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IMF Resident Representative Office
Bank of Sierra Leone
2nd Floor, Sam Bangura Building
Freetown

## Contacts


**Dr. Francis Y. Kumah**
IMF Resident Representative
C/o Bank of Sierra Leone
2nd Floor, Sam Bangura Building
Freetown, Sierra Leone
Tel: +232 22 225 686
Cell : +232 76 559 329
Fax: +1 202 589 4108
E-mail: fkumah@imf.org

**Mr. Mathew Sandy**
Economist
IMF Resident Representative Office
C/o Bank of Sierra Leone
2nd Floor, Sam Bangura Building
Freetown Sierra Leone
E-mail: msandy@imf.org
Tel: +232 76 479 420

**Ms. Lydia Heroe**
Administrative Assistant
IMF Resident Representative Office
C/o Bank of Sierra Leone
2nd Floor, Sam Bangura Building
Freetown, Sierra Leone
E-mail: lsecker@imf.org
Tel: +232 76 479 418


## International Monetary Fund

**Resident Representative Office.**
**Freetown, Sierra Leone**

May 2013

# *Sierra Leone and the International Monetary Fund (IMF)*

**History of Engagement —Economic Policy Advice, Technical Assistance, Balance of Payments Financing, and Catalytic Role for Budget Support**

**May 2013**
**Freetown**

# Sierra Leone and the International Monetary Fund

## A. Role of IMF

1. The IMF provides support to its 187-member countries in the form of economic policy advice, technical assistance (or capacity building), and highly concessional balance of payments financing (with a zero-percent interest rate for low-income countries). It also plays a catalytic role in mobilizing donor financing for member countries.

## B. IMF Support to Sierra Leone

2. Sierra Leone joined the IMF in September 1962 (under Article VIII of the IMF's agreement) and has since benefited from economic policy advice, technical assistance (to the Ministry of Finance and Economic Development, Bank of Sierra Leone, Statistics Sierra Leone, and the National Revenue Authority). In addition, Sierra Leone has benefited from balance of payments support and debt relief (see paragraph 9), and the Fund's catalytic role in donor budget support. The history of IMF engagement with Sierra Leone during four periods is summarized as follows.

### *I. Independence and pre-conflict period engagement*

3. Sierra Leone enjoyed economic stability for almost two decades after it became a member of the IMF. However, significant economic slippages in the 1980s dented economic growth, generated triple-digit inflation, and the state accumulated payment arrears, including to the IMF.

4. The first IMF program—Rights Accumulation Program (RAP) approved in 1989—sought to reduce poverty by boosting economic growth, enhancing the provision and access to basic social services. Good progress was made under the RAP, prior to the civil conflict.

### *II. Conflict-period engagement*

5. Progress under the RAP was interrupted by the decade-long civil conflict (1991-2001). Sierra Leone, nonetheless, benefited from three successive IMF programs. These are:

- Structural Adjustment Facility (SAF)—1994-95,
- Enhanced SAF—1995-98, and
- Emergency Post-Conflict Assistance (EPCA)—1998-2001.

### *III. Post-conflict period engagement*

6. The Executive Board of the IMF approved a program supported under the Poverty Reduction and Growth Facility (PRGF) arrangement for the period 2001-05. The PRGF focused on poverty reduction by strengthening ownership of policies and economic development priorities derived directly from member country Poverty Reduction Strategy Papers (PRSP). Progress under the first PRGF helped Sierra Leone to qualify for the Highly Indebted Poor Countries (HIPC) decision point in March 2004.

7. A second PRGF-supported program was approved in May 2006 for 2006-10. Progress on this further helped Sierra Leone to reach the HIPC completion point and qualify for debt relief under both the HIPC and Multilateral Debt Relief Initiative (MDRI)—providing some US$1.6 billion debt cancellation in December 2006 and helping to accelerate pro-poor and infrastructure spending.

### *IV. Current engagement*

8. A three-year IMF program, supported under the Extended Credit Facility (ECF), was approved in July 2010. Four reviews of performance under the program have been successfully completed by the IMF Executive Board and five disbursements of SDR4.4 million (US$6.7 million) each have been made—one upon program approval and four following successful reviews. The ECF supported the PRSP II—*Agenda for Change*—and aims at: 1) creating fiscal space for priority pro-poor and infrastructure spending; 2) strengthening tax performance and improving public financial management; 3) developing the financial sector and strengthening the independence and supervisory role of Bank of Sierra Leone; and 4) developing the private sector by improving the business environment and enhancing access to credit.

Table. Sierra Leone: History of Engagement with the Fund 1994-12

| Facility | Date of Arrangement | Date of Expiration or Cancellation | Amount Agreed | Amount Drawn | Percent drawn |
|---|---|---|---|---|---|
| | | | (In millions of SDR) | | |
| SAF | 28-Mar-94 | 27-Mar-95 | 27.0 | 27.0 | 100 |
| ESAF | 28-Mar-94 | 4-May-98 | 101.9 | 96.8 | 95 |
| EPCA 1 | 9-Nov-98 | 9-Nov-99 | 11.6 | 11.6 | 100 |
| EPCA 2 | 17-Dec-99 | 17-Dec-00 | 15.6 | 15.6 | 100 |
| EPCA 3 | 8-Sep-00 | 8-Sep-01 | 10.4 | 10.4 | 100 |
| PRGF 1 | 26-Sep-01 | 25-Jun-06 | 130.8 | 130.8 | 100 |
| PRGF 2 | 10-May-06 | 22-Jun-10 | 51.9 | 51.9 | 100 |
| ECF | 1-Jul-10 | 30-Jun-13 | 31.1 | 22.2 | 71 |
| Total | | | 380.3 | 366.3 | 96 |

9. A successor ECF-supported program would soon be taken to the Executive Board of the IMF for approval—to support the *Agenda for Prosperity.*

## D. Recent economic developments and policy challenges

10. Economic activities have been robust but job creation has been inadequate. Real Gross Domestic Product growth expanded by 15.2 percent in 2012 (from 6.0 percent in 2011) and is projected at 13.3 percent in 2013 (supported by expansion in the mining sector, agriculture, manufacturing and construction)—a remarkable recovery from 3.2 percent in 2009 in the aftermath of the global food, fuel and financial crisis in 2008. The increase in real GDP growth in 2012 was mainly on account of commencement of iron ore mining by African Minerals and London Mining. Revenues from introduction of Goods and Services Tax (GST) in 2010 boosted domestic revenue by 2.7 percent of GDP in 2012 but high expenditures on implementation of the *Agenda for Change* programs widened the fiscal deficit to 5.6 percent of GDP in 2012, compared to a program target of 1.9 percent of GDP. Inflation declined to 12.0 percent in 2012, from 16.9 percent in 2011. It is projected to decline further to single digit—9.0 percent in 2013. Monetary policy remained tight in 2012, following fiscal expansion and excess credit from banks that fueled inflation and interest rate hikes. But have eased somewhat in 2013 as the yield on treasury securities have declined significantly. The external current account deficit improved in 2012—from a deficit of 48.8 percent of GDP in 2011 to 41.2 percent of GDP in 2012—and external debt remains sustainable (at 27.8 percent of GDP in 2012).

11. Achieving inclusive growth has been challenging. In addition, as mining activities expand, there is the challenge of escaping the resource curse. These challenges could be surmounted through a) effective management of the natural resources; b) good external trade relations and policy; c) better expenditure prioritization and debt management; d) monetary policy and financial system vigilance; and e) strengthening of public sector institutions and rule of law—which would support economic growth, create jobs and reduce poverty.

### *C. Key economic management issues*

12. In the medium term, economic management will be shaped by six key policy issues: 1) Revenue mobilization—particularly from the extractive industries; 2) Public investment in infrastructure and human development (health, education, social services and social support programs); 3) Public sector pay reform; 4) Debt management; 5) Private sector development and Public Private Partnership; and 6) Financial system stability. The IMF will continue to support Sierra Leone's economic management through, among other things, a) traditional technical assistance channels and balance of payments support; b) design of effective fiscal terms, tax administration practices, and public financial management systems, particularly in the wake of commencement of two massive iron ore projects and potential oil find; and c) economic policy advice to sustain macroeconomic stability and support inclusive growth.