	39.9	51	0.335
Liberia	217	83.8	38.2	56	0.315
Nigeria	443	65.5	45.9	58	0.441
Sierra Leone	**228**	**53.4**	**42.5**	**38**	**0.292**
Regional Average 2/	383	52.5	42.7	51	0.371
Sub-Saharan Africa	576	…	…	60	…

Source: World Development Indicators; and authors' estimates.

1/ Poverty headcount measures percent of population that earns less than $1.25 a day (in PPP terms). Income distribution is measured by the GINI coefficient---the lower the more equal income/wealth distribution. Human Development measures the composite index (average achievement in the three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living as prescribed by the United Nations. Per Capita Income measures GDP per Capita (at Constant 2000, US$).

2/ A simple average of indicators for The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

adverse effects of the OAU summit and terms of trade shock; consumer price inflation reached 70 percent in 1991 and averaged 25½ percent per year, while per capita real GDP growth declined by 7½ percent per year during the period. The country entered a phase of unprecedented per capita misery as infrastructure and human development suffered massive setback and basic social services disappeared overnight. Productivity growth and social indicators plummeted and Sierra Leone has since trailed behind regional peers on many social indicators (Table 1).

4. **Quest for socio-economic inclusiveness, following civil conflict and global economic slowdown in the midst of mineral wealth, has heightened search for inclusive growth**. Half a century has elapsed since Sierra Leone attained independence, and it has been a decade since the end of the civil conflict that halted economic activities, but structural impediments and institutional bottlenecks linger and continue to constrain output and employment growth. Notwithstanding progress in institution building that has helped restore order and bolstered democratic principles, the country remains poor and ranks low (180 out of 182 countries considered in 2009) on the global human development index. Policy makers have sought to garner resources and the general population around a three-year development plan dubbed the Agenda for Change (the country's second Poverty Reduction Strategy Paper, 2009–12), which addresses the infrastructure gap while boosting agricultural and human development. A successor strategy (the Agenda for Prosperity) aims at addressing unemployment, boosting human development, and building a social protection floor; it features a chapter on gender equality and women's empowerment.

5. **This note presents stylized facts from current research on inclusive growth, and draws policy lessons on the way forward for Sierra Leone**. Themes that keep recurring in the literature on inclusive growth include the role of (i) sound macroeconomic policies; (ii) good institutions; and (iii) affordable social protection floor. Using growth accounting and panel econometric regressions, Kumah and Sandy (2013) found that

- pursuance of policies that promote macroeconomic stability is an essential tool in the search for inclusive growth;
- while opening up the economy helps expand the resource envelop for development and inclusive growth, evolution of the real exchange rate should be watch in order to ensure continued external competitiveness;
- access to credit is essential for inclusive growth, but excessive credit booms should be watched to ensure financial stability; and

- progress on structural reforms that enhance efficiency of public institutions boost policy effectiveness and inclusive growth; so do improvements in the business environment.

Thus, while capital accumulation is essential for economic growth, supporting economic policies and institutional and business environment are equally important. The rest of the paper elaborates on these findings and their relevance to Sierra Leone in its search for inclusive growth.

B. Stylized Facts from the Literature

6. **The search for inclusive growth and economic policies conducive to such growth started with an inquiry into appropriate operational definition and characterization**. Several researchers have attempted various definitions of inclusive growth, ranging from pro-poor growth to poverty-reducing growth. The approach adopted by these earlier researchers was bedeviled by criticality of the distinction between absolute and relative poverty. Ravallion and Chen (2003) put this succinctly as the questions of "how the gains from aggregate economic growth (or losses from contraction) were distributed across households according to their initial incomes or expenditures."

7. **Empirical evidence shows that sustained economic growth reduces poverty and income inequality**. While most of these findings are based only on analysis of correlation coefficients among relevant variables and do not indicate causality, it is widely documented (see for example Rodrik (2000) and Dollar and Kraay (2000)) that sustained rapid growth that expands economic opportunities also tends to make society well off—thus reducing absolute poverty. Thus, inclusive growth has come to be defined as growth that enlarges the size of the economy and increases employment opportunities. Attaining this type of growth helps reduce absolute poverty, in particular, as the GINI coefficient tends to be stable over time.

8. **The relevant question to ask is what types of policies promote growth and reduce poverty**. In a discourse on the impact of economic growth on poverty reduction, Rodrik (2000) asserts that "… the magnitude of poverty reduction payoff from growth depends, in part, on a country's specific circumstances and policies." Investigating the significance of various policies on economic growth and poverty reduction, Dollar and Kraay (2000) found openness to foreign trade, good rule of law and fiscal discipline, and avoidance of inflation to be important drivers. They conclude that "… growth generally does benefit the poor…" and that the quest for poverty reduction should aim at policies that promote growth. Furthermore, they argue for good institutions, the rule of law, and property rights along with political stability (and peace) when they assert that these conditions "… directly create a good environment for poor households to increase their production and income." Indeed, in their analysis of the growth-poverty nexus, Pinkovskiy and Sala-i-Martin

(2010) indicated that poverty and GDP per capita in the largest Sub-Saharan African countries during 1970–2009 (Ethiopia, South Africa, Nigeria, and Congo-Zaire) are "mirror images of each other"—thus, consistent with the findings of Dollar and Kraay (2000), policies that promote growth of per capita GDP also help reduce poverty.

9. We gather from these findings that (i) growth-promoting policies also help alleviate poverty, since the GINI coefficient tends to be constant over time, and that (ii) economic policies and quality of institutions do matter in the quest for inclusive growth; just as initial country circumstances (for example, countries just emerging out of war have different challenges from those that have enjoyed long periods of peace) and the nature of the business environment, including access to credit. These are the factors at the core of empirical research into inclusive growth, which are very pertinent to Sierra Leone's specific circumstances—the significance of institutions and economic policy. In what follows, we use a growth accounting exercise complemented by panel econometric estimates (which is a standard approach in the literature) to demonstrate the significance of these factors.

Growth Accounting

Table 2. Growth Accounting, 1960–2010

	Per Capita Real GDP Growth	Contribution of: Capital Stock	Total Factor Productivity
Full Sample	2.01	0.55	1.46
Advance Economies	3.22	-0.04	3.26
Middle Income Countries	2.22	0.89	1.33
Low Income Countries	1.14	0.69	0.45
Sub-Saharan Africa Countries	1.09	0.65	0.43
Sierra Leone	-0.24	0.81	-1.04

Source: IMF World Outlook (WEO) database; and authors' estimates.

10. **Growth accounting exercise reveals the impact of initial conditions on economic growth and job creation**.[2] The growth accounting framework for all countries for the period 1960–2010 indicates that total factor productivity (TFP) is an important factor in real per capita output growth (Table 2). For the full sample, real per capita GDP growth averaged 2 percent in 1960–2010, mainly originating from TFP which contributed about 1.5 percentage points to this growth. Per capita growth in low-income countries, including Sub-Saharan African countries, averaged 1 percent during the same period, with the bulk contribution originating from capital accumulation.

11. **Sierra Leone exhibits a decline in total factor productivity, despite capital accumulation**. Real per capita output shrunk overall during 1960–2010 as TFP declined despite

[2] The growth accounting exercise uses the neoclassical Cobb-Douglas production function of the form $y_t = a_t k_t^{\alpha}$, y_t denotes real output/GDP per capita, a_t corresponds to total factor productivity, k_t is capital-labor ratio, and α is the share of capital in the production process.

capital accumulation, particularly during the civil conflict in the late 1990s (Table 1 and Figure 1). The country trails behind it peers on comprehensive institutional reforms and competitiveness. The World Economic Forum 2012 report on competitiveness puts Sierra Leone at 143th place out of 144 countries. At the same time, the Global Competitiveness Report identifies as constraints to improving the investment climate the infrastructure gap, poor health and primary education services, low financial market development, weak institutions, and inefficient labor and goods market. Hence, integrating capital accumulation with capacity building and improvements in efficiency of basic service delivery would support the production process and deliver better economic growth and employment results.

Empirical Econometric Results

12. **Real per capita output growth is depended not only on the efficiency of capital-labor ratio but also of the productivity enshrined in entire production processes**. Following the classical approach of Solow (1957), we postulate that the residual from a regression could be interpreted as capturing total factor productivity, which could be dependent in turn on a variety of factors—such as openness of the economy (which expands the resource envelope of a country), the business and institutional environment, macroeconomic policies (the quality of economic institutions and arrangements and of initial policy stance), and access to credit—that have been considered in the literature.

13. **To investigate the significance of these factors in the growth process, we specify an empirical panel econometric model** of the form:

$$y_{it} = \alpha y_{i,t-1} + \beta k_{it} + \gamma X_{it} + \eta_i + v_{it} \qquad (1)$$

where y_{it} denotes real per capita GDP growth, k_{it} is the capital-labor ratio, and X_{it} is a matrix of proxy variables used to capture the effects of total factor productivity. As discussed above, we include in X_{it} variables such as openness, the real effective exchange rate, an indicator of macroeconomic stability, credit boom and real government consumption. It turns out that inflation variability (defined as the logarithm of the deviation of inflation from the trend in 1960–70) is a good indicator of macroeconomic stability. Likewise, credit boom (defined/derived as the logarithm of deviations of real private credit from trend) works well as an indicator for access to credit, as increases in this proxy variable has the desired effects on real per capita growth. The variable η_{it} captures unobservable country-specific characteristics, while v_{it} is an error term with the usual classical assumptions: (i) orthogonality and zero mean ($E[\eta_i] = E[v_{it}] = E[\eta_i v_{it}] = 0$); serial uncorrelatedness ($E[v_{it}v_{is}]=0, \, for \, s \neq t$); and homoskedasticity or constant variance ($E[\eta_i^2]=\sigma_\eta^2 \; and \; E[v_{it}^2]=\sigma_v^2$). We further assume (i) correlated country-specific effects, or fixed effects such that $E[X_{it}\eta_i] \neq 0$;[3] and (ii) strict exogeneity ($E[X_{it}v_{is}]=0 \; for \, all \, s,t$), which rules out feedback effects from past v_{is} shocks to current X_{it}.

14. **A priori propositions exclude instability and are empirically tested**. We do expect, a priori and consistent with the theory, $|\alpha|<1$ for stability, and a positive response of real per capita GDP growth to increases in the real capital-labor ratio (i.e., $\beta > 0$). Economic openness as defined, measures the extent to which a country trades with the rest of the world; by definition, therefore, openness is expected to yield additional resources to a country in the form of gains from trade, and hence should increase growth potentials. Real exchange rate appreciation/depreciation reduce/enhance competitiveness of countries and has negative/positive effects on per capita real GDP growth. Further, macroeconomic stability is expected to enhance growth prospects, as it helps predictability and reduces costs to businesses. It cannot be overemphasized that growth of the private sector depends, first and foremost, on access to credit, which in turn, improves growth prospects. On the other hand, excessive real government consumption (i.e., public spending on wages and salaries, transfers and goods and services) only competes with the private sector for limited resources and hence reduces growth as the private sector tends to be crowded out by government spending.

15. **The empirical results laud capital accumulation with economic openness (Table 3)**. Thus,

- Capital stock elasticity of real per capita growth is higher for SSA countries and LICs (0.05–0.06) than for the full sample (0.02). This supports the theoretical proposition of increasing returns on capital at lower levels of capital accumulation; and

- Openness stimulates per capita real GDP growth. The results indicate that more open countries tended to have experienced higher real GDP per capita growth during the period 1960–2010;

[3] This assumption suggests the fixed effects econometric methodology in estimating the coefficients of our models in subsequent sections as a more suitable approach over the random effects approach. Indeed, country performance on the elements of the X variable set is in reality broadly dependent on country circumstances and/or initial conditions.

Table 3a. Panel Estimates of Per Capita Real GDP Equations, 1960–2010
(Dependent Variable: per capita real GDP)

	Full Sample		Low Income		SSA	
	FE	GMM-DIFF (t-2)	FE	GMM-DIFF (t-2)	FE	GMM-DIFF (t-2)
One-period lagged per capita real GDP	0.9300***	0.9554***	0.926***	0.9105***	0.9361***	0.9221***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Capital stock	0.0215***	0.0211***	0.047***	0.0539***	0.0529***	0.0627***
	(0.007)	(0.005)	(0.000)	(0.000)	(0.024)	(-0.002)
Openness	0.0041***	0.0062***	0.0057***	0.0070***	0.0065***	0.0077***
	(0.000)	(0.000)	(0.007)	(-0.002)	(0.012)	(-0.002)
Constant	0.3128***		0.6604***		0.5483***	
	(0.000)		(0.000)		(0.003)	
Number of observations	2,633	3,016	845	987	773	824
R-squared	0.9709		0.9349		0.9650	
F statistic	5,419.97	6,447.71	2,069.32	1,987.41	4,376.57	3,933.91
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Hansen test (prob.)		1.0000		1.0000		1.0000
m(1)		0.0000		0.0000		0.0010
m(2)		0.0030		0.2940		0.2320

Source: IMF *World Economic Outlook* (WEO) database; and authors' estimations using panel methods in Stata.

Notes: All variables are expressed in logarithms. Figures in parenthesis are probability values; note: *** p<0.01, ** p<0.05, * p<0.1

16. **Further empirical exercises using an expanded set of independent variables underscore the significance of macroeconomic policies and institutions**. These results lead us to investigate the impact of other factors on the magnitude of capital elasticity of economic growth; more specifically, the question we seek to answer is whether capita accumulation alone is sufficient to support inclusive growth—alternatively, do initial conditions, quality of institutions, and economic policy matter? To answer this question, we replace the openness variable in X_{it} with more active policy variables such as the real effective exchange rate, inflation variability, increases in private sector credit (or episodes of credit boom), and government consumption. All these variables are expressed in logarithms and so their respective coefficients in estimates of equation (1) indicate elasticities or responses of economic growth (or inclusive growth) to policy. We also investigate the role of the quality of institutions. The results in the Appendix Tables 1 and 2 are summarized in two parts below—the role of (a) macroeconomic policy, and (b) quality of institutions.

Sound macroeconomic policies drive real per capita output growth

17. **Macroeconomic stability helps develop a predictable economic environment and helps private sector development and job creation**. In our model, the impact of macroeconomic policy (or stability) on inclusive growth is captured through an inflation viability indicator which is estimated as the logarithm of the squared deviations of inflation from the trend established in the 1960s. It turns out that attaining macroeconomic stability improves growth performance in all samples considered. In particular, countries that reduced inflation variability through appropriate

macroeconomic policies gained on inclusive growth—the elasticity, albeit small, is highly significant and consistent with a priori expectations of the effectiveness of macroeconomic policy.

18. **Real exchange rate movements (through variations in the nominal exchange or inflation or some combinations of these) do influence economic growth through the trade balance**. In particular, exchange rate appreciations tend to adversely affect the trade balance and growth. Our empirical findings summarized in Table 3 are consistent with these theoretical predictions, which underscore the need for inflation control along with awareness about the impact of nominal exchange rate movements, particularly in natural resource rich countries, such as Sierra Leone, where large inflows into the mining sector might lead to nominal appreciation of the domestic currency while driving a wedge between wages in the tradable and nontradable sectors of the economy.

Table 3b. Panel Estimates of Per Capita Real GDP Equations, 1960–2010
(Dependent Variable: log. real GDP per capita)

	Model I			Model II			Model III		
	Full Sample	Low Income	SSA	Full Sample	Low Income	SSA	Full Sample	Low Income	SSA
One-period lagged per capita real GDP	0.929***	0.903***	0.918***	0.935***	0.895***	0.916***	0.926***	0.884***	0.907***
	(0.016)	(0.021)	(0.025)	(0.017)	(0.020)	(0.025)	(0.020)	(0.021)	(0.028)
Capital stock	0.051***	0.036**	0.063**	0.049***	0.036***	0.065**	0.051***	0.035***	0.074***
	(0.015)	(0.009)	(0.027)	(0.016)	(0.009)	(0.028)	(0.019)	(0.011)	(0.034)
Openness									
Inflation variability	-0.002***	-0.003***	-0.003**	-0.002***	-0.002**	-0.003**	-0.001***	-0.0001	-0.0014
	(0.000)	(0.001)	(0.001)	(0.000)	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)
REER	-0.001*	-0.000***	-0.0012	-0.002*	-0.004**	-0.0006	-0.0013	-0.0022	-0.0007
	(0.001)	(0.003)	(0.003)	(0.001)	(0.002)	(0.003)	(0.001)	(0.002)	(0.002)
Credit boom				0.0022	0.0003	-0.0011	0.0022	-0.0009	-0.0031
				(0.004)	(0.005)	(0.004)	(0.004)	(0.005)	(0.005)
Government consumption							0.028*	0.016***	0.0123
							(0.006)	(0.010)	(0.014)
Constant	0.684***	0.975***	0.789***	0.626***	1.061***	0.809***	0.685***	1.092***	0.849***
	(0.146)	(0.202)	(0.207)	(0.158)	(0.202)	(0.209)	(0.185)	(0.218)	(0.248)
Number of observations	2010	437	437	1773	417	420	1324	363	351
R-squared	0.9760	0.913	0.9671	0.973	0.9048	0.9666	0.974	0.9111	0.9673
F statistic	5,725.94	737.14	10,323.60	4,744.56	542.08	9,601.23	5487.79	599.52	8415.89
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

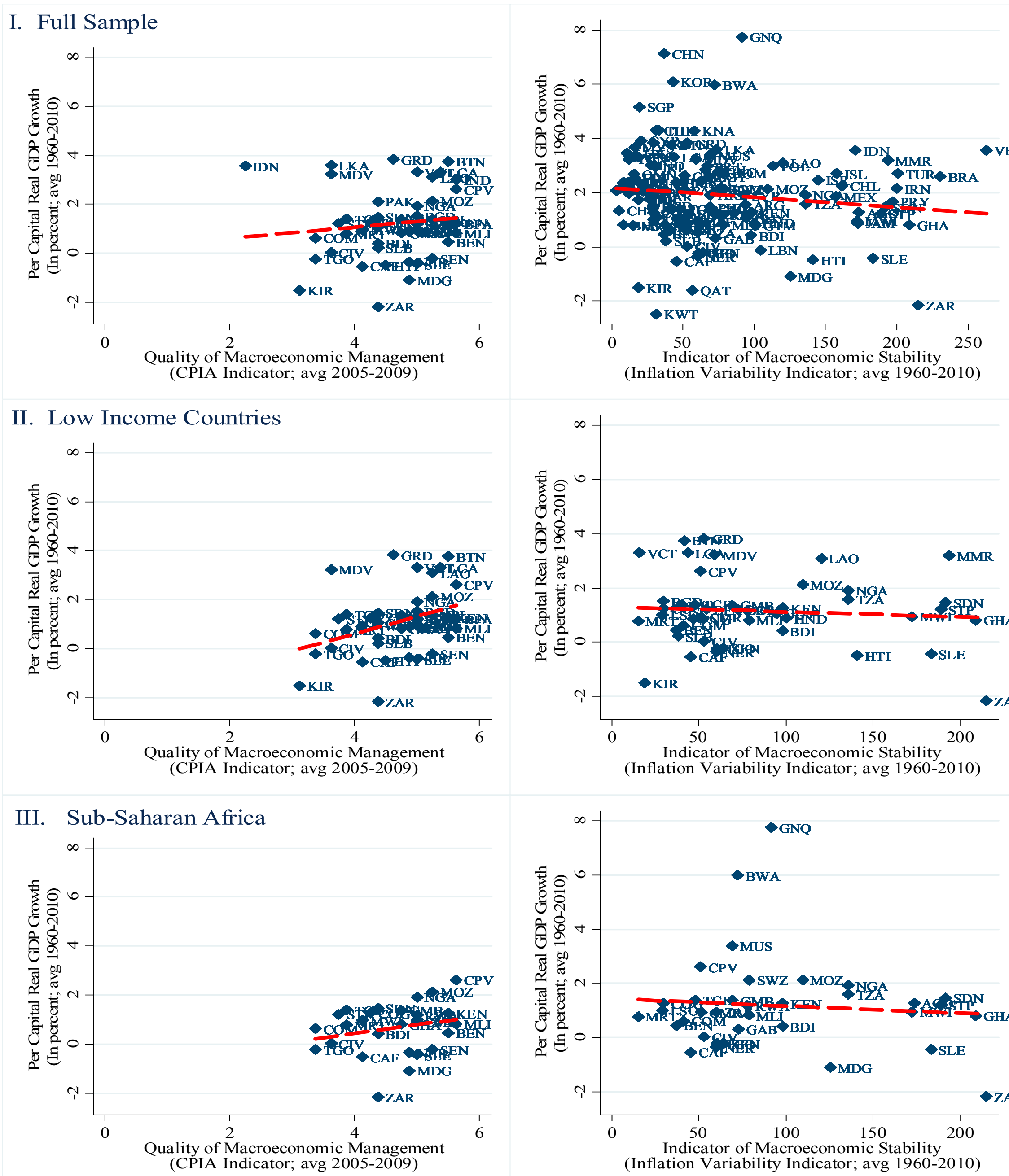
Source: IMF *World Economic Outlook* (WEO) database; and authors' estimations using panel methods in Stata.

Notes: All variables are expressed in logarithms. Figures in parenthesis are standard errors.

19. **Availability of finance (or access to credit) helps finance private sector economic activity and boosts growth and employment**. While our empirical results for all low-income countries are consistent with this proposition, SSA countries exhibit a perverse result where increases in credit (or credit boom) do reduce real per capita growth. This may be due to interaction of the dependent variable with the incidence of high nonperforming loans in some SSA countries and prevents effective realization of the positive effects of credit availability. Further research would be needed to investigate the relationship between credit and growth in SSA countries taking into account the effect of financial sector health generally.

20. Further, we plot two indicators of macroeconomic policy (the CPIA indicator on overall macroeconomic management and our inflation variability indicator) against per capita real GDP to get insights into the role of macroeconomic policy in promoting inclusive growth. The results depicted in Figure 3 below further strengthen our findings from the econometric exercise.

Figure 3. Per Capita Real GDP Growth and Quality of Macroeconomic Policy, 1960–2010



Source: IMF World Economic Outlook; and authors' calculations.

Specifically: (i) countries that have made good progress on overall macroeconomic management, culminating into higher average CPIA scores in 2005–09 also showed high average per capita real GDP growth in 1960–2010. This finding runs through for all country samples considered—the full sample (in row 1), sample of LICs (in row 2), and SSA countries (in the last row); and (ii) macroeconomic stability promotes inclusive growth—the charts in the second column of Figure 3 confirm this with a negative slope between average inflation variability and per capita real GDP growth in 1960–2010.

Quality of economic institutions matter

21. To avoid entering into the complexities of the nature of the interaction of institutions with economic factors and initial conditions (such as previous adverse or benign socio-political and/or economic conditions),[4] we regroup all our country samples into subgroups of above and below average performers on the World Bank CPIA indicators for quality of structural policies, business environment, and overall macroeconomic management. We then run panel fixed effects regressions for these subgroups to ascertain whether there are any significant changes in estimated multipliers. Based on these results (Appendix Table 1) we derive the total policy effects on inclusive growth of a ten-percent improvement in the quality of policy (i.e., in macroeconomic stability government consumption and the real effective exchange rate). Improvements in macroeconomic stability and the real effective exchange rate are here interpreted as reductions or stability in inflation variability and the real effective exchange rate, while improvements in government consumption are increases in current government current spending that does not crowd-in the private sector or introduce inefficiencies that reduce the production possibilities frontier.

22. **A simple penalty function is used to capture total effects of policy changes on inclusive growth**. The penal aspect comes in where the sign of a coefficient deviates from its apriori theoretical expectations. We specify the simple penalty function:

$$\varphi_p = \alpha \sum_{k=1}^{n} \omega_k \hat{\mu}_k + \sigma \sum_{k=1}^{n} g(c_k(p)) \qquad (2)$$

[4] Initial conditions have received much attention in the literature, but their characterization of the elements/factors—including colonial origins (Acemoglu et al., 2001), the slave trade (Nunn, 2008), and geography (Bloom and Sachs, 1998), and—differ from our use of the term. Consistent with our view, some researchers (such as Fosu, 2012) use past policy regimes to proxy initial conditions. In this literature, such past policy regimes or "policy syndromes" are defined to include state controls, adverse redistribution, suboptimal intertemporal resource allocation, and state breakdown or war and civil conflict. Bosworth and Collins (2003) define initial conditions to include population growth, geography, institutional quality and initial per capita income.

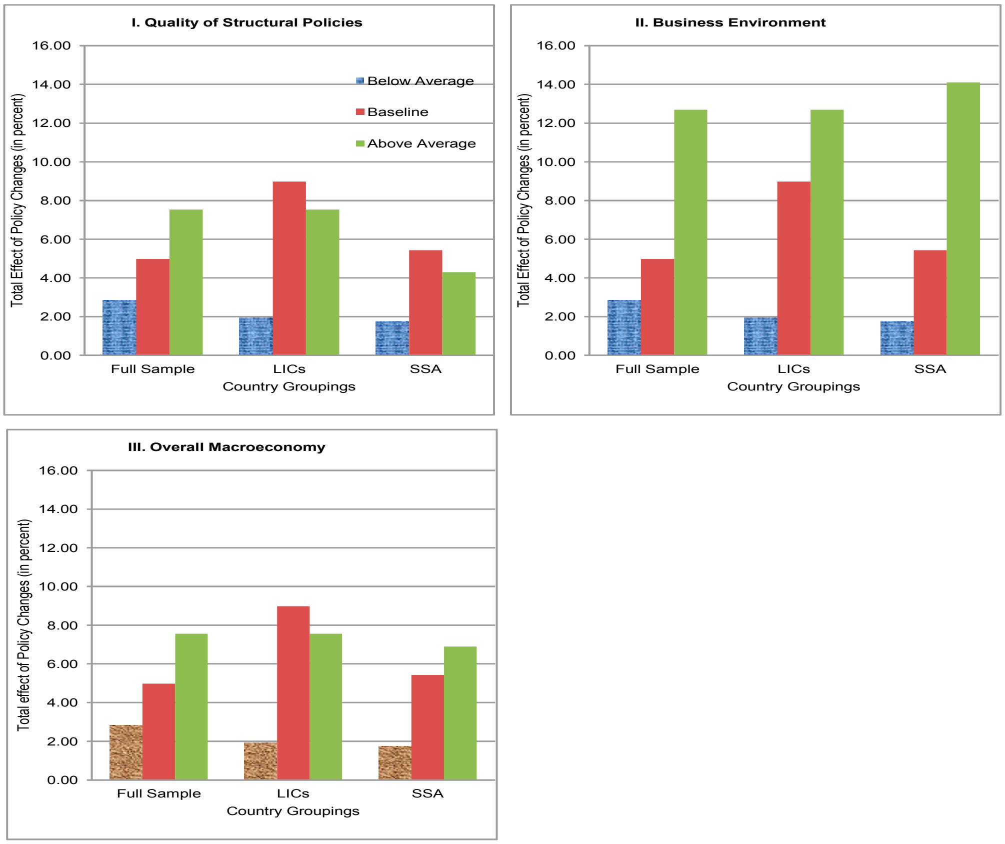
$$\text{where } g(c_k(p))\begin{cases} 0 \;\; if \; sign(\hat{\mu}_k) \, \text{is theory inconsistent} \\ \hat{\mu}_k \;\; if \; sign(\hat{\mu}_k) \, \text{is consistent with theory} \end{cases}$$

α is a chosen percent change in the policy variable, p; ω denotes the weight of the policy variable; σ is the penalty coefficient (in this example, we set this to 10, the percent increase in the policy variable); and k (=1,2,…,n) is the number of policy variables.

23. **The results confirm that the quality of structural reforms, the business environment, and of the overall macroeconomic management do matter for economic growth—and job creation (Figure 4)**.[5] Specifically, total policy impact in countries that scored well (i.e., above average) on the World Bank's CPIA sub-modules on these indicators is higher that the baseline (where no distinction is made regarding the quality of institutions and policy implementation) and across all country groupings, except in low-income countries (on all three indicators) and SSA countries (on the structural policies indicator). Thus, for SSA countries for example, the difference in the policy impact of a 10 percent improvement in the chosen policy variables varies by as much as 9 percentage points and 2 percentage points above the baseline impact, for quality of the business environment and overall macroeconomic management, respectively.

[5] A simple version of the penalty function (with ω set to 1 for all the policy variables) is used.

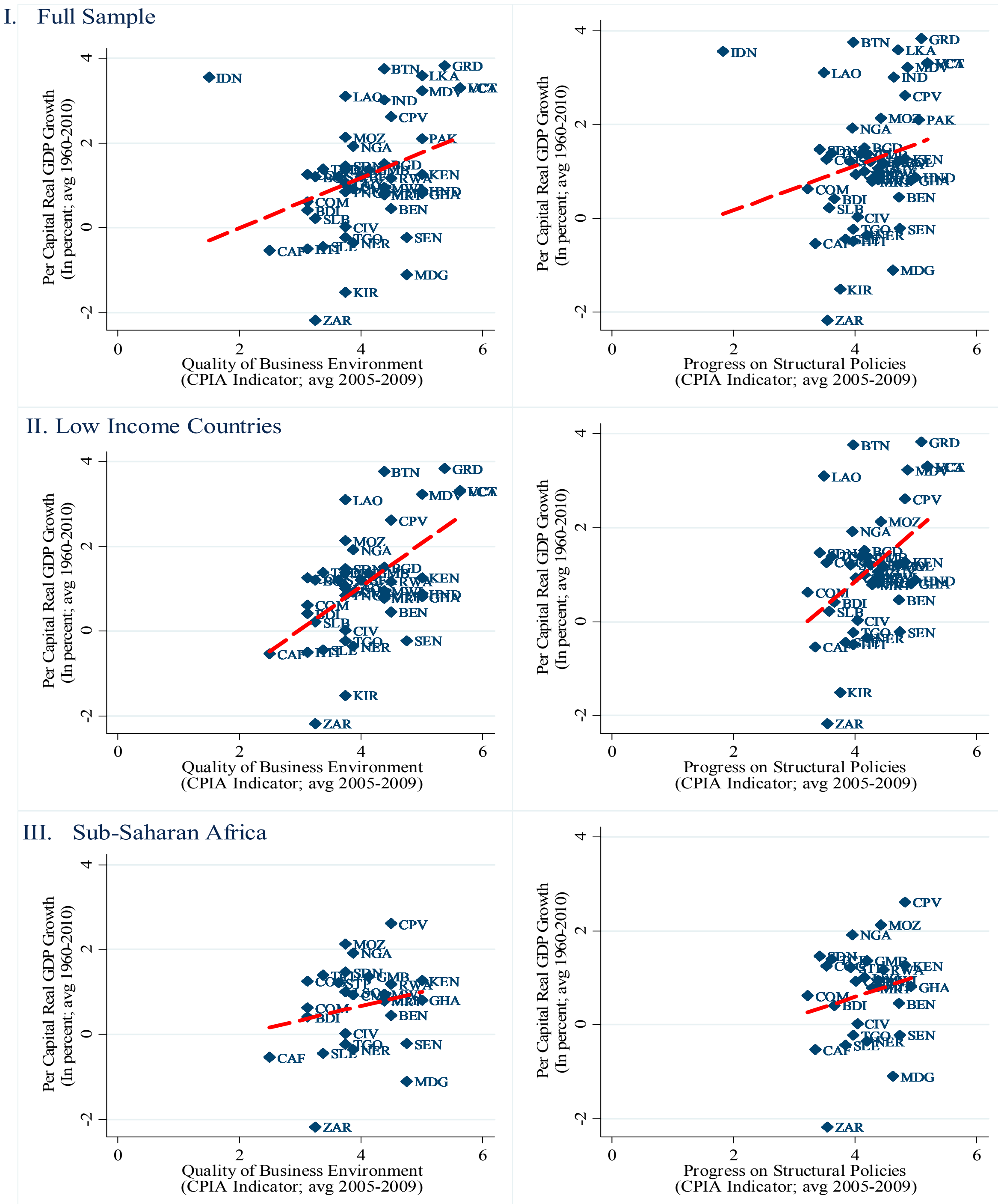
Figure 4. Estimated Effects of Policy Changes



Source: IMF's World Economic Outlook; and authors' estimates based on panel fixed effects estimates of coefficients.

24. **These results are broadly corroborated** by Figure 5, which reveals the significance of structural reforms and the quality of the business environment for real per capita GDP growth for all country groupings considered—the full sample in the first row, LICs in the second row, and SSA in the third row. The positive slope of the estimated trend line confirms this observation. Further, and similar to the results in the section above, almost all SSA countries fall below the average performance for their peers that scored similarly on the business environment indicator and the structural policies indicator. Again, this may indicate the absence of necessary ingredients such as peace, basic infrastructure, and human capacity. It is therefore no surprise that Sierra Leone, which has been through a decade of civil conflict that devastated basic infrastructure and halted progress in building human capacity, experienced even lower average per capita real GDP growth rate during the period even among its peer SSA countries that scored similar levels of quality of the business environment (such as Côte d'Ivoire and Mozambique) and progress on structural reform (Côte d'Ivoire and Niger).

Figure 5. Per Capita Real GDP Growth and Structural Reforms, 1960–2010



Source: IMF World Economic Outlook; and authors' calculations.

C. Relevance for Macroeconomic Policy in Sierra Leone

25. **The search for inclusive growth in Sierra Leone has to incorporate stylized facts from the literature**: while capital accumulation and the pursuit of macroeconomic stability are important, the quality of institutions and economic policy do matter. Dividends from steadfast pursuit of macroeconomic stability cannot be overemphasized. Not only does it help maintain the value of money (and dampen the burden of instability on the poor in society) but it also helps maintain a stable and predictable economic environment for private sector planning and operations that go to boost economic growth and employment. In addition, Sierra Leone, as in most LICs (although initial conditions and the nature of policy challenges may differ across countries) structural impediments to growth—(i) weak and unreliable infrastructure; (ii) institutional weaknesses; and (iii) low quality of human capital—should be addressed through deep-going reforms. At the same time, effective sectoral policies would be required, particularly in agriculture and mining, to promote economic activity and create jobs.

26. **Low quality of human capital does not only limit labor employment opportunities in the private sector but it also constraints public sector capacity**. Public service delivery is weakened by the brain drain experienced during the conflict, which resulted in the recruitment of a large number of low-skilled labor force motivated by a poor political agenda. Furthermore, the drop in educational standards and skills mismatch limits the capacity of new graduates in filling the capacity gap. As a result, there remains a huge capacity gap in the public sector and most of the technical jobs are secured by local and foreign consultants. This has warranted the need for urgent civil service reform in order to enhance capacity for implementation of the Agenda for Change. Some efforts have been made under the Free Healthcare Initiative with the increment of the salaries for healthcare workers in 2010, but much remains to be done in other sectors, particularly within the context of the new initiative to comprehensively reform public sector pay structure to promote the attractiveness of public sector employment. The pay reform agenda of government is expected to address the overhang from the period of near irrational employment in the public sector. Specifically, the reform is expected to be implemented over a five-year period (2011–15) with the following features: a) minimum wage pay policy, b) classification of jobs into job elements, c) a composite clean wage structure, and d) a unified single spine salary structure.

27. **Building human capacity and addressing infrastructure bottlenecks would help boost TFP and hence per capita real GDP growth and job creation**. For now, total factor productivity remains negative and two sectors (agriculture and mining) continue dominate economic activities. Except for recent boom in FDI for iron ore mining in 2009–12, private sector participation in

economic activity remains generally low across all sectors of the economy mainly on account of the high cost of doing business and other public sector inefficiencies.

28. **A robust social safety net and employment-enhancing labor market policies would be necessary**. While specific labor market initiatives such as on-the-job training and job placements for qualified but unemployed youth would help enhance the chances of employment and employability and promote inclusive growth, well-targeted social support or safety net would ensure access to a decent living standard for all citizens.

D. Concluding Remarks

29. **Following the 2008 financial crisis and subsequent global economic slowdown, many economies have weakened and unemployment has soared**. These developments have heightened the search for economic policies to help recovery of the global economy, create jobs, and reduce poverty. For Sierra Leone, the quest for these goals transcends recent developments—it has been there even prior to the onset of the civil conflict in 1991. The global economic slowdown, coupled with increasing democratization and quest for social inclusiveness only heightened the search for jobs and poverty reduction. Thus, initial conditions do matter.

30. **The literature underscores the role of economic institutions and policy in boosting growth and reducing poverty**. One lesson that Sierra Leone can take home from these findings is the significance of sound macroeconomic policies that reduce inflation and create a predictable economic environment for private sector growth. The quality of institutions matter too: progress should be maintained in structural reforms focused at improving public sector efficiency, as well as addressing the infrastructure gap and lapses in human development (i.e., in health, education, and social support services generally). Initiatives in these areas should be complemented with sector-specific interventions (for example, in the labor market) to boost economic growth and create jobs. At the same time, a strengthening of the existing social protection floor would be required to dampen the adverse impact of efficiency-enhancing economic policies on vulnerable households.

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Table 1a. Role of Institutions in Growth, 1960–2010

A. Full Sample

Dependent variable: log. Real GDP per capita

	Quality of Structural Policies		Business Regulatory Environment		Overall Economic Management	
	Below Average	Above Average	Below Average	Above Average	Below Average	Above Average
One-period lagged per capita real GDP	0.923***	0.864***	0.923***	0.848***	0.923***	0.898***
	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)
Capital stock	0.064**	0.024*	0.064**	0.0053	0.064***	0.034***
	(0.054)	(0.101)	(0.054)	(0.391)	(0.054)	(0.020)
Inflation variability	-0.002*	-0.000	-0.002*	0.0003	-0.002*	-0.0003
	(0.060)	(0.853)	(0.060)	(0.816)	(0.060)	(0.810)
REER	-0.001	-0.0012	-0.0006	-0.005**	-0.0006	-0.003**
	(0.056)	(0.567)	(0.563)	(0.144)	(0.563)	(0.066)
Credit boom	0.0185	-0.0079	0.0185	-0.0054	0.0185	-0.0013
	(0.125)	(0.257)	(0.125)	(0.449)	(0.125)	(0.795)
Government consumption	0.0092	0.029**	0.0092	0.046***	0.0092	0.027***
	(0.414)	(0.057)	(0.414)	(0.051)	(0.414)	(0.001)
Constant	0.668*	1.259***	0.668*	1.334***	0.668*	0.933***
	(0.063)	(0.002)	(0.063)	(0.067)	(0.063)	(0.000)
Number of observations	933	222	933	86	933	331
R-squared	0.9801	0.9256	0.9801	0.937	0.9801	0.9246
F statistic	6595.87	822.14	6595.87	....	6595.87	1304.23
Prob > F	0.0000	0.0000	0.0000	....	0.0000	0.0000

Source: IMF *World Economic Outlook* (WEO) database; and authors' estimations using panel methods in Stata.

Notes: All variables are expressed in logarithms. Figures in parenthesis are probability values; note: *** p<0.01, ** p<0.05, * p<0.1.

Table 1b. Role of Institutions in Growth, 1960–2010

B. Low Income Countries

Dependent variable: log. Real GDP per capita

	Quality of Structural Policies		Business Regulatory Environment		Overall Economic Management	
	Below Average	Above Average	Below Average	Above Average	Below Average	Above Average
One-period lagged per capita real GDP	0.895***	0.840***	0.895***	0.711***	0.895***	0.871***
	(0.061)	(0.000)	(0.061)	(0.001)	(0.061)	(0.000)
Capital stock	0.088*	0.026*	0.088*	0.0073	0.088*	0.033***
	(0.046)	(0.091)	(0.046)	(0.216)	(0.046)	(0.023)
Inflation variability	-0.003**	-0.000**	-0.003**	-0.0027	-0.003**	-0.000
	(0.001)	(0.082)	(0.001)	(0.930)	(0.001)	(0.814)
REER	-0.001	-0.0003	-0.001	-0.006**	-0.001	-0.003**
	-0.001	(0.877)	(0.001)	(0.220)	(0.001)	(0.090)
Credit boom	(0.001)	0.009*	0.050*	-0.0034	0.050*	-0.0013
	(0.027)	(0.247)	(0.027)	(0.670)	(0.027)	(0.792)
Government consumption	0.004	0.0290	0.004	0.050***	0.004	0.027***
	(0.013)	(0.082)	(0.013)	(0.171)	(0.013)	(0.002)
Constant	0.868	1.4704	0.868	2.455***	0.868	0.983***
	(0.561)	(0.001)	(0.561)	(0.001)	(0.561)	(0.000)
Number of observations	…	194	…	58	…	303
R-squared	…	0.8977	…	0.8084	…	0.9246
F statistic	…	82336.05	…	....	…	904.47
Prob > F	…	0.0000	…	....	…	0.0000

Source: IMF *World Economic Outlook* (WEO) database; and authors' estimations using panel methods in Stata.

Notes: All variables are expressed in logarithms. Figures in parenthesis are standard errors; ; note: *** p<0.01, ** p<0.05, * p<0.1

Table 1c. Role of Institutions in Growth, 1960–2010

C. Sub-Saharan African Countries

Dependent variable: log. Real GDP per capita

	Quality of Structural Policies		Business Regulatory Environment		Overall Economic Management	
	Below Average	Above Average	Below Average	Above Average	Below Average	Above Average
One-period lagged per capita real GDP	0.735***	0.865***	0.735***	0.711***	0.735***	0.903***
	(0.034)	(0.000)	(0.034)	(0.001)	(0.034)	(0.000)
Capital stock	0.206***	0.030**	0.206***	0.007*	0.206***	0.357***
	(0.060)	(0.079)	(0.060)	(0.216)	(0.060)	(0.280)
Inflation variability	0.0007	0.0082	0.0007	-0.0003	0.0007	-0.0014
	(0.932)	(0.705)	(0.932)	(0.930)	(0.932)	(0.942)
REER	0.0018	-0.0069	0.0018	-0.006*	0.0018	-0.028*
	(0.851)	(0.787)	(0.851)	(0.220)	(0.851)	(0.090)
Credit boom	0.156***	-0.0098	0.156***	-0.003**	0.156***	-0.0026
	(0.111)	(0.295)	(0.111)	(0.670)	(0.111)	(0.604)
Government consumption	-0.0957	0.0173	-0.0096	0.0500	-0.0066	0.025***
	(0.842)	(0.330)	(0.842)	(0.171)	(0.842)	(0.004)
Constant	1.941***	1.325***	1.941***	2.455***	1.941***	0.912***
	(-0.121)	(0.003)	(0.121)	(0.001)	(0.121)	(0.000)
Number of observations	55	145	55	58	55	236
R-squared	0.9874	0.9150	0.9874	0.8084	0.9874	0.9243
F statistic	…	…	…	….	…	1775.60
Prob > F	…	…	…	… .	…	0.0000

Source: IMF *World Economic Outlook* (WEO) database, and authors' estimations using panel methods in Stata.

Notes: All variables are expressed in logarithms. Figures in parenthesis are probability values; note: *** p<0.01, ** p<0.05, * p<0.1

SIERRA LEONE

October 7, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of August 31, 2013)

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

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

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	99.51	100.00
Holdings	109.50	110.04

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	76.48	73.75

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million**
ECF[1]	July 01, 2010	June 30, 2013	31.11	22.20
ECF[1]	May 10, 2006	June 22, 2010	51.88	51.88
ECF[1]	Sept. 26, 2001	June 25, 2005	130.84	130.84

Projected Payments to Fund[2]

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	2.31	8.12	9.86	11.68	12.11
Charges/Interest	0.00	0.00	0.16	0.13	0.10
Total	**2.31**	**8.12**	**10.01**	**11.81**	**12.20**

Implementation of HIPC Initiative:

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

[1]Formerly PRGF.

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

Assistance committed (NPV terms)	
By all creditors (US$ million)[3]	675.20
Of which: IMF assistance (US$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006
Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income[4]	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by facility (SDR Million)

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

Safeguards Assessment:

The latest safeguards assessment for the Bank of Sierra Leone was completed on November 24, 2010. The assessment concluded that the BSL continues to maintain important elements of the safeguards framework; financial statements are prepared and audited in accordance with international standards and are published in a timely manner on the BSL website. Currently, the BSL is still in the process of strengthening staff capacity in its internal audit function. The next update will be completed by the first review of the proposed ECF arrangement.

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

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

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

Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of October 3, 2013, the BSL mid rate was Le 4,333.53=US$1.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. Furthermore, effective November 1, 2008, the *de facto* exchange rate arrangement has been reclassified to 'floating' from a 'stabilized arrangement'.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Sierra Leone maintains one multiple currency practice subject to Fund jurisdiction arising from the applied multiple-price Dutch auction system, as there is no formal mechanism in place to prevent spreads of effective rates between winning bids from exceeding 2 percent.

Article IV Consultation:

The Executive Board concluded the 2010 Article IV consultation on December 6, 2010. The next Article IV consultation will be held in accordance with the 2010 decision on consultation cycles.

Technical Assistance:

Department	Purpose	Date
FAD	EI Macro-Fiscal, PFM, and Expenditure Policy	April 2013
	EI Revenue Administration	August 2012
	EI Macro-Fiscal, PFM, and Expenditure Policy	February/Sept. 2012
	EI Fiscal Regimes Follow-Up	February/Aug. 2012
	Post-GST Implementation Review	February 2012
	Terms of Draft EI Revenue Act (EIRA)	January/July 2012
	Extractive Industry Fiscal Regimes	October/November 2011
	Tax Administration	October/November 2011
	Mining and Oil Tax Policy, and Macro-fiscal and Forecasting	July 2011
	Fiscal Regimes for Extractive Industries	July 2011

Department	Purpose	Date
	Advancing Public Financial Management Reforms	June 2011
	Advancing Public Financial Management Reforms	April 2011
	Petroleum Product Prices	April 2011
	Reform Progress update	September 2010
	Review of petroleum pricing mechanism	February 2010
	Tax administration	January 2010
	Evaluation of progress in PFM reforms	March 2009
	Follow-up assessment on TA needs	June 2009
	Assistance in designing a simplified regime for small taxpayers	January 2009
	Evaluation of progress on tax administration reform and VAT preparation	September 2008
	Evaluation of progress on PFM reforms	July 2008
	Implementation of public financial management reforms	March 2008
	Tax administration reforms for successful VAT implementation	February 2008
MCM	Financial Stability Analysis	February 2013
	Medium-term Debt management Strategy	January 2013
	Liquidity Forecasting and Development of Interbank Foreign Exchange Market	July 2012, January 2013
	TA Needs Assessment Mission	February 2012
	Financial Stability Analysis	April/May 2011
	Banking Supervision and Banking Regulation	April 2010
	Needs assessment and monetary operations and foreign exchange auction system	March 2010
	Follow-up assessment of banking supervision processes at BSL	March 2009
	Follow-up assessment on progress in strengthening central bank internal auditing	March 2009
	BSL: Internal audit and management of the central bank	October 2008

Department	Purpose	Date
	Monetary policy, banking supervision, and recapitalization of the BSL	April/May 2008
	Recapitalization of the BSL	February 2008
STA	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	July/August 2013
	National Accounts under Module 5 within the Managing Natural Resource Wealth (MNRW) project,	April/May 2013
	Consumer Price Index	August 2012
	SRF Data Development	August 2012
	Monetary and Financial Statistics Mission under the Enhanced Data Dissemination Initiative (EDDI) Project for Africa.	August 2012
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	December 2011
	Producer Price Index Mission	November 2011
	Producer Price Index Mission	June/July 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	May/June 2011
	Annual National Accounts Statistics Module Mission within the Enhanced Data Dissemination Initiative Project for Africa	February/March 2011
	Standardized Report Form Data Development for Other Financial Corporations	October 2010
	Producer Price Index Mission	October 2010
	Assist the authorities in implementing the international standards recommended in the *Monetary and Financial Statistics Manual*	April 2009
	National accounts statistics mission	March 2009
	National accounts statistics mission	September/October 2008
	National accounts statistics mission	January 2008

Resident Representative:

Mr. Francis Kumah assumed responsibility for the Fund office in Freetown in November 2010.

JOINT WORLD BANK-IMF WORK PROGRAM, 2013–14

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program	IPFMRP (PFM Project) Supervision	Feb 2013, Mar 2013 Jun 2013, Oct 2013, Feb 2014	Apr 2014
	PFMICP (New PFM Project) Preparation	Apr 2013, Jul 2013 Oct 2013, Jan 2014	Dec 2013
	Financial Sector TA	May 2013, Nov 2013	N/A
	Mining Sector TA	Mar 2013, Sep 2013 Mar 2014	N/A
	Sixth Governance Reform and Growth Credit (GRGC-6)	Feb 2013, Jun 2013 Sep 2013	Dec 2013
	Pay and Performance Project	Mar 2013, Oct 2013 Apr 2014	N/A
Technical Assistance:			
	Anti Corruption Commission	Feb 2013, Mar 2013, Jun 2013, Oct 2013, Feb 2014	N/A
	Household Survey	Feb 2013, Jun 2013 Oct 2013, Apr 2014	N/A
	AML/CFT, Law, Transnational Organized Crime Unit, Nuclear non-Proliferation Framework	May 2013, Aug 2013, Feb 2014	N/A
	Anti-Corruption, asset disclosure system	May 2013, Aug 2013, Feb 2014	N/A
	Public Investment Management	Feb 2013, May 2013, Jun 2013 Nov 2013	N/A
	Revenue Administration	Mar 2013, Aug 2013	
IMF work program	2013 Article IV and New ECF Arrangement		October 2013
Technical Assistance:			
	FAD		
	Tax policy	Nov 2013	N/A
	EI Fiscal Framework	July 2013, Nov 2013	N/A

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
	EI Revenue Administration	August 2013	N/A
	EI PFM Legal framework and TSA	September 2013	N/A
	EI PFM TSA and natural resource fund management	December 2013	N/A
	EI Fiscal Framework	February 2014	N/A
	MCM		
	Reserve management capacity building	October 2013	N/A
	Monetary and Foreign Exchange Operations	October 2013	N/A
	STA		
	National Accounts	Apr 2013, July 2013, Apr 2014	N/A
	Price Statistics	November 2013	N/A
B. Agreement on Joint Products and Missions			
Joint products in 2013	MTDS—Medium-Term Debt Management Strategy	December 2013	N/A
	Joint Staff Advisory Note		Nov 2013
	Assisting the authorities with the implementation of their financial sector reform strategy		Continuous

STATISTICAL ISSUES

As of September 5, 2013

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance purposes. Data management advanced since the end of the civil conflict that resulted in a virtual collapse of statistical systems in the late 1990s. However, deficiencies still affect balance of payments (BOP) and international investment position (IIP) statistics, national accounts, government finance statistics, and social indicators. A major and sustained improvement in the coverage and timeliness of economic data will require greater interagency coordination and restructuring of the institutional framework.
National Accounts: Improvements have been made in the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Under a new DFID-funded project five technical assistance missions have visited Freetown since 2010 to improve annual estimates of GDP. In 2012, national accounts were rebased using 2006 prices. Remaining issues concern developing better data sources for agricultural and mineral production, and generally continuing the improvement of informal sector measurement. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by Statistics Sierra Leone (SSL).
Price Statistics: The SSL compiles the CPI monthly and publishes it with a lag of about three weeks. It has been rebased to 2007 using the 2007 Sierra Leone integrated household survey and continues to cover the capital city and three main districts. While a national CPI is being compiled, the authorities continue to publish the old CPI (1992=100). The authorities have requested technical assistance for the preparation and adoption of a single index. Technical assistance missions visited Freetown in August 2012 to review the CPI and to advice on the development of a producer price index (PPI). The authorities are working to improve the index calculation methods for the CPI and procedures to aggregate regional CPIs to obtain the national index. The Authorities have developed PPI weights, selected a representative sample of establishments, and selected representative products and transaction for price collection. A work plan, in the form of Project Framework Summary, was drafted for the preparation of the new PPI.
Government Finance Statistics: The budget reporting system was established with assistance from the Fund/UNDP technical assistance project. Monthly cash flow data on central government revenue, current expenditure, and financing are provided. The transaction coverage of the central government cash flow is incomplete. There is an urgent need for more timely and accurate data on foreign-financed development projects. Reports on implementation of the development budget and its financing are currently not produced in a format that is suitable for budget analysis because the necessary data are not available. The authorities are currently considering introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects. As part of the GDDS regional project for Anglophone African countries, work has been undertaken to reconcile fiscal and monetary data and to improve the coverage and classification of the two data sets. With the current drive towards decentralization and the growing role of local government, there is an urgent need to compile and monitor the operations (and financial balance sheet data) for the consolidated general government.

Monetary and Financial Statistics: The main components of the central bank balance sheet are available daily and weekly under the early warning system on key financial targets. The full monetary survey is compiled by the Bank of Sierra Leone (BSL) with a lag of about six weeks; it has comprehensive coverage of commercial banks.

Significant progress has been made by the BSL in the compilation of monetary data. The BSL, with assistance from STA, has completed the migration to standardized report forms (SRFs) for the central bank and other depository corporations (ODCs). However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial corporations.

External Sector Statistics: The BSL is responsible for compiling BOP and IIP statistics, which are currently prepared on an annual basis. Primary data sources are administrative-based data (BSL own records, government ministries, and Customs and Excise Department (Customs) records), partner-country and international organizations data, and the annual survey of major companies for estimates on services, income, and financial flows relating to direct, portfolio, and other investments.

External transactions are characterized by a large volume of activities in the informal sector. Trade data include to some extent estimates for illegal or smuggled goods (unrecorded diamond exports are estimated by deducting official diamonds export figures from trading partners' official diamonds imports from Sierra Leone). Coverage issues also exist for services, primary and secondary income, and capital and financial accounts.

Information on official grant and loan receipts is of generally good quality and is prepared by the IMF African Department (AFR) staff on the basis of contact with the authorities and donor agencies. Data on private capital flows are lacking; while information on financial transactions of banks are obtained directly from commercial bank records. Entries are estimated as differences in amounts of outstanding foreign assets and liabilities of commercial banks; thus, they may include valuation changes. Private financial flows, especially those linked to the informal diamond trade, may also affect "errors and omissions."

While the authorities are producing data on the IIP, the coverage as well as the consistency between BOP financial account transactions and the IIP data needs to be improved.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since 2003	No data ROSC is available.

III. Reporting to STA

Fiscal data are reported to AFR, but it is not disseminated in the *International Financial Statistics*. Data is reported for publication in the Government Finance Statistics, with the most recent data referring to 2011.

The BSL started reporting monetary data in the SRF-format to the IMF in April 2010.

Sierra Leone: Table of Common Indicators Required for Surveillance
September 2013

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	10/03/2013	10/10/2013	W	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	07/31/2013	09/4/2013	M	M	M
Reserve/Base Money	07/31/2013	09/4/2013	M	M	M
Broad Money	07/31/2013	09/4/2013	M	M	M
Central Bank Balance Sheet	07/31/2013	09/4/2013	M	M	M
Consolidated Balance Sheet of the Banking System	07/31/2013	09/4/2013	M	M	M
Interest Rates[3]	07/31/2013	09/4/2013	M	M	M
Consumer Price Index	08/31/2013	09/30/2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – General Government	07/31/2013	09/4/2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing– Central Government	07/31/2013	09/4/2013	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	06/30/2013	09/4/2013	Q	Q	Q
External Current Account Balance	12/31/2012	05/08/2013	A	A	A
Exports and Imports of Goods and Services	12/30/2012	05/08/2013	A	A	A
GDP/GNP	12/30/2012	05/08/2013	A	A	A
Gross External Debt	12/30/2013	09/4/2013	A	A	A
International Investment Position[4]	31/12/2012	05/08/2013	A	A	A

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

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

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

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

SIERRA LEONE

October 18, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Michel Lazare and Dhaneshwar Ghura (IMF) and Mark Roland Thomas and Sudarshan Gooptu (IDA)

Prepared by the staff of the International Monetary Fund and the World Bank.

Staff's assessment of Sierra Leone's debt sustainability indicates that the risk of debt distress remains moderate.[1] All debt indicators are below their policy-dependent indicative thresholds under the baseline scenario.[2] However, stress tests point to vulnerability to adverse shocks affecting key macroeconomic variables, particularly exports in view of Sierra Leone's narrow export base. To contain the risk of debt distress emanating from these shocks and support long-term debt sustainability, it is critical to maintain prudent borrowing policies, sustain fiscal consolidation efforts, continue implementation of growth-enhancing structural reforms, and promote economic diversification. The authorities agreed with Staff's assessment and policy recommendations.

[1] This Debt Sustainability Analysis (DSA) is based on the Debt Sustainability Framework (DSF) for low-income countries (LICs), approved by the Executive Boards of the IMF and World Bank. It updates the previous joint DSA dated September 5, 2012; and takes into account the recent decision by the Executive Boards of the IMF and the WB to adopt a unified discount rate of 5 percent for the purpose of calculating the present value of the external debt of LICs and assessing the concessionality of individual loans.

[2] Sierra Leone is a medium performer under the World Bank's Country Policy and Institutional Assessment (CPIA) classification, with an average rating of 3.28 for 2010–12. As a medium performer, the debt and debt service thresholds under the joint IMF-WB DSF for LICs applied for Sierra Leone are: (i) 150 percent for the Present Value (PV) of debt-to-exports ratio; (ii) 40 percent for the PV of debt-to-GDP ratio; and (iii) 250 percent for the PV of debt-to-revenue ratio. The relevant thresholds for debt service are: (i) 20 percent for debt service-to-exports ratio, and (ii) 20 percent for debt service-to-revenue ratio.

INTRODUCTION

1. **This debt sustainability analysis (DSA) updates the joint IMF-World Bank DSA presented to the Boards of both institutions in September 2012 and uses a unified discount rate of 5 percent to calculate the present value of external debt and assess concessionality**.[3] At that time, the DSA results showed that under the baseline scenario, all debt indicators were below their respective policy-dependent indicative thresholds throughout the projection period (2012–32). The analysis also indicated that the medium- to long-term debt outlook was vulnerable to adverse shocks to several macroeconomic variables, notably exports, prices, foreign direct investment (FDI) inflows, government revenue, and borrowing conditions. Although the long term macroeconomic outlook is somewhat better than under the September 2012 DSA, the current analysis reaches the same conclusion.

BACKGROUND AND ASSUMPTIONS

2. **The stock of public and publicly guaranteed external debt[4] amounted to US$0.98 billion at end-2012, and was mostly owed to multilateral creditors**. It declined from 142 percent of GDP at end–2005 to 26 percent of GDP at end–2012, mainly reflecting the impact of debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI).[5] Multilateral creditors account for the largest share of public and publicly guaranteed debt; and debt to commercial creditors, estimated at US$221 million (23 percent of total external debt), consists of arrears accumulated prior to and during the civil conflict. The authorities have been making goodwill payments to some commercial creditors to avoid litigation, and they are preparing a debt-buy-back operation with support from the World Bank. A road map to fast track the process has been agreed upon and preparatory work could be initiated in 2014.

3. **Domestic debt amounted to 10.8 percent of GDP at end-2012, and 29.4 percent of total public and publicly guaranteed debt**. While there has been a trend decline in domestic debt in relation to GDP, the portfolio has become increasingly concentrated in treasury securities, which have increased from some 55 percent of total domestic debt end–2007 to 71 percent at end–2012. The remaining domestic debt is comprised of the Government's overdraft facility at the Bank of Sierra Leone (BoSL), verified domestic payments arrears, and non-negotiable, non-interest bearing securities held by the BoSL. The issuance of marketable securities rose sharply in 2012 as fiscal slippages boosted borrowing needs. The new issuance was largely absorbed by commercial banks

[3] The 2012 DSA can be found at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=40051.0

[4] Public sector refers to the Central Government, regional government, all public enterprises, and the Bank of Sierra Leone.

[5] Sierra Leone has received debt relief under the MDRI Initiatives from the IMF, IDA, AfDB, EIB, IFAD, BADEA, IDB, and OPEC Fund. Under the HIPC Initiative, bilateral agreements have been signed with all participating creditors, except China, Kuwait, and Saudi Arabia.

and the non-bank public, which respectively held 69 percent and 20 percent of marketable securities at end–2012. The authorities have actively sought to lengthen maturities by increasing issuance of 364-day treasury bills, which has increased the weighted average maturity from around 6 months at end–2010 to 8.3 months at end–2012. Nonetheless, roughly half of the portfolio has a maturity of a half year or less, highlighting significant rollover and refinancing risks. Domestic interest payments increased from 1.4 percent of GDP in 2010 to 1.6 percent in 2012.

4. **The baseline macroeconomic assumptions underlying this DSA are summarized in Box 1**. The key changes from the previous DSA are as follows (Text Table 1):

- *Better growth prospects*. Real GDP growth is expected to be higher than in the 2012 DSA, reflecting a combination of a smoother iron ore production profile, and the authorities' efforts through their third-generation Poverty Reduction Strategy (PRS) to scale up public investment and create a better business environment.

- *Weaker fiscal position.* The current DSA assumes a higher primary deficit, particularly in the short run, mostly because of the anticipated scaling up of infrastructure investment as the implementation of the new PRS starts in 2014.

- *Higher external borrowing.* The current DSA assumes a higher level of external borrowing, in line with the implementation of the new PRSP. It also provides some room for nonconcessional borrowing for priority projects.

- *Stronger external position.* In the current DSA, the external current account deficit is expected to be stronger in the medium-to-long run, mostly due to better export prospects in extractive industries and agriculture.

Text Table 1. Selected Economic Indicators, 2012–33
(In percent of GDP, unless otherwise indicated)[1]

	2012	2013	2014	2015	2016	2017	2018	Long Term[2]
Real GDP Growth								
Current DSA	15.2	13.3	14.0	12.4	7.7	5.2	5.3	5.4
Previous DSA	21.3	7.5	13.0	4.9	4.9	5.0	5.0	5.3
Primary fiscal deficit (in percent of GDP)								
Current DSA	3.4	1.5	2.6	2.3	2.2	1.8	1.6	1.6
Previous DSA	0.6	1.1	1.4	1.6	1.6	1.6	1.7	1.3
Current account deficit (in percent of GDP)								
Current DSA	36.4	16.5	8.7	6.2	5.8	5.8	5.1	4.1
Previous DSA	12.9	9.1	6.5	6.2	6.5	6.4	5.5	5.9
Foreign direct investment (in percent of GDP)								
Current DSA	32.9	13.4	6.0	3.8	3.5	4.1	3.5	2.4
Previous DSA	10.6	6.5	4.5	4.5	4.4	4.2	4.2	4.1
External debt (in percent of GDP)								
Current DSA	25.8	24.2	23.5	22.8	23.2	23.6	24.1	27.3
Previous DSA	25.2	25.4	23.5	23.4	23.3	23.2	23.2	23.2
Domestic debt (in percent of GDP)								
Current DSA	10.8	11	10.3	9.9	9.9	9.9	9.6	9.6
Previous DSA	9.3	9.0	8.8	9.5	10.3	10.9	11.6	15.4

Sources: The Sierra Leone Authorities and IMF staff projections.
1/ All GDP ratios include iron ore activity
2/ For the current DSA, the long term covers the period 2019-33, and for the previous DSA it covers the period 2018-32.

Box 1. Baseline Macroeconomic Assumptions

- The economy is expected to grow by 13.3 percent in 2013, and by an average rate of about 9 percent for 2014–18, driven by public investment scaling up in the context of the authorities' new PRS, iron ore production and output expansion in agriculture. Over the long-term, growth would moderate to about 5.5 percent.

- Inflation is projected to decline to single-digit levels starting in 2014. Assuming that monetary policy will remain prudent and fiscal consolidation efforts will be sustained, the twelve-month inflation rate would decline from 12 percent in 2012 to 9 percent in 2013; and hover around 5.5 percent over the long-term.

- The overall fiscal deficit is projected to improve over the medium-to-long term, with the domestic primary deficit forecast to decline from 3.4 percent of GDP in 2012 to 1.6 percent in 2018; and to stabilize at that level during 2019–2033. Revenue and grants are projected to remain in the 15–16 percent of GDP range during the projection period, as a modest increase in revenue compensates for the projected decline in grants. Primary (non-interest) expenditure is projected to decline from 18.7 percent of GDP in 2012 to roughly 15.5 percent over the medium term, reflecting a break with past spending patterns as fiscal consolidation takes hold.

- The external current account deficit is forecast to narrow over the medium-to-long-term consistent with the projected increase in iron ore and other exports, as well as favorable terms of trade. Import dynamics broadly reflect the projected overall real GDP growth.

- New external loans are projected to average 2.3 percent of GDP over the medium-term and long term, consistent with the authorities' objectives under the new PRS. The DSA also assumes some nonconcessional borrowing limited at 0.5 percent of GDP (US$30 million) per year, during the projection period to finance key priority projects for which the authorities would not be able to secure concessional funding.

- Domestic debt is projected to decline from 11 percent of GDP in 2013, to 10 percent by the end of the projection period, consistent with the expected improvement in the fiscal position.

- This period of fiscal consolidation does not see the emergence of broader fiscal risks.

EXTERNAL DEBT SUSTAINABILITY

5. **The external DSA indicates that Sierra Leone is at a moderate risk of debt distress, similar to the conclusion of the previous DSA**. Under the baseline scenario, all debt indicators remain well below their respective policy-dependent indicative thresholds (Figure 1 and Table 1) during the projection period. Nonetheless, as in the previous DSA, there is a rising trend in all indicators, during the period 2019–33, consistent with a steady increase in debt accumulation and a conservative assumption on future iron ore production. Debt service ratios are expected to remain significantly below their relevant policy-dependent indicative thresholds, partly reflecting the decline in Sierra Leone's debt burden thanks to past debt relief initiatives, and the favorable impact of iron ore production on exports and government revenue.

6. **Stress tests results highlight Sierra Leone's vulnerability to adverse exogenous shocks affecting exports, exchange rate, and borrowing terms** (Figure 1 and Table 2). The most extreme shock stemming from lower export growth[6] shows a greater impact on debt indicators related to exports and government revenue. The PV of debt-to-exports ratio rises continuously over the medium to long term, but stabilizes at the policy-dependent threshold during 2025–33. This is consistent with the structural break in key macroeconomic variables created by the onset of large-scale iron ore production in 2012. The PV of debt-to-revenue ratio, although elevated, remains below the indicative threshold, and trends downward after an initial increase in 2014–15. Since revenue performance is projected to strengthen in the long run, the increase in vulnerability on revenue compared with the baseline scenario is triggered by the impact of the shock on borrowing. Compared with the 2012 DSA, the improvement in Sierra Leone's ranking to medium performer, and the use of the new discount rate of 5 percent recently adopted by the IMF and World Bank Executive Boards also contributes to a better long-term debt outlook. Under the alternative scenarios involving a one-time 30 percent nominal depreciation in 2014, additional external borrowing on less favorable borrowing terms,[7] or a combination of the abovementioned shocks, all debt indicators increase continuously through 2033 while remaining under their indicative thresholds.

PUBLIC SECTOR DEBT SUSTAINABILITY

7. **DSA results for total public sector debt indicate that there are no significant vulnerabilities linked to domestic debt** (Figure 2 and Table 3). Under the baseline scenario, the PV of public debt-to-GDP and to revenue ratios are both expected to modestly increase in the long run, consistent with results from the external DSA. Stress tests point to vulnerability to shocks affecting economic growth (See Figure 2 and Table 4): under an alternative scenario assuming a real GDP growth shock,[8] both the PV of public debt-to-GDP ratio and the PV of public debt-to-revenue ratio

[6] The shock is defined as the exports value growth at historical average minus one standard deviation in 2014–15.

[7] This scenario assumes that the interest rate on new borrowing is 200 basis points higher than in the baseline scenario, while the grace period and the maturity are the same as in the baseline scenario.

[8] This scenario assumes that real GDP growth is at baseline minus one standard deviation in 2014–15.

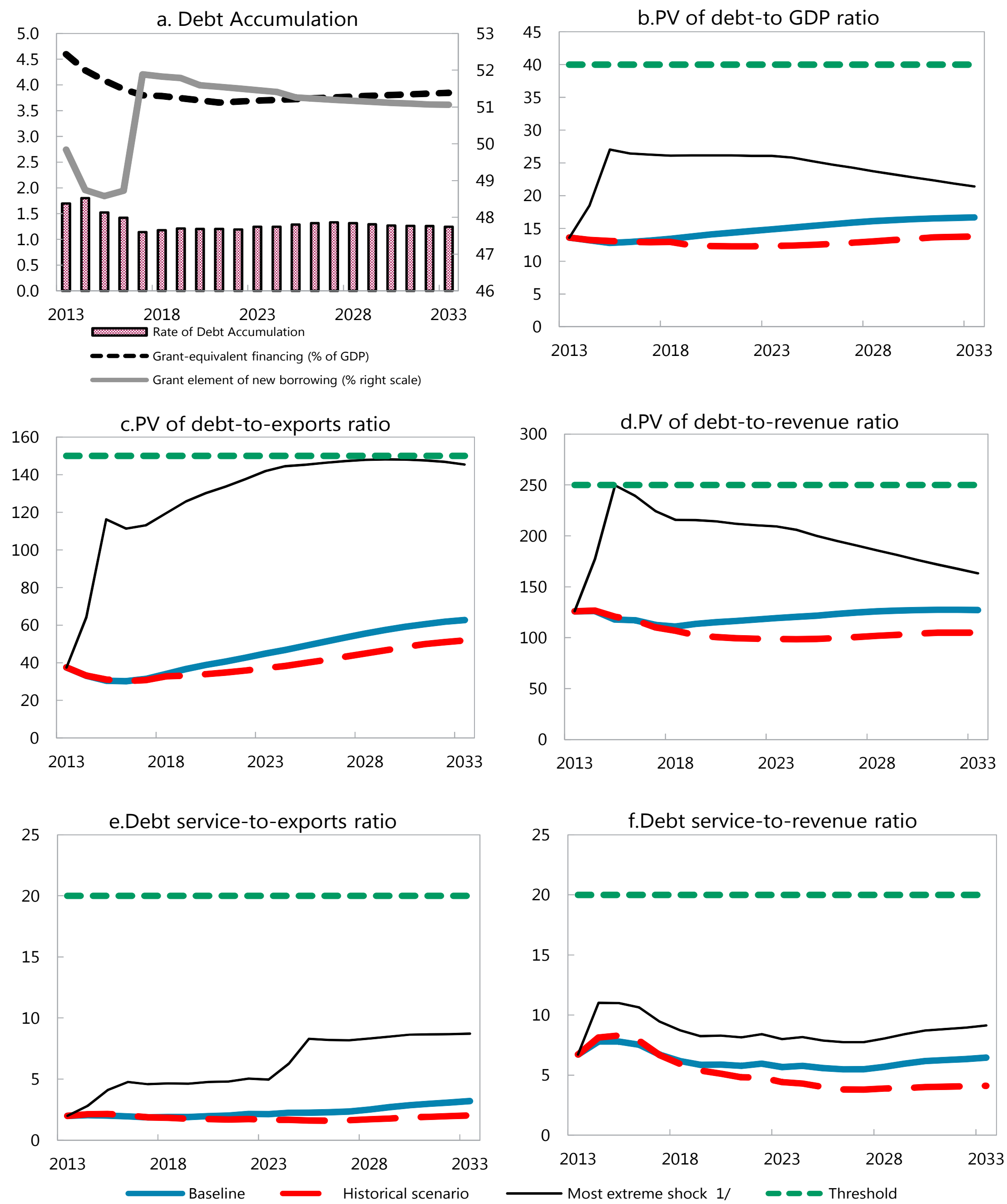
would increase continuously through 2033 with the former reaching 50 percent in 2033 (27 percent under the baseline scenario) and the latter rising to 309 percent (171 percent under the baseline scenario).

CONCLUSIONS

8. **Sierra Leone remains at a moderate risk of debt distress**. This assessment is similar to that reached under the September 2012 DSA. In the baseline scenario, all debt indicators remain below their respective policy-dependent indicative thresholds throughout the projection period. However, results for alternative scenarios show that, although debt indicators remain below their indicative thresholds during the projection period, the long-term debt outlook is vulnerable to various shocks that could conceivably lead to a breach of thresholds, particularly for exports. An additional source of vulnerability is the short-term maturity structure of public domestic debt, which creates roll-over risks. To support long-term debt sustainability it will be important for the authorities to enhance revenue collection, particularly in the non-mineral economy, strengthen expenditure and debt management, implement growth-enhancing policies, promote export diversification, and maintain prudent borrowing policies.

9. **The authorities agreed with staff's assessment, and reiterated the call for more flexibility in borrowing conditions to facilitate access to nonconcessional borrowing for priority projects**.

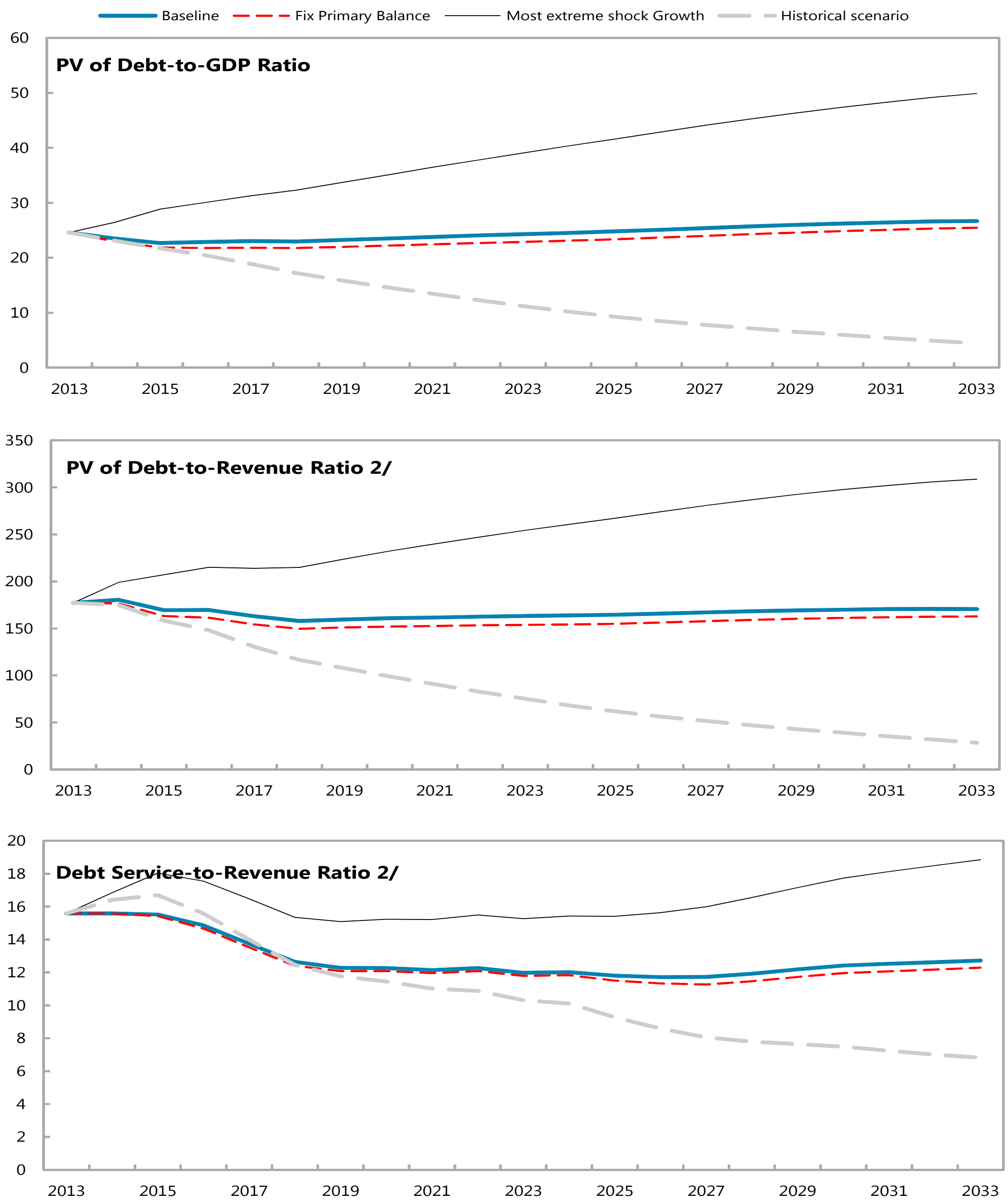
Figure 1. Sierra Leone: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2013–33[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Sierra Leone: Indicators of Public Debt Under Alternative Scenarios, 2013–33[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1. Sierra Leone: External Debt Sustainability Framework, Baseline Scenario, 2010–33[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**32.0**	**32.8**	**25.8**			**24.2**	**23.5**	**22.8**	**23.2**	**23.6**	**24.1**		**26.4**	**28.9**	
of which: public and publicly guaranteed (PPG)	32.0	32.8	25.8			24.2	23.5	22.8	23.2	23.6	24.1		26.4	28.9	
Change in external debt	-0.1	0.7	-6.9			-1.7	-0.7	-0.6	0.3	0.5	0.5		0.4	0.1	
Identified net debt-creating flows	4.4	2.3	-3.7			0.4	-0.1	0.0	0.9	0.7	0.6		0.7	0.3	
Non-interest current account deficit	**19.5**	**44.7**	**36.4**	**13.1**	**15.5**	**16.5**	**8.7**	**6.2**	**5.8**	**5.8**	**5.1**		**4.7**	**3.0**	4.1
Deficit in balance of goods and services	25.9	52.1	38.8			19.8	7.8	1.6	-1.8	-1.9	0.4		5.2	7.8	
Exports	16.4	18.6	29.0			36.3	39.8	42.0	42.8	41.9	39.4		33.1	26.6	
Imports	42.3	70.7	67.8			56.1	47.6	43.6	41.1	40.0	39.8		38.4	34.4	
Net current transfers (negative = inflow)	-8.2	-8.5	-5.8	-7.1	2.3	-5.2	-4.9	-4.8	-4.8	-4.8	-4.8		-4.8	-5.0	-4.8
of which: official	-6.3	-3.8	-1.8			-1.3	-1.1	-1.1	-1.1	-1.2	-1.2		-1.3	-1.7	
Other current account flows (negative = net inflow)	1.8	1.0	3.4			1.8	5.9	9.4	12.4	12.4	9.4		4.2	0.2	
Net FDI (negative = inflow)	**-13.7**	**-38.7**	**-32.9**	**-10.9**	**13.7**	**-13.4**	**-6.0**	**-3.8**	**-3.5**	**-4.1**	**-3.5**		**-2.9**	**-1.5**	-2.4
Endogenous debt dynamics 2/	**-1.4**	**-3.7**	**-7.2**			**-2.7**	**-2.8**	**-2.4**	**-1.4**	**-1.0**	**-1.0**		**-1.1**	**-1.2**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.3	
Contribution from real GDP growth	-1.6	-1.7	-3.8			-2.8	-2.9	-2.5	-1.6	-1.1	-1.2		-1.3	-1.6	
Contribution from price and exchange rate changes	0.1	-2.2	-3.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.5**	**-1.6**	**-3.2**			**-2.1**	**-0.6**	**-0.6**	**-0.5**	**-0.2**	**-0.1**		**-0.3**	**-0.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.5			13.6	13.2	12.8	12.9	13.2	13.4		14.9	16.7	
In percent of exports	...	...	50.0			37.5	33.1	30.4	30.2	31.4	34.0		44.9	62.8	
PV of PPG external debt	**...**	**...**	**14.5**			**13.6**	**13.2**	**12.8**	**12.9**	**13.2**	**13.4**		**14.9**	**16.7**	
In percent of exports	**...**	**...**	**50.0**			**37.5**	**33.1**	**30.4**	**30.2**	**31.4**	**34.0**		**44.9**	**62.8**	
In percent of government revenues	**...**	**...**	**127.3**			**126.0**	**126.2**	**117.9**	**117.1**	**112.5**	**110.8**		**119.3**	**127.1**	
Debt service-to-exports ratio (in percent)	**3.3**	**3.3**	**2.3**			**2.0**	**2.0**	**2.0**	**1.9**	**1.9**	**1.9**		**2.1**	**3.2**	
PPG debt service-to-exports ratio (in percent)	**3.3**	**3.3**	**2.3**			**2.0**	**2.0**	**2.0**	**1.9**	**1.9**	**1.9**		**2.1**	**3.2**	
PPG debt service-to-revenue ratio (in percent)	**5.4**	**5.3**	**6.0**			**6.7**	**7.8**	**7.8**	**7.5**	**6.7**	**6.2**		**5.7**	**6.5**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.5	
Non-interest current account deficit that stabilizes debt ratio	19.6	43.9	43.4			18.1	9.4	6.8	5.5	5.3	4.6		4.3	2.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.3	6.0	15.2	6.8	3.5	13.3	14.0	12.4	7.7	5.2	5.3	9.7	5.3	5.8	5.4
GDP deflator in US dollar terms (change in percent)	-0.3	7.3	12.2	4.9	6.1	7.3	2.6	2.4	1.9	1.8	1.7	3.0	1.3	1.4	1.3
Effective interest rate (percent) 5/	0.5	0.7	0.8	0.9	0.4	0.6	0.7	0.7	0.8	0.7	0.8	0.7	1.0	1.2	1.0
Growth of exports of G&S (US dollar terms, in percent)	30.6	28.9	101.4	23.7	30.7	52.0	28.5	21.4	11.9	4.7	0.9	19.9	3.4	6.0	4.1
Growth of imports of G&S (US dollar terms, in percent)	90.2	90.1	23.8	26.5	35.7	0.6	-0.7	5.5	3.3	4.3	6.8	3.3	5.5	6.7	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	49.8	48.7	48.6	48.7	51.9	51.8	49.9	51.5	51.1	51.3
Government revenues (excluding grants, in percent of GDP)	9.9	11.5	11.4			10.8	10.4	10.8	11.1	11.7	12.1		12.5	13.1	12.7
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.3			0.2	0.3	0.3	0.3	0.3	0.4		0.5	1.0	
of which: Grants	0.1	0.2	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.5	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.6	4.3	4.1	3.9	3.8	3.8		3.7	3.8	3.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			75.3	70.6	71.8	71.6	75.2	75.2		75.5	75.5	75.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.6	2.9	3.8			4.6	5.4	6.2	6.8	7.3	7.8		10.7	21.1	
Nominal dollar GDP growth	5.1	13.8	29.2			21.6	17.0	15.1	9.7	7.2	7.1	12.9	6.7	7.3	6.8
PV of PPG external debt (in Billions of US dollars)			0.6			0.6	0.7	0.8	0.9	0.9	1.0		1.6	3.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.7	1.8	1.5	1.4	1.1	1.2	1.5	1.2	1.2	1.3
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.3			13.5	13.1	12.7	12.9	13.1	13.3		14.8	16.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	48.2			36.6	32.5	29.9	29.8	31.0	33.5		44.2	62.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.3			1.9	2.0	2.0	1.9	1.8	1.9		2.1	3.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33
(In percent)

		Projections						
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	14	13	13	13	13	13	**15**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	14	13	13	13	13	13	**12**	14
A2. New public sector loans on less favorable terms in 2013-2033 2	14	14	14	15	16	17	**21**	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	14	14	15	15	16	16	**18**	20
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	14	19	27	26	26	26	**26**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	14	13	14	14	14	14	**16**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	14	17	20	20	20	20	**20**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	14	19	25	25	25	25	**26**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	14	18	18	18	18	19	**21**	23
PV of debt-to-exports ratio								
Baseline	38	33	30	30	31	34	**45**	63
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	38	33	31	30	31	33	**37**	52
A2. New public sector loans on less favorable terms in 2013-2033 2	38	35	34	35	38	43	**64**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	38	33	30	30	31	34	**44**	62
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	38	64	116	111	113	119	**142**	145
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	38	33	30	30	31	34	**44**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	38	44	48	46	47	50	**62**	71
B5. Combination of B1-B4 using one-half standard deviation shocks	38	51	68	66	67	72	**87**	98
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	38	33	30	30	31	34	**44**	62
PV of debt-to-revenue ratio								
Baseline	126	126	118	117	113	111	**119**	127
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	126	127	121	117	110	107	**99**	105
A2. New public sector loans on less favorable terms in 2013-2033 2	126	133	131	136	136	139	**170**	207
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	126	137	139	138	133	131	**141**	150
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	126	177	250	239	224	216	**209**	163
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	126	129	125	124	119	118	**127**	135
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	126	167	185	179	169	164	**164**	144
B5. Combination of B1-B4 using one-half standard deviation shocks	126	178	234	227	214	207	**205**	175
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	126	175	164	163	157	154	**166**	177

Table 2. Sierra Leone: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (concluded)
(In percent)

Debt service-to-exports ratio								
Baseline	2	2	2	2	2	2	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	2	2	2	2	**2**	2
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	2	2	2	2	**3**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	3	4	5	5	5	**5**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	**2**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	2	2	2	2	**2**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	3	3	**3**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	2	2	2	2	2	**2**	3
Debt service-to-revenue ratio								
Baseline	7	8	8	8	7	6	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	7	8	8	8	7	6	**4**	4
A2. New public sector loans on less favorable terms in 2013-2033 2	7	8	8	8	8	8	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	7	9	9	9	8	7	**7**	8
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	7	8	9	10	9	8	**7**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	7	8	8	8	7	7	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	7	8	9	9	8	7	**7**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	7	9	10	11	10	9	**8**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	7	11	11	11	9	9	**8**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	49	49	49	49	49	49	**49**	49

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sierra Leone: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	46.8	44.4	36.7			35.2	33.8	32.8	33.1	33.5	33.7		35.9	39.0	
of which: foreign-currency denominated	32.3	33.0	25.9			24.2	23.5	22.8	23.2	23.6	24.1		26.4	28.9	
Change in public sector debt	-1.2	-2.5	-7.7			-1.5	-1.4	-1.0	0.4	0.4	0.2		0.4	0.1	
Identified debt-creating flows	-2.0	-4.3	-5.9			-3.3	-1.8	-1.2	0.4	0.7	0.4		0.5	0.1	
Primary deficit	3.5	2.6	3.4	-1.3	7.5	1.5	2.6	2.3	2.2	1.8	1.6	2.0	1.7	1.6	1.6
Revenue and grants	15.2	17.0	15.2			13.9	13.0	13.4	13.5	14.1	14.5		14.9	15.7	
of which: grants	5.3	5.6	3.8			3.1	2.6	2.6	2.4	2.4	2.4		2.4	2.5	
Primary (noninterest) expenditure	18.7	19.6	18.7			15.4	15.6	15.7	15.7	16.0	16.1		16.6	17.2	
Automatic debt dynamics	-5.3	-6.1	-8.5			-4.6	-4.1	-3.4	-1.9	-1.2	-1.2		-1.2	-1.4	
Contribution from interest rate/growth differential	-3.5	-3.3	-5.6			-3.9	-3.9	-3.2	-1.9	-1.2	-1.3		-0.8	-0.9	
of which: contribution from average real interest rate	-1.0	-0.7	0.2			0.5	0.4	0.5	0.5	0.4	0.4		0.9	1.2	
of which: contribution from real GDP growth	-2.4	-2.6	-5.8			-4.3	-4.3	-3.7	-2.3	-1.6	-1.7		-1.8	-2.1	
Contribution from real exchange rate depreciation	-1.8	-2.8	-2.9			-0.8	-0.2	-0.1	0.0	0.0	0.1		...	...	
Other identified debt-creating flows	-0.2	-0.7	-0.8			-0.2	-0.3	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	-0.3	-0.1			-0.1	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.2	-0.5	-0.8			-0.2	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.8	1.8	-1.8			1.8	0.5	0.2	0.0	-0.3	-0.2		-0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	25.3			24.6	23.5	22.7	22.9	23.0	23.0		24.3	26.7	
of which: foreign-currency denominated	...	...	14.5			13.6	13.2	12.8	12.9	13.2	13.4		14.9	16.7	
of which: external	...	...	14.5			13.6	13.2	12.8	12.9	13.2	13.4		14.9	16.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.4	5.0	5.7			3.7	4.6	4.4	4.3	3.8	3.4		3.5	3.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	166.4			177.2	180.4	169.4	169.6	162.9	158.0		163.3	170.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	222.6			228.0	225.1	209.5	207.1	196.9	189.8		195.0	203.7	
of which: external 3/	...	...	127.3			126.0	126.2	117.9	117.1	112.5	110.8		119.3	127.1	
Debt service-to-revenue and grants ratio (in percent) 4/	12.6	14.0	14.7			15.6	15.6	15.5	14.9	13.8	12.6		12.0	12.7	
Debt service-to-revenue ratio (in percent) 4/	19.4	20.8	19.6			20.1	19.4	19.2	18.1	16.6	15.2		14.3	15.2	
Primary deficit that stabilizes the debt-to-GDP ratio	4.7	5.1	11.1			3.1	4.0	3.3	1.9	1.4	1.4		1.3	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.3	6.0	15.2	6.8	3.5	13.3	14.0	12.4	7.7	5.2	5.3	9.7	5.3	5.8	5.4
Average nominal interest rate on forex debt (in percent)	0.5	0.7	0.8	1.1	0.5	0.6	0.7	0.7	0.8	0.7	0.8	0.7	1.0	1.2	1.0
Average real interest rate on domestic debt (in percent)	-5.3	-1.9	4.9	-1.9	3.5	6.7	6.5	7.8	7.9	7.6	7.1	7.3	7.8	7.9	7.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.8	-9.2	-10.1	-2.4	8.9	-3.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	17.2	17.3	12.1	12.6	3.7	9.1	6.5	5.9	5.1	4.9	4.7	6.0	4.4	4.5	4.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.1	0.1	0.1	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	49.8	48.7	48.6	48.7	51.9	51.8	49.9	51.5	51.1	...

Sources: Country authorities; and staff estimates and projections.

1/ Public sector comprises central government, regional government, and the BoSL. Debt is calculated on gross terms.

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

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sierra Leone: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	25	24	23	23	23	23	24	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	23	22	20	19	17	11	4
A2. Primary balance is unchanged from 2013	25	23	22	22	22	22	23	25
A3. Permanently lower GDP growth 1/	25	24	23	24	24	24	28	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	25	26	29	30	31	32	39	50
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	25	25	26	26	26	26	27	28
B3. Combination of B1-B2 using one half standard deviation shocks	25	25	26	27	28	29	35	45
B4. One-time 30 percent real depreciation in 2014	25	28	26	25	25	25	24	26
B5. 10 percent of GDP increase in other debt-creating flows in 2014	25	28	27	27	27	27	28	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	177	180	169	170	163	158	163	171
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	177	175	158	148	131	117	75	29
A2. Primary balance is unchanged from 2013	177	176	163	161	154	150	154	163
A3. Permanently lower GDP growth 1/	177	182	172	174	169	166	188	244
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	177	199	207	215	214	215	254	309
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	177	194	195	194	185	179	182	181
B3. Combination of B1-B2 using one half standard deviation shocks	177	191	189	196	194	195	229	278
B4. One-time 30 percent real depreciation in 2014	177	216	195	189	177	168	164	166
B5. 10 percent of GDP increase in other debt-creating flows in 2014	177	218	202	200	191	185	187	184
Debt Service-to-Revenue Ratio 2/								
Baseline	16	16	16	15	14	13	12	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	16	17	16	14	12	10	7
A2. Primary balance is unchanged from 2013	16	16	15	15	14	12	12	12
A3. Permanently lower GDP growth 1/	16	16	16	15	14	13	13	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	16	17	18	18	16	15	15	19
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	16	16	16	16	14	13	12	13
B3. Combination of B1-B2 using one half standard deviation shocks	16	17	17	17	16	15	14	17
B4. One-time 30 percent real depreciation in 2014	16	17	18	18	16	15	14	16
B5. 10 percent of GDP increase in other debt-creating flows in 2014	16	16	16	16	14	13	12	14

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 13/410
FOR IMMEDIATE RELEASE
October 21, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year, US$95.9 Million ECF Arrangement for Sierra-Leone

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for Sierra Leone in an amount equivalent to SDR 62.22 million (about US$95.9 million). The overall amount of the program represents 60 percent of Sierra Leone's quota in the IMF and enables the immediate disbursement of SDR 8.89 million (about US$13.7 million). The ECF-supported program seeks to underpin the government's economic program and aims to facilitate high-quality public investment and growth enhancing reforms in the context of macroeconomic stability.

The Executive Board also concluded the 2013 Article IV consultations with Sierra Leone, which will be detailed in a separate press release in due course.

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement.

"Sierra Leone has achieved strong macroeconomic gains in recent years. Bolstered by iron production, economic growth has been robust, while inflation has been falling on the back of a tight monetary stance, a stable exchange rate, and lower food prices. The medium-term outlook is favorable, with policy focused on achieving strong broad-based growth, further disinflation, and an improved external position.

"Continued efforts will be needed to strengthen policy implementation, particularly in the fiscal area. The authorities' plans to strengthen public financial management appropriately aim to enhance revenue mobilization, improve spending controls, and reduce domestic debt. Key revenue components in their fiscal strategy include improvements in tax administration, reductions in tax exemptions, and the adoption of a comprehensive fiscal regime for the natural resources sector. Timely implementation of these reforms will be critical to buttress macroeconomic stability and the credibility of fiscal policy.

"The new Fund-supported program aims to underpin the authorities' development and poverty-reduction strategy. This strategy aims at entrenching macroeconomic stability and promoting inclusive growth through further infrastructure investments and economic diversification. The program calls for continued fiscal consolidation, strong monetary and exchange rate policies to support the single-digit inflation target, prudent borrowing policies, and growth-enhancing structural reforms."

ANNEX

Recent economic developments

Sierra Leone has made significant progress in the implementation of the ECF-supported program that was cancelled prior to its expiration at end-June. Reform measures and policies put in place have helped improve macroeconomic stability, advance social policies, and enhance prospects for broad and inclusive growth.

Economic growth accelerated and inflation declined in 2012. Real GDP growth is estimated at 15.2 percent, reflecting increased iron ore production, from 137,000 tons in 2011 to 6.6 million tons in 2012. Non-iron ore growth is estimated at 5.3 percent (5.8 percent in 2011), driven by output expansion in agriculture, manufacturing, construction, and services. In agriculture growth has been sustained since 2010 with the introduction of the government and donor-supported Small Holder Commercialization Program (SHCP).

Good progress has been made in containing consumer price inflation, and price pressures have eased. Inflation declined from 16.9 percent at end-2011 to 12 percent at end-2012, and 9.1 percent at end-September 2013. A significant increase in foreign direct investment flows during 2011 and 2012 has led to a surge in investment-driven imports, and helped finance the resultant external current account deficit. Revenue collection reached 12.2 percent of non-iron ore GDP compared with 11.5 percent in 2011 reflecting higher than anticipated taxes from the extractive sector that helped compensate for weak performance in other tax categories.

In spite of the progress noted, the country faces important challenges. Poverty, and unemployment are still high, and access to public and social services is limited. In addition, growth prospects are hindered by numerous obstacles, including insufficient power supply and road networks, and limited access to financial services, particularly for the small and medium-sized enterprises (SME).

Program and key medium term policy objectives

Although significant progress has been made since the end of the civil conflict toward social stability and a sustainable macroeconomic position, Sierra Leone needs more durable poverty reduction and growth efforts. The government intends to address remaining challenges and accelerate Sierra Leone's development through steadfast implementation of the new Poverty Reduction Strategy, the Agenda for Prosperity (AfP). The ECF-supported program seeks to underpin this effort by facilitating high quality public investment and growth enhancing reforms in a stable macroeconomic environment.

The medium-term objectives are to: (i) achieve a real GDP growth (excluding iron ore) of 7 percent by 2017; (ii) reduce inflation from 12 percent in 2012 to about 5.4 percent by 2017; and (iii) improve gross reserve coverage to about 4 months of non iron-ore related imports by the end of the program period.

Economic growth will be driven by continued public investment scaling up, increased productivity, notably in agriculture, and sustained activity in construction and services. Non-iron ore activity will also benefit from upstream activity in iron ore mining where production (under phase I of the largest mine) is expected to increase through 2015, and level off starting in 2016. Inflation is projected to decline from 9 percent in 2013 to 5.4 percent in 2017, on account of continued prudent monetary and exchange rate policies. In addition, monetary policy would be adequately calibrated to contain inflationary pressures, and macro-prudential measures would be geared towards a healthy expansion of private credit.

The government's medium-term fiscal strategy aims to strengthen revenue collection, improve expenditure management, and reduce domestic debt. Revenue performance will be supported by continuing sustained economic activity in the non-iron ore economy, and the projected increase in royalties from the mineral sector. The government will continue implementing measures needed to improve public financial management, notably to enhance expenditure commitment monitoring and capital expenditure management.

Monetary policy will continue to target price stability over the medium term. The Bank of Sierra Leone recognizes the need to build up foreign exchange reserves in light of the economy's vulnerability to external shocks. It will also actively pursue initiatives aimed at strengthening the financial system.

The government intends to accelerate implementation of structural reforms to support private sector development and enhance growth prospects in the non-mineral economy. In this regard, the government plans to rehabilitate the Bumbuna hydroelectric power plant and thermal power generators to increase energy supply; complete the teacher biometric verification exercise and the civil service remuneration survey; and implement measures to strengthen the Public Service Commission. It also intends to establish an SME Fund to finance new centers for training and skills development, including business management, accounting, and project design and introduce a one-stop window for imports clearance.

Press Release No. 13/450
FOR IMMEDIATE RELEASE
November 14, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes the 2013 Article IV Consultation with Sierra Leone

On October 21, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sierra Leone,[1] and approved a three–year arrangement under the Extended Credit Facility (ECF) in support of the authorities' economic and financial program for 2013–2016 (see Press Release No. 13/410).

Sierra Leone has made significant progress in macroeconomic stabilization over the last five years. Real Gross Domestic Product growth averaged some 7 percent, driven by output expansion in agriculture, mining, and services; as well as the scaling-up of infrastructure investment. Nonetheless, important impediments to broad-based growth remain, including large infrastructure gaps, insufficient energy supply, and limited access to safe water and sanitation.

To address the country's remaining challenges, the authorities have prepared a new Poverty Reduction Strategy–*Agenda for Prosperity*–that focuses on measures to advance economic diversification, improve public service delivery and social protection for the most vulnerable, and increase employment opportunities. The new strategy aims to achieve economic transformation through increased investment in energy, roads, transportation, and agriculture; as well as growth-enhancing structural reforms.

Recent economic and financial developments were encouraging. The inflation rate (year-on-year) declined from 12.1 percent in 2012 to 9.1 percent at end-September 2013, partly reflecting a tighter monetary policy stance. With the onset of iron ore exports, and better terms of trade, the external position improved in 2012, and gross international reserves rose to about 3 months of imports. The fiscal deficit stood at 5.6 percent of non-iron ore GDP in 2012, well above the original budget target because of expenditure overruns partly linked to the November elections. However, the fiscal position improved in the first half of 2013 thanks to revenue-enhancing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

measures, expenditure restraint, and enhanced Treasury cash management. Monetary and banking sector developments have been broadly satisfactory and risks to financial sector stability appear contained.

Medium-term prospects are positive. Growth is projected to remain robust, mainly driven by iron ore production and continued high public investment; while inflation is expected to decline further as monetary and fiscal policies remain prudent. The main risks to the outlook are related to possible adverse fluctuations in global commodity prices and uncertainties on iron ore production.

Executive Board Assessment

Executive Directors welcomed the progress made by Sierra Leone in recent years but noted that poverty remains widespread and improvement in social indicators has been modest. Accordingly, Directors emphasized that strong commitment to sound policies and structural reforms under the new ECF-supported program will be important to consolidate macroeconomic stability, build policy buffers, and foster sustainable and inclusive growth.

Directors stressed the importance of continued efforts to strengthen the fiscal position. They welcomed the authorities' renewed focus on revenue mobilization and their plans to improve expenditure controls and avoid further spending overruns. They looked forward to the authorities' medium-term expenditure framework which should guide the implementation of the new Poverty Reduction Strategy, including giving priority to infrastructure investment and pro-poor spending. To boost revenue, Directors called for measures to increase efficiency in tax administration, broaden the tax base, and establish a comprehensive tax regime for the natural resources sector. Accelerating public financial reforms should help strengthen budget processes and expenditure management, especially management of capital expenditure.

Directors welcomed efforts to improve debt management capacity and urged the authorities to continue to cover Sierra Leone's financing needs mainly with grants and concessional loans. They also called for a careful prioritization of large-scale infrastructure projects envisioned in their Poverty Reduction Strategy. Directors advised the authorities to ensure that large projects are consistent with macroeconomic stability and debt sustainability.

Directors encouraged the authorities to maintain a tight monetary policy to reduce inflation further. The monetary authorities should stand ready to raise the policy rate and mop up excess liquidity, if inflationary pressures intensify. Given Sierra Leone's vulnerability to external shocks, Directors saw merit in increasing international reserves over the medium term and maintaining a flexible exchange rate.

Directors noted that, while the financial sector has expanded significantly, the provision of financial services remains limited. They encouraged the authorities to take additional steps to broaden access and facilitate intermediation. Addressing gaps in banking supervision and strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework will also be important.

Directors emphasized that deeper structural reforms remain necessary to foster broad-based growth and reduce poverty. Key priorities should focus on improving the business environment, investing in infrastructure, including energy sector, and advancing economic diversification.

Table 1. Sierra Leone: Selected Economic Indicators, 2010–18

	2010	2011	2012[1] Prel.	2013	2014	2015	2016	2017	2018
	(Annual percent change, unless otherwise indicated)								
National account and prices									
GDP at constant prices	5.3	6.0	15.2	13.3	14.0	12.4	7.7	5.2	5.3
Excluding Iron ore	5.3	5.8	5.3	6.0	6.3	6.6	6.6	7.0	7.0
GDP deflator	17.2	17.3	12.1	9.1	6.5	5.9	5.1	4.9	4.7
Excluding Iron ore	17.2	17.3	14.3	8.8	10.6	9.5	6.7	4.8	4.5
Consumer prices (end-of-period)	18.4	16.9	12.0	9.0	7.5	6.0	5.4	5.4	5.4
Consumer prices (average)	17.8	18.5	13.8	10.3	7.7	6.7	5.7	5.4	5.4
External sector									
Terms of trade (deterioration -)	6.8	-0.7	4.9	-1.6	-4.9	-0.6	-0.2	0.3	0.1
Exports of goods	33.9	6.2	147.3	56.9	29.9	22.0	12.2	4.5	0.2
Imports of goods	92.3	85.2	-3.6	18.6	5.8	3.5	4.5	7.0	6.9
Average exchange rate (leone per US$)	3,978	4,349	4,344	…	…	…	…	…	…
Nominal effective exchange rate change (end-period, depreciation -)	-8.2	-4.1	1.0	…	…	…	…	…	…
Real effective exchange rate (end-period, depreciation -)	11.5	8.7	14.7	…	…	…	…	…	…
Gross international reserves, months of imports[2]	2.0	1.8	2.0	2.1	2.2	2.4	2.6	2.8	3.1
Excluding iron ore-related imports, months of imports[3]	3.4	2.8	3.1	3.2	3.4	3.6	3.9	4.1	4.4
Money and credit									
Domestic credit to the private sector	31.5	21.8	6.3	10.8	11.0	12.6	12.1	11.9	11.8
Base money	34.6	13.0	18.5	14.2	17.1	15.2	13.8	12.0	11.3
M2	21.8	20.0	23.1	14.8	18.8	16.5	15.0	13.3	11.9
91-day treasury bill rate (in percent)	24.5	23.4	19.0	…	…	…	…	…	…
	(Percent of non-iron ore GDP, unless otherwise indicated)								
National accounts									
Gross capital formation	31.1	42.2	28.6	18.2	19.1	19.3	19.3	19.3	19.3
Government	7.7	9.0	8.2	7.2	8.1	8.3	8.3	8.3	8.3
Private	23.4	33.1	20.3	11.0	11.0	11.0	11.0	11.0	11.0
National savings	11.4	-2.8	-10.8	-0.8	8.6	11.7	12.2	12.4	13.8
External sector									
Current account balance									
(including official grants)	-19.7	-45.0	-39.4	-19.1	-10.5	-7.7	-7.2	-7.0	-6.2
(excluding official grants)	-26.0	-48.8	-41.2	-20.6	-11.9	-9.1	-8.6	-8.4	-7.6
External public debt (including IMF)	30.4	32.6	27.8	27.3	27.4	27.3	27.6	27.7	27.9
Central government budget									
Domestic primary balance[4]	-5.9	-3.8	-3.8	-1.8	-2.3	-2.1	-1.9	-1.6	-1.3
Overall balance	-5.0	-4.6	-5.6	-3.1	-4.5	-4.3	-4.2	-3.7	-3.4
(excluding grants)	-10.3	-10.1	-9.7	-6.6	-7.6	-7.4	-7.1	-6.7	-6.2
Revenue	9.9	11.5	12.2	12.4	12.4	13.1	13.4	13.9	14.2
Grants	5.3	5.6	4.1	3.6	3.1	3.1	2.9	2.9	2.9
Total expenditure and net lending	20.2	21.6	21.9	19.1	20.0	20.5	20.5	20.6	20.4
Memorandum item:									
GDP at market prices (billions of Leone)[5]	10,256	12,755	16,459	20,357	24,713	29,421	33,298	36,752	40,535
Excluding iron ore	10,256	12,725	15,330	17,673	20,775	24,248	27,571	30,903	34,563
Excluding iron ore in millions of US$	2,578	2,926	3,529	4,000	4,531	5,112	5,637	6,134	6,661
Per capita GDP (US$)	441	489	615	729	832	933	998	1,042	1,088

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

[1] The commencement of iron ore mining causes a structural break in key macroeconomic variables in 2012.
[2] Refers to reserves in current year and imports in following year.
[3] Excludes import of capital goods and service related to the iron ore project that is externally financed.
[4] Revenue less expenditures and net lending adjusted for interest payments.
[5] Statistics Sierra Leone revised the National Accounts Statistics, based on IMF TA recommendations. This resulted in approximately a 30 percent increase in nominal GDP for the period 2001–11.

Statement by Momodou Bamba Saho, Executive Director for Sierra Leone

October 21, 2013

Background

1. The implementation of successive Fund-supported financing arrangements under the Poverty Reduction and Growth Trust, following the end of the civil conflict in 2002, has helped Sierra Leone maintain macroeconomic stability and return to a high and sustainable growth trajectory. In spite of the daunting challenges posed by adverse exogenous shocks from the global food and fuel crisis and the global financial crisis, the Sierra Leone authorities successfully completed implementation of their poverty reduction strategy (PRS), the '*Agenda for Change*', spanning 2008–2012. Significant progress was accomplished in the delivery of public services, the deepening of the financial sector, the strengthening of state institutions, and in reducing poverty.

2. To consolidate the progress made thus far, the authorities have commenced the process of addressing the residual socio-economic challenges and accelerating the country's development through steadfast implementation of a successor PRS, the '*Agenda for Prosperity*' (AfP). The AfP defines the country's development path for the period 2013–18, with the key objective of attaining inclusive, diversified, and sustainable economic growth, in tandem with employment generation and significantly reducing income inequality. To advance these objectives, the authorities decided to negotiate a new Fund arrangement that is aligned with the priorities set out in the AfP. It is against this background that my authorities request the Executive Board's approval of a new three-year program supported under the Extended Credit Facility (ECF).

3. My authorities appreciate the continued support of the Executive Board and Management throughout the years, including in the area of technical assistance. They are particularly grateful for the productive policy dialogue and advice proffered by the staff team during the negotiations for a new ECF arrangement. Mindful of the many challenges going forward, continued engagement with the Fund and other development partners is considered crucial to sustaining the growth momentum and reducing poverty. My authorities broadly share the thrust of the staff report, which they consider a balanced account of recent economic developments and policy challenges going forward.

Recent economic developments

4. Macroeconomic performance in 2013 has so far been impressive, with declining inflationary pressures, stable exchange rate, improving current account position, and sustainable public debt levels. Real GDP growth is projected at about 13.3 percent in 2013, driven mostly by increasing value-added from iron ore production. The non-iron ore economy is also projected to register a healthy 6 percent growth, with key contributions from agriculture, services, tourism, and sustained investment in infrastructure.

5. To address the fiscal slippages and domestic debt overhang which had come to characterize budget execution in recent years, my authorities instituted stringent measures to ensure fiscal discipline. A policy stance of zero domestic securities market borrowing was adopted; outstanding arrears, including ways and means advances carried over from the previous year, were cleared; a memorandum of understanding was signed with commercial banks to reduce delays in transferring

balances on the National Revenue Authority's transit accounts to the Treasury account at the central bank; and a decision was taken to terminate the 2013 expenditure commitments and issuance of payment orders at end-October and end-November, respectively, with a view to limit float transactions at the end of the year. Fiscal consolidation was rigorously pursued, through enhanced revenue mobilization and expenditure control. Total domestic revenue mobilized during the first half of 2013 amounted to 6.3 percent of GDP, exceeding the target for the period and actual collections for the corresponding period in 2012. Total expenditures and net lending, on the other hand, amounted to 6.8 percent of GDP, well within the budgeted amount of 7.5 percent of GDP.

6. The tight fiscal management in the first half of the year occasioned partly by the authorities' zero domestic borrowing stance, culminated in the significant decline in domestic interest rates translating into substantial savings in interest payments, thereby creating much needed fiscal space for productive spending. The 3-month Treasury bills rate plummeted to 5.4 percent at end-June 2013 from 19.0 percent in December 2012. Similarly, the Treasury bearer bonds rate fell to 9 percent at end-June 2013 from 20 percent in December 2012. Accordingly, the monetary policy rate was lowered from 20 percent to 15 percent. Inflationary pressures have continued to moderate with consumer price inflation falling to 9.3 percent (year-on-year) at end-August from 12 percent in December 2012. The decline reflects moderation in international food and fuel prices, the relative stability of the exchange rate, and pro-active monetary policy supported by fiscal restraint. The country's gross international reserves amounted to about 3 months of import coverage by end-August 2013.

Medium-term outlook and policies

7. The policy interventions over the medium term will be defined by the priorities outlined in the AfP. Over the period, policy will focus on preserving macroeconomic stability and strengthening public finances, while promoting private-sector, export-led growth and generating employment opportunities.

8. The growth prospects over the medium term are quite favorable, with real GDP growth averaging 10.5 percent, driven mostly by increased iron ore mining activities. Excluding iron ore, growth is projected to attain 7 percent by 2017 on account of continued scaling up of public investment, increased agricultural productivity, and sustained activity in construction and services. Exports are projected to increase significantly over the period culminating in the narrowing of the current account deficit by 13 percentage points of non-iron ore GDP. With the improved external current account coupled with unremitting capital inflows, gross international reserves is expected to increase from 3.2 months of imports in 2013 to 4.1 months by 2017. Inflation is projected to decline from 9 percent in 2013 to 5.4 percent in 2017 on the back of a stable exchange rate and continued prudent monetary policy.

Fiscal policy and public financial management

9. The authorities' demonstrable commitment to prudent fiscal management will underpin their fiscal strategy over the medium term. The efforts at fiscal consolidation will be sustained through enhanced domestic revenue mobilization, increased efficiency in expenditure management, and a reduction in the stock of domestic debt. On the revenue front, my authorities will seek to broaden the tax base, minimize discretionary duty exemptions, and strengthen revenue administration. The

legal, operational and institutional framework for efficient management of mining revenues will be strengthened. Amendments to the Government Budgeting and Accountability Act (GBAA) will be effected to provide for the establishment of a Natural Resource Revenue Fund and the incorporation of a countercyclical fiscal rule that regulates budgetary utilization of natural resource revenues.

10. On expenditures, the authorities will continue to restrain non-statutory recurrent expenditures while rationalizing capital spending, with increased allocations to priority sectors consistent with the country's AfP. Public financial management reforms and fiscal governance will continue to be strengthened within the context of the Integrated Public Financial Management Programme (IPFMRP). The further roll out of the Integrated Financial Management Information System (IFMIS) to government ministries, departments and agencies (MDAs) and the Petra financial management information system to local councils will strengthen budget preparation, budget execution, cash management and financial reporting. The establishment of a Treasury Single Account and improvement in the operational efficiency of the Cash Management Committee constitute important priorities going forward. In addition, my authorities will work on operationalizing the recently established Public Investment Management Unit (PIMU) with a view to expediting preparation of a public investment plan (PIP) that is fully integrated with the budget process and consistent with the MTEF.

Debt management policy

11. The Sierra Leone authorities intend to fast-track preparation of a comprehensive Medium-Term Debt Management Strategy (MTDS) that prioritizes the use of grants and highly concessional resources for project financing. Given the daunting challenges of securing concessional external financing for critical transformative infrastructure and social development projects outlined under the country's AfP, they would appreciate flexibility under the new ECF-supported program for the financing, on nonconcessional terms, of some socially and economically viable projects for which concessional funding could not be secured.

12. The latest update of staffs' debt sustainability analysis which affirms that Sierra Leone remains at a moderate risk of debt distress is welcomed. Mindful of the vulnerability of the long-term debt outlook to adverse shocks affecting key macroeconomic variables and roll-over risks from the short-term maturity structure of public domestic debt, my authorities agree with the policy prescriptions proffered by staff and will seek to maintain prudent borrowing policies.

Monetary and exchange rate policies

13. Monetary policy will continue to be implemented within the context of the monetary targeting framework which has proven to be appropriate in achieving price stability. To further enhance the efficacy of monetary policy in containing potential inflationary pressures and in attaining and maintaining single-digit inflation levels, the liquidity forecasting and management framework of the Bank of Sierra Leone (BSL) will be further strengthened. Efforts to deepen the secondary market and the interbank market for government securities will be enhanced in order to amplify the signaling effect and thus the monetary policy transmission mechanism.

14. The current flexible exchange rate regime will be maintained over the medium term to help facilitate rapid adjustments to exogenous shocks. The BSL's intervention in the foreign exchange market will continue to be limited to smoothening short-term exchange rate volatility. Going forward, the BSL will introduce new measures in the management of foreign exchange to ensure greater efficiency in the functioning of the inter-bank foreign exchange market, prevent loss of foreign exchange reserves and limit potential risk to liquidity and exchange rate volatility. This would include a new guideline for foreign exchange operations as well as a revised Foreign Exchange Act.

Financial sector reforms

15. The resilience of the financial sector to adverse domestic and external shocks will be further enhanced through effective implementation of the Financial Sector Development Plan (FSDP) that aims, amongst others, to safeguard financial sector stability, improve efficiency in financial intermediation, and expand access to financial services. The supervisory framework of the banking system will continue to be reinforced, including through an accelerated transition to risk-based supervision and full implementation of the Basel II Core Principles. Moreover, efforts will be made to strengthen the legal framework of the financial sector by instituting appropriate prudential regulations including enactment, over the near term, of the Borrowers and Lenders Bill, the Securities and Exchange Bill, and the Collective Investment Bill. Progress accomplished in modernizing the payments system will be further consolidated. With the promotion of financial inclusion an overarching medium-term goal, the BSL will work closely with development partners and fulfill its commitments under the Maya Declaration to the Alliance for Financial Inclusion geared towards scaling up access to financial services.

Other structural reforms

16. My authorities consider far-reaching structural reforms critical to the successful implementation of the new ECF-supported program and to achieving their medium-term objective as stated in the AfP. To this end, in addition to the structural fiscal and financial sector reform measures highlighted above, they will, over the near to medium term, seek to consolidate progress accomplished in modernizing the business regulatory framework and eliminating administrative barriers to investment; boost energy supply by rehabilitating the Bumbuna hydroelectric power plant and thermal power generators; achieve the Extractive Industries Transparency Initiative-compliant status by expediting the validation exercise; and strengthen the public procurement process by ensuring transparency in procurement activities and information dissemination, including through online access to procurement opportunities and contract awards.

The Agenda for Prosperity

17. As highlighted above, my authorities have embarked on a program of socio-economic transformation and development through judicious implementation of the AfP, on which the new ECF-supported program is to be predicated. While addressing the country's huge infrastructure deficit remains an integral part of the strategy, my authorities will maintain close engagement with development partners, notably the IMF and the World Bank, in assessing the economic feasibility and macroeconomic impacts of the financing options for key transformative projects prior to their implementation.

18. Finally, my authorities have initiated a series of global road shows to sensitize development partners and potential investors about the funding requirements and available investment opportunities in the country. A Consultative Group meeting and Investment Forum will be organized in Freetown later this year to effectively mobilize the resources needed to finance key projects identified under the AfP. My authorities count on the continued support of development partners in fulfilling the development aspirations of the people of Sierra Leone.