

International Monetary Fund

[Sierra Leone](#) and the
IMF

Sierra Leone: Letter of Intent

Press Release:
[IMF Executive Board
Completes Sixth and
Final Review Under
Sierra Leone's PRGF
Arrangement and
Approves US\\$20.8
Million Disbursement](#)
June 2, 2005

May 9, 2005

The following item is a Letter of Intent of the government of Sierra Leone, which describes the policies that Sierra Leone intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Sierra Leone, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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May 9, 2005

Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. de Rato:

1. In September 2001, the Executive Board approved a three-year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF). At the time of the fourth review on February 23, 2004, the arrangement was extended through March 25, 2005, owing to delays in completing the review. On November 12, 2004, the Executive Board extended the period of the PRGF arrangement further through June 25, 2005, to allow sufficient time to conclude the sixth review.
2. Economic growth in 2004 remained robust, reflecting expansion of activity in key areas of the economy. Continued political and economic stability, albeit still fragile, has bolstered public confidence. Inflation has stabilized but remains at a high level, reflecting external factors, such as the high cost of imported fuel, and underlining the need for continued pursuit of prudent fiscal and monetary policies. Going forward, government policies are aimed at promoting sustainable economic growth while improving the delivery of public services. The government has identified several key developmental areas in the recently completed Poverty Reduction Strategy Paper (PRSP), which is also guiding the country's efforts in moving toward the Millennium Development Goals (MDGs).
3. Performance under the PRGF-supported arrangement at end-December 2004 was mixed. The government met most quantitative performance criteria except the target on the domestic primary fiscal deficit, which was missed by a small margin. This was for the most part due to an increase in wage and salary payments in the fourth quarter beyond what was envisioned under the program, caused by rising salary payments to foreign missions (due to exchange rate depreciation), and clearance of backlog payments to the National Social Security and Insurance Trust (NASSIT). The outcome reflects, in part, continued capacity constraints on the part of the government to adequately manage payroll and other outlays. To strengthen payroll management and the budget process, the DfID is extending technical assistance, under a three-year program. While progress was made in implementing structural measures under the program, the reconciliation of fiscal and monetary data for 2000–02, which is a structural performance criterion subject to the sixth review, was not completed by end-November 2004 as envisioned. It now appears that a full reconciliation is virtually impossible, reflecting the more limited coverage of actual fiscal data compared to monetary survey data. Therefore, the government reconciled fiscal and monetary data for 2001–04 on the basis of a narrower definition of government than was originally intended. This is a prior action subject to the sixth review. Going forward, the government is revamping the fiscal and monetary reporting system with technical assistance from the Fund, in order to facilitate a full reconciliation of fiscal and monetary data.

4. Furthermore, the government has completed three other measures as prior actions subject to the sixth review, reflecting their importance for the program. First, urban and suburban schools, except mission-operated primary schools, have opened individual bank accounts for the payment of teachers' salaries. Second, identification cards have been issued to all civil servants. And, third, the government has taken a definitive cabinet decision regarding clearance of the outstanding large domestic arrears.

5. In view of the foregoing, the government of Sierra Leone requests for waivers on the nonobservance of the end-December 2004 quantitative performance criterion on the domestic primary budget deficit, and on the nonobservance of the structural performance criterion related to the completion of the reconciliation of fiscal and monetary data for 2000–02. The government of Sierra Leone requests the completion of the sixth review under the PRGF arrangement and the release of the final disbursement, in the amount of SDR 14 million.

6. The government is resolute in maintaining the current cooperation with the IMF and to initiate discussions for a new PRGF-supported program after the completion of the sixth review. It has agreed with Fund staff on quarterly indicative targets for 2005. The government would like to request for an advance of the additional interim HIPC assistance for the period up to December 2005. This additional interim assistance is needed because Sierra Leone's external position remains fragile and the assistance would help smooth out the obligations falling due to the Fund. The previous Fund interim assistance committed under the HIPC Initiative expired on March 20, 2005.

7. The full Poverty Reduction Strategy Paper, completed in February 2005, was sent to you and the management of the World Bank on February 9, 2005. A Consultative Group meeting with donors is scheduled for early June 2005 in Paris, during which the government plans to seek financing for the PRSP activities, including the filling of the financing gap that has emerged as a result of the government's commitment to raise the share of poverty-related outlays in the budget.

8. The government authorizes the publication of this letter by the Fund, including the posting of the document on the IMF website, subsequent to Executive Board approval.

Sincerely yours,

/s/

Joseph B. Dauda
Minister of Finance
Freetown, Sierra Leone

Attachments

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets
Under the Poverty Reduction and Growth Facility Arrangement (January-December 2004)

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

	2004												December 17/			
	March 16/			June 16/			September 16/			Performance	Adjusted		Performance	Adjusted	Met or	
	Criteria	Adjusted PCs	Act.	Met or Not met	Indicative Targets	Adjusted targets	Act.	Met or Not met	Indicative Targets	Adjusted targets	Act.	Met or Not met	Criteria 17/	targets	Prel.	Met or Not met
Performance criteria																
Net domestic bank credit to the central government (ceiling) 2/ 3/	-25,000	9,454	25,292	Not met	-5,000	15,540	35,073	Not met	-2,000	13,950	48,439	Not met	-9,255	-35,675	-51,891	Met
Unadjusted target (ceiling)		-25,000				-5,000				-2,000				-9,255		
Adjustment for the shortfall (excess) external budget support		-37,908				-31,722				-52,011				28,122		
Adjustment for the issuance of treasury securities to the private sector		3,454				11,183				36,061				-1,702		
Net domestic assets of the central bank (ceiling) 2/ 4/ 5/	-5,000	40,849	23,633	Met	23,000	64,111	20,833	Met	26,000	93,910	11,191	Met	15,048	-4,316	-43,435	Met
Unadjusted target (ceiling)		-5,000				23,000				26,000				15,048		
Adjustment for the shortfall (excess) external budget support		-37,908				-31,722				-52,011				28,122		
Adjustment for exchange rate depreciation (appreciation)		7,941				9,389				15,899				8,758		
Domestic primary budget balance of the central government (floor) 6/	-46,049	-46,049	-25,445	Met	-81,415	-81,415	-51,253	Met	-109,578	-109,578	-71,227	Met	-81,361	-81,361	-84,060	Not met
Subsidies to National Power Authority (ceiling)	0.00	0.00	0.00	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met
Gross foreign exchange reserves of the central bank (in millions of U.S. dollars (floor)) 7/	18.31	-10.85	7.90	Met	5.67	-18.73	0.40	Met	21.7	-12.2	-0.73	Met	22.5	30.4	65.5	Met
Unadjusted target (floor)		18.31				5.67				21.7				22.5		
Adjustment for the shortfall (excess) external budget support		-29.16				-24.40				-14.45				7.87		
Adjustment for the shortfall in the U.S. dollar value of IMF disbursement		0.00				0.00				-19.41				0.00		
Contracting or guaranteeing of nonconcessional external debt 8/																
by the public sector (ceiling) with maturities of one year or more 9/ 10/	0.0	0.0	0.0	Met	0.0	0.0		Met	0.0	0.0		Met	0.0	0.0	0.0	Met
Outstanding stock of external debt owed or guaranteed by the public sector 11/																
with maturities of less than one year (ceiling) 12/	0.0	0.0	0.0	Met	0.0	0.0		Met	0.0	0.0		Met	0.0	0.0	0.0	Met
External payment arrears of the public sector (ceiling) 13/	0.0	0.0	0.0	Met	0.0	0.0		Met	0.0	0.0		Met	0.0	0.0	0.0	Met
Indicative targets																
Total domestic government revenue (floor)	82,642	82,642	80,025	Not met	165,967	165,967	174,734	Met	248,495	248,495	264,589	Met	348,083	348,083	356,966	Met
Government wage bill (ceiling)	43,023	43,023	42,604	Met	86,045	86,045	85,941	Met	129,068	129,068	125,064	Met	173,825	173,825	177,243	Not met
Poverty-related expenditures (floor)	54,937	54,937	29,048	Not met	102,888	102,888	68,167	Not met	139,573	139,573	106,324	Not met	150,522	150,522	134,691	Not met
Memorandum items:																
External budgetary assistance 14/	75,816		0		103,007		26,006		142,007	142,007	63,404		170,467	170,467	199,196	
Net credit to the central government by nonbank private sector 15/	556		4,008		11,513		22,694		11,406	11,406	41,771		51,230	51,230	49,528	

Sources: Sierra Leonean authorities; and IMF staff calculations.

1/ Variables are based on definitions in the technical memorandum of understanding (TMU) of October 2004.

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

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

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

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

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

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

8/ This performance criterion applies to debt as defined in Annex 1 of the TMU of October 2004.

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

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

11/ The term "debt" has the meaning set forth in Annex 1 of the TMU of October 2004.

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

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

14/ Including program grants and program loans.

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

16/ Quantitative performance criteria and indicative targets as specified in Table 3 (EBS/04/13).

17/ Cumulative changes have been calculated on the basis of actual end-December 2003 data.

Table 2. Sierra Leone: Prior Actions and Structural Benchmarks Subject to the Sixth Review
Under the Program Supported by the Poverty Reduction and Growth Facility Arrangement

Prior Actions and Structural Benchmarks	No.	Timing
Prior action		
A limited reconciliation of fiscal and monetary data for 2001-04 has been completed.		
All urban and suburban schools, except for mission-operated primary schools, have opened individual bank accounts for the payment of teachers' salaries.		
Terms and conditions for securitization of all remaining verified domestic arrears have been announced publicly.		
Identification cards have been issued to all civil servants.		
Benchmarks		
Specific measures have been elaborated to strengthen the Auditor General's Office, including the use of private accounting firms to expedite audits of government ministries and agencies.	1	December 31, 2004
The Budgeting and Accountability Act has been presented to parliament.	2	October 31, 2004
The Establishment Secretary's Office (ESO) database of civil servants and teachers is updated monthly and used to update the payroll database of the Accountant General's Office.	3	Continuous
Employment ceilings for individual schools will be published in the government gazette at the beginning of each school year.	4	Continuous
Diagnostic studies and reforms have been completed in six key ministries to rationalize structure, functions, and staffing in these ministries.	5	December 31, 2004
A medium-term budgetary framework incorporating all major mineral revenues has been formulated and discussed with development partners.	6	August 31, 2004.
Project has been launched to convert the ESO into a personnel management office.	7	December 31, 2004

Source: IMF

Table 3. Sierra Leone: Indicative Targets for 2005

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

	March Indicative Targets	June Indicative Targets	September Indicative Targets	December Indicative Targets
Indicative targets				
Net domestic bank credit to the central government (ceiling) 2/ 3/	15,375	21,180	36,403	12,356
Net domestic assets of the central bank (ceiling) 2/ 4/ 5/	31,474	65,255	103,432	70,503
Domestic primary budget balance of the central government (floor) 6/	-13,259	-24,960	-46,571	-57,878
Subsidies to National Power Authority (ceiling)	0.0	0.0	0.0	0.0
Gross foreign exchange reserves of the central bank, in million U.S. dollars (floor) 7/	-10.66	-4.25	-15.64	-1.88
Contracting or guaranteeing of nonconcessional external debt by the public sector (ceiling) with maturities of one year or more 8/ 9/ 10/	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) 11/ 12/	0.0	0.0	0.0	0.0
External payment arrears of the public sector (ceiling) 13/	0.0	0.0	0.0	0.0
Total domestic government revenue (floor)	93,919	209,750	321,459	434,982
Government wage bill (ceiling)	48,532	104,606	161,794	222,982
Poverty-related expenditures (floor)	32,031	71,549	123,041	167,471
Memorandum item:				
External budgetary assistance 14/	28,348	57,848	115,521	174,949
Net credit to government by nonbank private sector 15/	23,063	31,771	32,105	18,534

Sources: Statistics Sierra Leone; and IMF staff estimates.

1/ Variables are based on definitions in the TMU of October 2004.

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

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

4/ The benchmarks for January-December 2005 are valued at the exchange rate of Le 2.950 per US\$ 1.

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

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

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

8/ This performance criterion applies to debt as defined in Annex 1 of the TMU of October 2004.

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

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

11/ The term "debt" has the meaning set forth in Annex 1 of the TMU of October 2004.

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

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

14/ Including program grants and program loans.

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