International Monetary Fund

Sierra Leone and the IMF

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Sierra Leone: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 7, 2009

LETTER OF INTENT: SIERRA LEONE

December 7, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

The attached Memorandum of Economic and Financial Policies (MEFP) supplements the one attached to my letter to you dated June 4, 2009. It describes recent economic developments and progress in the implementation of the PRGF-supported program during the first half of 2009 and presents policies planned for the remainder of 2009 and 2010.

Program implementation during the first half of this year was satisfactory. All end-June 2009 quantitative performance criteria were met. The structural benchmark for adoption by the Cabinet of the implementation decree for the new customs law and regulations by end-June was also met, although with delays caused by further technical clarifications required by the Cabinet on the new law and regulations.

The standard continuous performance criterion on nonintroduction and modification of multiple currency practices (MCPs) was not observed due to the introduction of a special rice window in August 2009 in the weekly foreign exchange auction conducted by the Bank of Sierra Leone (BSL); this followed the introduction of a special oil window in the foreign exchange auction in November 2008. Having been informed by staff that these windows resulted in MCPs, the BSL moved speedily to unify the auction into a single competitive window by end-September 2009. On the basis of this corrective action, the Government requests a waiver for the nonobservance of the continuous performance criteria on nonintroduction and modification of MCPs for the August 2009 introduction of the special rice window.

In light of the above, the Government of Sierra Leone (GoSL) requests that the sixth disbursement be made available upon completion of the fifth review under the PRGF arrangement.

Since the fourth review of the PRGF arrangement was approved by the IMF Executive Board in June, we have been faced with unanticipated spending pressures, including costs related to the completion of the Bumbuna hydropower project, which has prompted an extension of the Emergency Power Project by another three months, and the deployment of our military force to the Dafour UN military force. Part of the new spending needs will be covered by expected additional external budgetary assistance, but additional domestic financing will also be necessary. The global economic downturn has significantly reduced foreign exchange inflows into Sierra Leone and the leone has depreciated by 20 percent against the US dollar since the beginning of the year. The BSL has intervened moderately in the foreign exchange market. For these reasons, we request that the targets for end-December 2009 on net domestic credit to government, net domestic assets, domestic primary fiscal balance, and gross foreign exchange reserves be modified.

The GoSL believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of its program for 2009, but stands ready to take any further measures that become necessary for this purpose, in consultation with the Fund. The GoSL will also continue to provide the staff of the IMF the information required to accurately assess Sierra Leone's progress in executing the policies contained in the attached MEFP. The sixth and final review shall take place in April 2010; at that time we anticipate that preliminary discussions on a successor Fund-supported program could take place. Furthermore, the GoSL will continue to consult with the IMF on its economic and financial policies, in accordance with the IMF's policies on such consultations.

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

Very truly yours,

/s/
Samura M. W. Kamara
Minister of Finance and Economic Development

Attachments

ATTACHMENT I. SIERRA LEONE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum updates the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of June 4, 2009 (IMF Country Report N° 09/215). It reviews recent performance under the program through June 2009 and outlines the macroeconomic policies and structural reforms that the Government of Sierra Leone (GoSL) will pursue during the remainder of 2009 and in 2010.

II. RECENT ECONOMIC DEVELOPMENTS

2. **The economic slowdown continued in 2009.** Since the last quarter of 2008, the Sierra Leonean economy has been negatively affected by slowing global demand, falling export prices, particularly for diamond and bauxite, and declining inward remittances and other foreign inflows. The slowdown in economic activity reduced real GDP growth to 5.5 percent in 2008, compared with a projection of 6.4 percent. While economic activity continued to weaken during the first half of 2009, particularly in the mining sector, in recent months there have been signs of a pick up in exports of diamonds and agriculture products. Real GDP growth is expected to reach 4 percent in 2009, helped by higher agricultural productivity and increased public investment in basic infrastructure. Lower fuel prices and buoyant domestic food production have eased inflation, which declined from 12.2 percent in December 2008 to 8.3 percent in August 2009. However, upside risks to inflation remain, following the depreciation of the leone against the US dollar by about 20 percent since the beginning of this year.

3. **Budget execution during the first half of 2009 was prudent**. Domestic revenue collections exceeded the target and, despite delays in external budgetary support, prudent cash-budget controls helped to contain the fiscal deficit and domestic financing. The domestic primary deficit was 1.3 percent of GDP—about 0.5 percent of GDP below the program target for the first half of the year.

4. **Monetary policy remained tight to contain inflation and maintain financial stability.** However, the conduct of monetary policy has been challenged by the depreciation of the leone and delays in donor disbursements. Reserve money growth remained below the program target, helped by the issuance of Le 20 billions of treasury bills, which were converted from BSL's holding of noninterest-bearing government securities.

5. **The BSL has strengthened its capacity to improve its liquidity management.** The conversion of noninterest-bearing government securities into marketable securities and an increase in the amount of foreign exchange auction helped to mop up excess liquidity. In order to help develop interbank market, the BSL phased out the discount window with the commencement of repos and reverse repos operations in June 2009.

6. **Bank credit to the private sector continued to grow strongly.** The increase in competition among banks is the main reason for this growth. The entry of three new banks in 2008 also contributed to maintain a high demand for already oversubscribed government securities, which helped to maintain low interest rates. The average effective yield on Treasury bills fell from 21.3 percent at end-2007 to about 9.1 at end-2008, but since then it has risen again to about 10.8 percent by end-September 2009.

7. **The quality of the loan portfolio remains a concern.** Although nonperforming loans (NPLs) relative to gross loans halved between March 2008 and June 2009, they remain high at 17.8 percent. Using a less restrictive measure, which is more in line with international standards, the ratio of NPLs relative to gross loans still stands at 10.5 percent.

8. **After remaining fairly stable over the past three years, the leone depreciated by 20 percent against the U.S dollar during the first seven months of 2009.** This reflected a drop in the availability of foreign exchange as export receipts and remittances continued to decline. In response to an accelerated depreciation in July and August, the BSL intervened moderately in the foreign exchange market. Gross international reserves amounted to about US$208 million (about 5 months of imports) at end-June 2009. Sierra Leone's share of the recent SDR allocations, equivalent to about US$128 million, was allocated to the BSL in late August and early September, bringing gross international reserves to US$336 million at end-September.

9. **Program implementation in the first half of 2009 was satisfactory.** All end-June quantitative performance criteria were met. On the structural targets, the continuous structural benchmark on the monthly meeting of the Monetary Policy Committee was met. Although, the structural benchmark for adoption by the Cabinet of the implementation decree for the new customs law and regulations was not observed as envisaged in June, the measure was implemented in early September 2009. Of the two structural benchmarks for September 2009, only one has been met. The benchmark on the BSL adoption of new off-site surveillance guidelines was not observed because revisions of the Banking Act and Other Financial Services Act have not yet been completed (Table 2).

III. Macroeconomic Framework

10. **The macroeconomic outlook for 2009-10 has been revised to take into account the impact of recent domestic and external developments.** Projected real GDP growth remains at 4 percent in 2009, while annual inflation is projected to rise slightly to 9.5 percent at year-end, compared with the 9 percent previously envisaged. Inflation is targeted to decline to 8 percent in 2010. The recent rebound in mining production and higher exports of agriculture products (in particular cocoa and coffee) combined with the anticipated slow growth in imports would contribute to reducing the external current account deficit from 10.7 percent in 2008 to about 9.4 percent in 2009. Gross official reserves, including the

recent SDR allocation, are projected to stay at about 6.5 months of import coverage by end-2009.

11. **The policies for 2009–10 will be anchored by the Agenda for Change, as presented in PRSP–II completed in June this year**. The four key priority areas identified in the PRSP are: (i) provision of a reliable power supply in the country; (ii) support for agriculture, agri-business, and fisheries with an emphasis on increasing the productivity of the poor; (iii) rehabilitation of the transportation network to facilitate the movement of goods and people and thereby promote economic activity; and (iv) improved coverage of basic social services through decentralization and more support for the social protection needs of the poor and vulnerable. The program is aimed at enhancing fiscal efforts to mobilize revenues, which would help expanding investment spending to support the implementation of the PRS. In addition, it supports the efforts to (i) promoting efficiency, transparency and accountability in the use of public resources through enhanced public financial management and governance; and (ii) improving the investment climate by ensuring the provision of electricity in a fiscally sustainable manner.

IV. Policies for the Remainder of 2009

12. **While domestic revenue remains on track, unanticipated expenditure needs in priority areas will raise the fiscal deficit above the target for 2009.** Domestic revenue is projected to increase slightly to 11.3 percent of GDP. This reflects higher import duties on account of an increase in the tax base but lower fuel excise collections. Also, as programmed, steps are underway to ensure an effective transfer of all off-budget revenue collected by Ministries, Departments, and Agencies (MDAs) to the Consolidated Revenue Fund, in line with the Finance Act passed by the Parliament in August 2009. On the expenditure side, delays in the completion of the Bumbuna hydroelectric project has necessitated an extension of the Emergency Power Project by three months for a total cost of about US$5 million (0.3 percent of GDP). In addition, unanticipated spending amounting to about 0.3 percent of GDP will be required to cover our contribution to the participation of Sierra Leonean military forces to the UN mission in Darfur, additional transfers to universities, payments of outstanding commitments related to the Bumbuna project, and counterpart funds to key road projects. The payment by the National Power Authority (NPA) of US$4 million to an external power company, with whom a recent settlement on an outstanding claim was reached, is expected to lower NPA's contribution to cover past fuel purchases for emergency power generation (about 0.2 percent of GDP). The resulting financing gap from these unanticipated costs is 0.8 percent of GDP. The gap will be closed by additional budgetary assistance from the European Commission (0.3 percent of GDP) and additional bank financing.

13. **The government will step up efforts to improve tax administration and broaden the tax base.** Measures include (i) establishing the domestic tax department (structural benchmark for end-December 2009); (ii) integrating the Good and Service Tax (GST)

administration within the Large Taxpayer Office (structural benchmark for end-December 2009), (iii) enforcing the provisions in the existing tax legislation with the aim of eliminating tax evasion and ad-hoc tax exemptions; (iv) intensifying field audits and enforcement of the payment of tax arrears (with interest and penalties on under/late payment of tax); and (v) eliminating discretionary duty waivers and tax exemptions.

14. **Monetary policy will remain tight to contain inflation expectations and pressure on the exchange rate.** The aim is to maintain single-digit inflation in 2009. To this end, reserve money is targeted to grow at about 8 percent. The BSL will actively conduct open market operations to control the growth of reserve money—and this may require an increase in the interest rates on treasury bills and repos. Given the current foreign exchange shortages, the original targeted increase in foreign exchange reserves during the second half of 2009 is no longer attainable. Gross foreign reserves, excluding the new SDR allocation, are now targeted at US$205 million by end-December 2009 (about US$13 million below the original target). Including the SDR allocation, gross foreign reserves will be targeted at US$333 million. The Monetary Policy Committee (MPC) will continue to meet on a monthly basis and coordination between the MoFED and the BSL will be strengthened.

15. **Exchange rate flexibility will be maintained.** BSL will limit its interventions in the foreign exchange market to reducing severe short term exchange rate fluctuations. To eliminate any discrimination between market participants, the BSL replaced the temporary three auction windows in its weekly foreign exchange auction with a single auction window in September 2009.

V. Policies for 2010

16. **The government is determined to maintain macroeconomic stability and accelerate structural reforms to set the stage for high and sustainable economic growth.** To this end, the government will pursue a sustainable fiscal policy and implement reforms to improve the delivery of public services, reduce the cost of doing business, and raise productivity and employment throughout the economy.

17. **A more favorable global economic environment is expected to contribute positively to Sierra Leone’s macroeconomic developments in 2010.** Real GDP growth is projected to increase to 4.7 percent and inflation is targeted to decline to 8 percent. Economic growth will benefit from improved supply of energy, ongoing public and private initiatives to increase agriculture productivity and intensification, and higher public investment in basic infrastructure. International reserves are expected to remain above 6 months of import coverage.

Fiscal policy

18. **Fiscal policy in 2010 will aim at consolidating macroeconomic stability and laying the basis for sustained economic growth.** The proposed 2010 budget envisages

improved revenue performance, a significant shift from current to capital spending, and a moderate reduction in the fiscal deficit.

19. **On the revenue side,** domestic revenue is projected to rise from 11.3 percent of GDP in 2009 to 11.6 percent of GDP. The projection reflects unchanged tax policies, including full application of policy measures adopted in the 2009 Finance Act, and efficiency gains from the modernization of the NRA, particularly the completion of ASYCUDA in customs clearing, and the introduction of the GST. The GST, which will be introduced on January 1, 2010 (structural benchmark), is expected to be revenue neutral during the first six months of the year, but to generate at least 0.1 percent of GDP during the second half. To ensure that any new revenue measures are properly incorporated into the budget prior to adoption, the 2010 Finance Act will be presented to Parliament at the same time as the 2010 budget. Government is committed to ensuring that any new investment incentives will not negatively affect tax collections in 2010. Grants are currently projected to decline from 7.3 percent of GDP in 2009 to 7 percent of GDP. Budget support grants are projected to decline slightly to 3.7 percent of GDP.

20. **On the expenditure side,** the wage bill is projected to remain close to 6 percent of GDP. The projection assumes a 20 percent increase in basic pay for civil servants and the hiring of 2000 new teachers and 1000 police officers. Current nonwage, noninterest expenditures will remain at about the same relative to GDP as in 2009, excluding exceptional expenditure in 2009 for the Emergency Power Project and the government contribution to the deployment of military forces in the Dafour region. Domestically financed capital spending will be increased by about 1 percent of GDP, in line with the objective of the PRS to improve the delivery of basic social services and infrastructure, particularly roads and water distribution.

21. **The domestic primary deficit is envisaged to decline from 3.8 percent of GDP in 2009 to 3.5 percent of GDP.** Domestic financing will remain at 1.8 percent of GDP, including about 0.5 percent of GDP to reduce domestic arrears.

Monetary and exchange rate policies

22. **Reserve money is targeted to grow by about 13 percent in 2010.** Given the government's domestic financing requirement, this would allow for adequate expansion in private sector credit and a small buildup of gross international reserves. Exchange rate flexibility will be maintained in 2010. The BSL will continue to balance treasury bill sales and foreign exchange auctions for an optimal monetary policy mix.

VI. Structural Reforms

23. **The current multiple-price Dutch foreign exchange auction, operated weekly by the BSL, was put in place in 2000 with the assistance of the IMF.** The fifth review discussions brought to our attention that the Dutch auction system gives rise to multiple

currency practices (MCPs) because there is no mechanism in place to prevent potential spreads of effective rates between the winning bids from exceeding two percent. The BSL will consult with the IMF on the best way to introduce mechanisms that would eliminate the MCP by end-June 2010.

24. **The structural reform program will continue to support economic growth and improve delivery of public services.** To this end, Government is committed to complete the implementation of the structural reforms envisaged in 2009. Looking further ahead, the support of our development partners will be critical to implementing the comprehensive structural reform program presented in the PRSP-II.

25. **An integrated public financial management reforms program, supported by several development partners, is under implementation.** The program seeks to consolidate the progress made so far in public expenditure management, with the aim to ensure sustainable improvement in the credibility, predictability, control and transparency of the budget. To strengthen the role of line ministries in the budget execution process and to make budget committees in these public entities fully operational, budget officers will be recruited by December 2009 and assigned to MDAs that have rolled out IFMIS (structural benchmark). The MTEF process will be deepened to ensure that future annual budget allocations are consistent with the medium-term objectives of the poverty reduction strategy.

26. **Reforms in the financial sector will be actively pursued to deepen financial intermediation and ensure a strong and competitive financial sector**. To this end, BSL has developed a Financial Sector Development Plan (FSDP), which has been approved by the Cabinet. The objective of the FSDP is to provide a framework for creating a sound, diversified, responsive and well-functioning financial system that would provide appropriate support to productive activities, thereby contributing to economic growth and poverty alleviation. The BSL has undertaken actions to strengthen banking supervision, particularly by increasing and training staff in the Banking Supervision Department. The BSL is seeking assistance from the IMF to revise the Banking Act and Other Financial Services Act to allow for a migration to risk-based supervision. Following the enactment of the revised acts, which is expected next year, new off-site surveillance guidelines, in line with a risk-based approach, will be issued to banks. Preparations are advancing for establishing a credit reference bureau (CRB) as well as an efficient payments system, including a Real Time Gross Settlement System (RTGS). To reduce the vulnerability from NPLs, the BSL will enforce the minimum capital requirement for all banks of Le 15 billion by end–2009 and of Le 30 billion by end-2014. The BSL Act of 2000 is under review with the intention of strengthening central bank independence.

27. **Steps are being taken to accelerate the restructuring of the National Power Authority (NPA) and improve its finances.** A detailed tariff study is nearly completed and it will provide inputs for a comprehensive electricity tariff policy, which will be adopted by end-December 2009 (structural benchmark). A financial controller and a billing/commercial

manager have been recruited to improve oversight of the financial operations of the NPA. The memorandum signed between the Ministry of Finance and Economic Development and NPA for the settlement of cross debt will be reassessed to take into account the extension of the contract with the private power provider by three months and incorporate unpaid balances by the two parties.

28. **Tackling corruption will remain a top priority for the government.** In 2008, the government launched the national Anti-Corruption Strategy (ACS) for 2008–13 and enacted into law a revised Anti-Corruption Act that strengthens the powers of the Anti-Corruption Commission (ACC). The ACC will focus on public education and outreach, review of public service delivery in critical area, assets declarations by civil servants, and prosecution of cases of corruption. The ACC will also conduct semi-annual assessments of the national ACS to monitor progress in its implementation and take remedial actions as needed.

27. **Establishing a transparent and automatic pricing framework for petroleum products is a priority.** The current formula for petroleum pricing is frequently adjusted based on a targeted pump price and tax revenue concerns. Looking forward, domestic petroleum product prices should generally be determined on the basis of full pass-through of international prices. The government also intends to bring the Strategic Petroleum Fund (SPF) under the budget and clarify its purpose, including rules for SPF inflows and outflows.

28. **The government will continue to implement reforms to improve the investment climate in order to foster sustainable economic growth.** Going forward, the focus will be on increasing access to finance, improving business regulatory environment especially in areas where the country is ranked poorly in the Doing Business Report, and improving physical infrastructure.

VII. PROGRAM MONITORING

29. The program will be monitored based on quantitative PCs for end–December 2009 (Table 1) and structural benchmarks for 2009 (Table 2).

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2009

(Cumulative change from beginning of calendar year to end of month indicated; Le millions, unless otherwise indicated) [1]

	2009							
	March	June				September	December	
	Est.	Perf. criteria	Adjusted		Met or	Ind. targets	Perf. criteria	
		Prog. [2]	Targets	Act.	Not Met	*Prog.* [2]	*Prog.* [2]	*Rev. prog.*
Performance criteria								
Net domestic bank credit to the central government (ceiling)	-11,492	80,906	126,864	54,846	Met	124,104	122,664	151,228
Unadjusted target (ceiling)			80,906					
Adjustment for the shortfall (excess) in external budget support			41,230					
Adjustment for the issuance of treasury securities to the private sector			4,728					
Net domestic assets of the central bank (ceiling)	-7,463	93,701	130,826	30,911	Met	215,847	156,678	-368,577
Unadjusted target (ceiling)			93,701					
Adjustment for the shortfall (excess) in external budget support			41,230					
Adjustment for exchange rate depreciation (appreciation)			-4,105					
Domestic primary fiscal balance of the central government (floor)	-34,927	-120,887	-120,887	-81,269	Met	-179,290	-216,213	-246,368
Subsidies to National Power Authority (ceiling) [3]	0	0	0	0	Met	0	0	0
Gross foreign exchange reserves of the central bank, US$ millions (floor)	-7.0	-22.2	-16.49	-1.8	Met	-20.2	8.6	124.1
Unadjusted target (floor)			-22.16					
Adjustment for the shortfall (excess) in external budget support [4]			-13.1					
Adjustment for the shortfall in the US$ value of IMF disbursement			18.76					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			0.00					
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) [3]	0	0	0	0	Met	0	0	0
Outstanding stock of external debt owed or guaranteed by the public sector with maturities of less than one year (ceiling) [3]	0	0	0	0	Met	0	0	0
External payment arrears of the public sector (ceiling) [3]	0	0	0	0	Met	0	0	0
Total domestic government revenue (floor)	158,266	342,992	342,992	346,807	Met	533,177	724,664	724,797
Indicative target								
Poverty-related expenditures (floor)	59,872	178,715	178,715	137,688	Not met	267,155	337,474	337,474
Memorandum items:								
External budgetary assistance [4]	74,670	115,900	115,900	74,670		115,900	225,211	254,789
Net credit to government by nonbank sector [5]	-16,109	-4,981	-4,981	-9,709		3,223	7,300	7,500
PRGF disbursements (US$ millions)	0.00	0.00	0.00	18.76		18.76	37.05	37.05
Exchange rate (Leones/US$)	3135.0	3150		3288.0		3150	3150	3542.7

Sources: IMF staff projections.

[1] The performance criteria and indicative targets shown in this table are defined in the Technical Memorandum of Understanding (TMU).
[2] IMF Country Report No. 09/215.
[3] These apply on a continuous basis.
[4] Including program grants and program 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 for 2009

Measures	Timing	Macro Rationale	Status
Macroeconomic policy coordination			
• **Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that inclu**de the monthly projections for government revenue and expenditures made available by the Ministry of Finance to the Bank of Sierra Leone to produce a monthly liquidity forecast.	On a continuous basis	To strengthen liquidity management and enhance monetary and fiscal policy coordination.	Met
Tax administration and policy			
• Adoption by the Cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue.	End–June	To enhance the collection of import duties and thus create more fiscal space to preserve priority spending.	Met with delay. Cabinet adopted the draft law and regulations in September.
• Adoption by the Cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation.	End-September	To improve revenue collection by extending the tax base.	Met. A small and medium taxpayer regime is in place. However, no new legislation nor Cabinet approval was required to implement this measure.
• Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional.	End–December	To improve efficiency of revenue collection efforts.	
• Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO).	End–December	To ensure full and efficient implementation of the GST to achieve domestic revenue target.	
• Introduce the Goods and Services Tax (GST).	January 1, 2010	To broaden the tax base and improve efficiency of revenue collection.	New measure
Public financial management			
• Recruit and assign budget officers to MDAs that have IFMIS 'rolled out' and ensure their budget committees are fully operational.	End–December	Improve spending efficiency by enhancing public financial management and budget execution.	
Financial supervision			
• Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines.	End–September	Financial deepening which is vital to achieve the growth objective of the program.	Not met. The new off-site guidelines could not be issued since the Banking and Other Financial Services Acts have not yet been enacted. The BSL is seeking assistance from the IMF to revise the acts.
Public enterprise reform			
• Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority.	End-December	To improve financial viability of the public electricity. This will ensure an efficient and sustainable power supply, critical for the growth objectives of the program.	

Attachment II. Sierra Leone: Technical Memorandum of Understanding

December 7, 2009

I. Introduction

1. This memorandum sets out the understandings between the Sierra Leonean authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria (PCs) and benchmarks for the reminder of the program supported by the Poverty Reduction and Growth Facility (PRGF) 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 2 of the Memorandum of Economic and Financial Policies (MEFP) of the Government of Sierra Leone (GoSL) for 2009.

2. **Program exchange rates.** For the purpose of the program, foreign currency denominated *transactions* in the fourth quarter of 2009 will be converted from their U.S. dollar denominated value into Sierra Leonean currency (leones) using a program exchange rate of Le 3542.7/US$.

II. Quantitative Performance Criteria

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

3. **Definition**. Unless otherwise noted, gross foreign exchange reserves of the Bank of Sierra Leone (BSL) are defined as reserve assets of the BSL. 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.

Adjustment clauses.

4. The floor on the change in gross foreign exchange reserves will be adjusted (a) downward (or upward) by the amount in U.S. dollars of the shortfall (excess) in programmed external budgetary assistance—the downward adjustment will be capped at the equivalent of US$20 million while the upward adjustment will be equal to the amount—if any, exceeding US$20 million;[1] (b) downward (upward) for any shortfall (excess) in the U.S. dollar value of disbursements from the IMF under the PRGF arrangement; and (c) upward (or downward) for any increase (or decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

[1] 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 BSL are defined as the end-period (based on daily data) stocks, during the month of the test dates, of the reserve money less net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation and deposits of commercial banks with the BSL. 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 the NDA of the BSL will be adjusted upward by the leone value of the shortfall in the external budgetary assistance at the test dates, up to a maximum of US$20 million. In the event of an excess in the external budgetary assistance greater than US$20 million, the NDA ceiling will be adjusted downward by the amount exceeding 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:

- the net position of the government with commercial banks, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the government; less government deposits in commercial banks;
- the net position of the government with the BSL, including: (a) treasury bills, excluding holdings of treasury bills for monetary operations; (b) treasury bearer bonds; and (c) ways and means; less (a) central government deposits; and (b) HIPC and MDRI relief deposits.

8. **Adjustment clauses.** The ceiling on the increase in NCG will be adjusted 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 while the downward adjustment will be equal to the amount—if any, exceeding US$20 million. The ceiling will also be adjusted 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 target (specified in the memorandum items in Table 2 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. These data will be reconciled with monthly reports with the monetary data (Treasury bill transactions, ways-and-means account, and Treasury bearer bond transactions).

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. Domestic Revenue of Central Government

11. **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.

E. Domestic Primary Fiscal Balance of Central Government

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

F. Subsidies to the National Power Authority (NPA)

13. **Definition**. The term "subsidy" refers to any government financial support (i.e., unrequited transfers) to the NPA. It does not include the government's on-lending of external loans for capital expenditure of the enterprise. The subsidy is to be reduced by the amount of arrears accumulating in regard to the charges for government's electricity consumption. This PC will apply on a continuous basis.

G. External Payment Arrears of the Public Sector

14. **Definition.** External payment arrears of the public sector are defined as the stock of new external overdue debt-service payments by the public sector. For the purposes of this PC, the public sector comprises the central government, regional government, all public enterprises and the BSL. The nonaccumulation of external arrears is a performance criterion during the program period. Excluded from this PC are those debts subject to rescheduling. This PC will apply on a continuous basis.

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

15. **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.[2] This PC applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000) 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 ¶14 above. This PC will apply on a continuous basis.

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

16. **Definition**. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by the public sector. Debt is defined in

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

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 ¶14 above. This PC will apply on a continuous basis.

III. QUANTITATIVE INDICATIVE TARGET

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. These budgetary expenditures include but are not limited to those sub-components that are financed by drawdown from the MDRI Relief Account at the BSL.

IV. 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. In addition, the Net Domestic Financing Technical Committee shall provide the IMF with weekly minutes of its meetings complemented with the minutes of the monthly meetings of the Inter-Agency Committee for National Statistics progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

ANNEX 1: 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 to be Reported 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 pricing formula, 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 to Be Reported 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 cashflow table	Quarterly	End of quarter + 4 weeks
	Revised balance of payments data	Variable	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	Monthly	End of month + 4 weeks
	External debt service payments (separately on principal and interest payment) to each creditor	Monthly	End of month + 4 weeks
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 Net Domestic Financing (NDF) Technical Committee	Weekly	End of meeting + 2 weeks
	Minutes of the meeting of the Monetary Policy Committee	Monthly	Date of meeting + 2 weeks