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

November 18, 2011

> 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.

SIERRA LEONE: LETTER OF INTENT

Freetown, November 18, 2011

The Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated November 17, 2010. It describes recent economic developments and progress with respect to implementing the ECF-supported program in 2010 and the first half of 2011, presents policies for the remainder of 2011, and outlines medium-term objectives.

Program implementation was uneven in the second half of 2010. While domestic revenue overshot projections by 0.3 percent of GDP, spending on infrastructure projects, fuel subsidies, wages, and goods and services led to higher–than-envisaged domestic financing. As a result, the ceiling for net domestic bank credit to government was exceeded by 2.4 percent of GDP for the year and the target for net domestic assets of the central bank was exceeded by 0.9 percent of GDP. However, despite a more expansionary fiscal policy, the floor for gross foreign exchange reserves of the Bank of Sierra Leone (BSL) was met for end-December 2010.

All structural benchmarks for 2010 were met, albeit some with delay, except the adoption of an automatic fuel pricing framework (end-June) and the integration of GST administration within the large taxpayer office (end-December).

The Government implemented corrective measures to bring the program back on track. Fiscal policy was tightened during the first half of 2011 compared to the program, resulting in a lowering of the interest rate on 91-day Treasury bills. For the year as a whole, this implies a lowering of the program ceiling for net credit to government by 1 percent of GDP. The Government increased domestic fuel prices by 17 percent in May 2011 to reduce fuel subsidies. The remaining subsidies were eliminated by reducing fuel excises and road user charges as the Government was restrained from adopting a full pass-through because of social implications and fragility of the peace.

To safeguard budget future resources, the Government is committed to restoring fuel excises and road user charges to their original levels in response to falling international oil prices in the future, and to increase domestic fuel prices in case of an increase in imported fuel prices by more than 5 percent compared to the price level at end-May 2011.

Moreover, amendments to the Bank of Sierra Leone (BSL) Act, including provisions to cap direct credit to the government at 5 percent of previous year's domestic revenue, were submitted to parliament in November 2011. Meanwhile, the Government has repaid BSL the Le178 billion stock of ways and means credit outstanding from 2010.

As a result of successful implementation of corrective macroeconomic policies, all quantitative performance criteria for end-June 2011 were met by a large margin, except for the ceiling on contracting new nonconcessional external debt. Moreover, progress has been made towards implementing the structural benchmarks for 2011.

Given these corrective actions and commitments for the remainder of 2011 and 2012, as detailed in the attached MEFP, the Government requests waivers for nonobservance of performance criteria on net domestic bank credit to the central Government and net domestic assets of the central bank at end-2010. The Government also requests a waiver for nonobserved performance criterion for contracting or guaranteeing of new nonconcessional external debt. The Government contracted two loans in 2011 with grant element below the 35 percent threshold, totaling US$42 million. The Government is committed to strengthening its monitoring of loan concessionality in the future and to share all new loan contracts with IMF staff before signing. Moreover, the Government has requested technical assistance on debt management from the World Bank and the Fund. It further requests modifications of performance criteria for December 2011, and that the third and fourth disbursements under the ECF be made available upon completion of the second and third reviews.

The Government believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding (TMU) are adequate to achieve the objectives of the revised program, but stands ready to take any further measures that are necessary for this purpose. The Government will consult the IMF in advance of revisions to the policies contained in the MEFP. The fourth, fifth, and sixth reviews under the current program shall take place in May/June 2012, November/December 2012, and May/June 2013, respectively.

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

Very truly yours,

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

/s/
Sheku S. Sesay
Governor of Bank of Sierra Leone

Attachments:
- Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding

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

November 18, 2011

I. INTRODUCTION

1. This memorandum reviews recent economic developments and outlines the macroeconomic policies and structural reforms that the Government of Sierra Leone will pursue under the Extended Credit Facility (ECF).

II. ECONOMIC DEVELOPMENTS IN 2010

2. **Economic activity has started to rebound after the crisis**. Real GDP growth reached 5 percent in 2010, compared to 3.2 percent in 2009, reflecting growth in mining, manufacturing, and construction. Consumer price inflation rose 7 percentage points in early 2010 on account of several one-off factors: the introduction of a goods and services tax (GST), spillover from the Leone depreciation in late 2009, and higher fuel prices. For the year as a whole, 12-month inflation reached 18.4 percent compared to 16 percent envisaged under the program, which was partially driven by expansionary monetary policy in the second half of the year. The Leone was relatively stable, losing only 9 percent of its value vis-á-vis the U.S. dollar.

3. **Fiscal policy was expansionary in the second half of 2010**. Although budgetary expenditures were broadly as envisaged through June, spending allocations exceeded the program for the year as a whole by 2.8 percent of GDP. Domestically financed capital expenditures exceeded the budget by 1.7 percent of GDP due to the acceleration of infrastructure projects around the country. The wage bill was higher by 0.3 percent of GDP due to additional hiring in the health sector, supplementary compensation for teachers, pensions and social security related expenditures, as well as the payroll for foreign missions. Other current spending was 0.6 percent of GDP higher than anticipated due to higher fuel subsidies, interest payments, various payments for goods and services, as well as unanticipated payments for an extension of the emergency power project. The excess budgetary spending was executed in anticipation of a US$50 million one-off tax payment from a mining investor, which did not materialize. The excess spending was only partly offset by an increase in domestic revenue collection by 0.3 percent of GDP while external budget financing was 0.3 percent of GDP lower than programmed. As a result, domestic financing from banks and nonbank financial institutions was 2.4 percent of GDP higher than envisaged, totaling 5.8 percent of GDP for the year.

4. **The fiscal expansion in the second half of the year loosened the monetary policy stance more than anticipated**. The higher fiscal deficit was financed mostly by direct credit from the BSL. Since the BSL only partially mopped up the liquidity expansion under open market operations, reserve money grew much faster than anticipated in 2010 (about 35 percent compared to 8 percent in the program). Broad money expanded by 29 percent and private

sector credit grew by 31 percent. The interest rate on treasury bills increased by about 8 percentage points, to 27 percent during the last quarter of 2010.

5. **Key performance criteria were not met at end-2010 because of expansionary fiscal and monetary policies**. The ceiling for net domestic bank credit to government was exceeded by 2.4 percent of GDP for the year while the target for net domestic assets of the central bank was exceeded by 0.9 percent of GDP (Table 1). However, the domestic revenue target and the floor for gross foreign exchange reserves of the BSL were met with comfortable margins. Except the adoption of an automatic fuel pricing framework (end-June) and integration of GST administration within the large taxpayer office (end-December), the structural benchmarks for 2010 were met, albeit some with delays (Table 2).

III. Corrective Policy Measures

6. **The Government faced several policy challenges coming into 2011**. First, the fiscal policy expansion towards the end of 2010 contributed to an increase in interest rates on Treasury bills to above 30 percent in early 2011, causing interest cost to exceed budget allocations. Second, other unbudgeted expenditure demands emerged, including from an increase in fuel subsidies to cushion the impact of rising international oil prices, higher cost to complete the Bumbuna power station, and additional compensation to teachers. Third, the monetary expansion in late 2010, combined with increasing food and fuel prices, made it increasingly difficult to bring inflation down to single digits in 2011, as envisaged under the program. Annual inflation was 17 percent in September 2011.

7. **Responding to these challenges**, **the Government took measures to bring the program and economic policies back on track**. Fiscal tightening during the first half of 2011 reduced domestic bank and nonbank financing to 1 percent of GDP compared to a program target of 1.9 percent of GDP.[1] This was achieved mainly through increased domestic revenue, which exceeded the level envisaged in the program by 0.7 percent of GDP in the first half of the year. This outcome was driven by higher personal income taxes (including one-time payments from an expanding mining sector), corporate income taxes, GST, and import duties. Monetary policy was also tightened, including by mopping up liquidity by net sales of treasury bills and active use of the repo instrument. The fiscal tightening brought interest rates on 91-day Treasury bills down by more than 7 percentage points to about 23 percent. At the same time, the BSL's monetary policy rate was reduced from 26 to 23 percent and reserve money declined by 2.5 percent during the first half of 2011.

8. **As a result of the corrective policies**, **all quantitative performance criteria for end-June 2011 were met by a large margin**, **with the exception of the ceiling on contracting of nonconcessional external debt (Table 3)**.

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[1] After adjusting for a shortfall of 0.5 percent of GDP in external budget support.

9. **To underpin the fiscal and monetary policy strategy and strengthen budget integrity**, the following corrective actions were implemented as well:

- **Domestic fuel subsidies**. In May, 2011, in response to increasing international oil prices, domestic fuel prices were increased by about 17 percent to reduce expanding fuel subsidies. However, effective subsidies remain substantial nonetheless, now reflected on the revenue side in the form of a lowering of fuel excises and fuel related road user charges (on annual basis, the revenue shortfall is estimated at about 2 percent of GDP). While the Government is committed to restoring fuel excises and fully pass-through international to domestic prices in the medium-term, to reducing the costs of the current policy and safeguard future budgetary resources from further movements in international oil prices, the Government will:

  - Fully pass-through to domestic prices any increase in imported fuel prices, if imported prices move above a 5 percent threshold compared to the price level at end-May 2011.

  - Restore fuel excises and road user charges to their original levels in response to a decrease in imported fuel prices.

- **Use of BSL direct credits to Government**. An amendment to the Bank of Sierra Leone Act was submitted to Parliament in November 2011. The amendment (i) sets a limit of the annual flow of direct credits to the Government (loans and advances) to 5 percent of the actual domestic revenue in the previous budget year; (ii) requires that such direct credits be repaid within 93 days from the end of the financial year (repayments may be made with marketable treasury bills that mature before the 93-day deadline); and (iii) stipulates that the BSL may purchase Government securities for monetary policy purposes and provided that such purchases are only made in the secondary market. The Government is already adhering to these principles for BSL direct credits and will continue to do so in the future.

- **The 2010 stock of BSL ways and means advances**. The Le178 billion outstanding stock of ways and means at end-2010 was reduced to Le78 billion through a combination of Government cash payments and drawdown of Le57 billion from Government MDRI deposits. The remaining stock has been repaid through a conversion to marketable medium-term Government securities. This will provide enough securities to the BSL for effective implementation of monetary policy operations in 2012, as most of BSL holdings of treasury bills will mature by the end of 2011.

10. **Moreover**, **progress has been made to implement the 2011 structural benchmarks (Table 4)**. The amendment to the Banking Act was submitted to Parliament to align the act with the Basel Core Principles for Effective Supervision, and progress has been made, albeit slower than envisaged, to restructure the National Revenue Authority (NRA).

IV. Policies for the Remainder of 2011

A. Fiscal Policy

11. **Policies in the second half of 2011 will continue to focus on fiscal consolidation**, **underpinning the corrective action taken in the first half**. The revised fiscal program envisages to achieve the following targets for the year:

- **Revenue and grants**. Domestic revenue is projected at 14.9 percent of GDP, or 1.6 percentage points of GDP higher than originally programmed. Despite a significant lowering of fuel excises, this will be achieved on the basis of the better revenue performance in the first half of the year and one-time signature bonuses in the second half related to several oil exploration licenses amounting to 1.4 percent of GDP.[2] Grants are projected at 7.9 percent of GDP, reflecting additional budget support from Japan, EU, and the Global Fund compared to the original program.
- **Expenditures**. Overall spending is projected at 26.7 percent of GDP, or 0.9 percentage points of GDP higher than originally programmed. This reflects several new spending priorities: (i) wages to teachers and other public servants were increased because of higher food and fuel prices and demands emerging from last years' salary adjustments to healthcare workers—the wage increase, which was effective in September/October is treated as an advancement of the planned 2012 salary adjustments as part of the multi-year pay reform (the wage bill will be limited to Le 650 billion in 2011); (ii) domestic fuel subsidies were higher than anticipated due to the increase in international oil prices; (iii) interest payments on domestic debt rose significantly due to higher-than-anticipated interest rates; and (iv) commitments for domestic financed capital projects on roads, electricity, agriculture, water supply, health and education exceeded budgetary allocations.
- **Domestic financing**. Despite shortfalls in privatization proceeds and net external financing, domestic financing from banks and nonbank financial institutions is projected at 1.2 percent of GDP, or 1 percentage point of GDP lower than originally programmed for 2011. The tighter domestic financing requirement will contribute to achieving the monetary policy targets while keeping interest rates relatively low.

12. **The royalty on diamonds exported by mining companies will be maintained at 6.5 percent in line with the MMA 2009**. However, in recognition of the difficulties of collecting royalties from artisanal/alluvial diamond miners, and the sharp reduction of alluvial diamond exports through smuggling, the original 3 percent export tax applied to artisanal mining production at the point of export has been reinstated. The 3 percent export tax is comparable to diamond taxes in the neighboring countries. The Government is currently pursuing an agreement to harmonize diamond royalties/export taxes with the other Mano River Union member states (Republic of Guinea, Liberia and Côte d'Ivoire).

[2] Nominal GDP has been revised upwards due to a higher-than-programmed GDP deflator.

13. **The Government is currently in the process of drafting a Precious Minerals Trading Act, which incorporates Diamond Trading, Diamond Cutting and Diamond Polishing**. The new Act will also formally establish the diamond export tax and the mechanism for implementing the Kimberly Process Certification Scheme. Appropriate arrangements will be put in place by end-December 2011 to enforce collection of the export tax for artisanal mining and to ensure that all export taxes and royalties from diamond production will be transferred to the consolidated revenue fund and recorded as budget revenue.

B. Monetary and Exchange Rate Policies

14. **To anchor inflation expectations, monetary policy in 2011 will be tighter than envisaged under the program**. The tighter monetary stance will be helped by fiscal consolidation and constrained access by the Government to direct BSL credit. Reserve money will grow by 4 percent in 2011 compared to 14 percent envisaged under the program. Consistently, broad money is projected to grow by 14 percent, which is considerably lower than originally programmed. Despite tighter policies, the monetary program accommodates a 26 percent increase in private sector credit in 2011.

15. **The flexible exchange rate policy will be preserved**. Foreign exchange market interventions will be guided by the need for absorbing foreign-financed budget spending, and reducing short-term market volatility, within the confines of the program. Foreign exchange reserves are targeted to be maintained at the end-2010 level.

V. Medium-Term Macroeconomic Framework

16. **The medium-term policy framework is guided by the Government's Agenda for Change (PRSP II)**.[3] The Government's key priority is to facilitate growth and poverty reduction while maintaining macroeconomic stability. Fiscal policy is anchored by keeping domestic financing at 1–2 percent of GDP a year, while monetary policy targets a return to single digit inflation. The key priorities are to increase fiscal space for developing basic infrastructure and improving social services, and support more effective private sector participation in the economy. In anticipation of a declining trend in donor financing, domestic revenue is expected to increase significantly, reflecting efficiency gains from the GST, improvements in tax administration, and higher revenue from mining. To achieve this, the Government will fully apply the fiscal regime stipulated in existing tax and customs acts and resist issuing discretionary tax exemptions.

17. **Natural resource investments are expected to boost economic activity in 2012 and beyond**. Assuming full implementation of two new iron ore mining projects, GDP, exports and tax revenue will increase substantially in the coming years. A one-time upward shift in real GDP of about 51 percent is projected for 2012, while exports could increase by a factor of four. To level the playing field for new mining investment, and increase the revenue take, the fiscal regime as defined by the MMA 2009 will be fully applied to future agreements. The Government intends to implement a resource rent tax in 2012 (structural benchmark for December 2012) to benefit from upside profitability, and a capital gains tax to safeguard Government revenue in case of sales of lucrative lease agreements to third parties in mining and oil extraction.

[3] A progress report was completed in June 2011.

18. **The outlook for the nonmining economy is favorable as well**. Real nonmining GDP growth is expected to increase to 6 percent in 2012. Key steps are being taken to strengthen the pillars of growth: investment in agriculture and food security, basic infrastructure, electricity generation, and human resources. Export demand for minerals and cash crops are expected to contribute to exchange rate stability and—combined with expanding domestic food production—ease inflationary pressures. Monetary policy aims at returning to single-digit inflation in 2013. However, excluding investment-related imports for new iron ore projects, import coverage of gross foreign exchange reserves is expected to remain close to 3 months in 2012–13.

19. **The Government is committed to debt sustainability**. On the domestic side, it will keep domestic budget financing at 1–2 percent of GDP. On the external side, it calls for continued borrowing on highly concessional terms. In order to improve debt management, the Government is requesting assistance from the World Bank and the IMF for developing a comprehensive Medium-Term Debt Management Strategy (MTDS). A comprehensive national debt law has already been adopted and a procedures manual is being developed. In collaboration with the Public Debt Unit of Ministry of Finance and Economic Development (MOFED), Government agencies are also working on improving the quality of debt data and reporting in order to better monitor commitments, disbursements, and debt service obligations. The Debt Recording and Management System (CS-DRMS) will be electronically linked with IFMIS. The Government commits to monitoring concessionality more closely in the future to make sure that only concessional loans are contracted in the future. Under the enhanced HIPC Initiative, commercial creditors are expected to deliver their share of debt relief through a debt buy-back operation supported by the World Bank, which implementation is scheduled for 2012. The buy-back program will likely result in over 90 percent reduction of external commercial debt, which stood at US$232 million at end-2010.

VI. Policies for 2012

A. Budget Framework

20. **The 2012 budget envisages continued spending on infrastructure development while keeping moderate domestic financing needs**. Domestic revenue collection will be supported by new activities in the mining sector and continued efforts to strengthen revenue administration. Given the limited resource envelope and competing expenditure commitments, domestic capital expenditures will be limited to ongoing projects only. In the same vein, a modest wage increase will be awarded to public servants. The Government's commitment to maintaining macroeconomic stability and low domestic interest rates is reflected by anchoring the budget to domestic financing from banks and the nonbank financial sector to 1.4 percent of GDP.

21. **On the revenue side**, domestic tax revenue is expected to decline slightly relative to GDP, from 13.7 of non-iron ore GDP in 2011 to 12.9 percent of non-iron ore GDP in 2012. This reflects large one-off revenue from petroleum licenses in 2011 (by excluding this one-off revenue, domestic tax revenue would increase 0.5 percent of GDP in 2012), and sharply lower fuel excises (which lowered in mid-2011 to effectively maintain domestic fuel subsidies). The contribution of royalties from the commencement of iron ore exports are

expected to total Le179 billion, or 1.5 percent of GDP, in 2012. GST is expected to remain stable relative to GDP at 3.5 percent (note most mining operations are exempt from GST). Corporate income tax is projected to continue to perform well (1.1 percent of GDP) on account of new economic activity and improved tax administration, while the growth in personal income tax has stagnated at 2.7 percent of GDP. Import duties remain stable (3 percent of GDP).

22. **External grants are expected to remain significant in 2012**, **albeit at a declining trend**. Total grants are expected to decline to 6 percent of GDP from 7.9 percent in 2011, of which budget support grants, excluding election related support, decrease by 1.4 percent. Budget support loans are, however, expected to increase from zero by 0.9 percent of GDP on account of an increase in World Bank support.

23. **On the expenditure side**, one-off costs for elections generate spending in the order of 1.8 percent of GDP, of which 1 percent of GDP is externally financed. The wage bill is projected to increase from 6.8 percent of GDP in 2011 to 6.9 percent of GDP, reflecting a 10 percent salary increase in July and new hiring of 1,000 for the police force and 300 for the military. With the implementation of cost-saving measures of the pay reform, which has not been incorporated into the estimate due to uncertainties about the amount, the wage bill could be lower in 2012. Capital spending is budgeted to decrease from 10.4 percent of GDP in 2011 to 8.6 percent of GDP in 2012, reflecting a decline of foreign financed project spending. However, this figure may likely be revised upwards as new commitments with development partners are made.

24. **The Government has sought additional safety net project support from the World Bank and DFID**. As a post conflict country, the Government places considerable emphasis on the provision of safety nets for the poor and vulnerable, especially as a way of responding to exogenous shocks. Together with its development partners, the Government is undertaking a review of the efficiency and effectiveness of existing safety net programs. This review will help to formulate options for improved safety net systems and their financing. The implementation of new programs is expected to start in 2012; initially, these programs will be fully financed by additional project support from development partners.

25. **The overall fiscal deficit**, **excluding grants**, **is envisaged to decline from 11.8 percent of GDP in 2011 to 10.4 percent in 2012**. Domestic financing from banks and the nonbanking financial sector would remain low at 1.4 percent of GDP, while external financing is projected to decline from 3.5 percent of GDP in 2011 to 3 percent of GDP. However, budget support net external borrowing is projected to increase from zero to 0.9 percent of GDP.

B. Monetary and Exchange Rate Policies

26. **Monetary policy remains geared to lowering consumer price inflation**. High inflation during the last two years contributed to raising inflation expectations. To anchor inflation expectations at a lower level, reserve money is envisaged to grow by 15 percent in 2012. This will be consistent with a 20 percent broad money growth and will accommodate a 22 percent growth in private sector credit. Tighter coordination between monetary and debt management policies will help improve liquidity management.

27. **The BSL is committed to exchange rate flexibility**. In light of the thin market, the BSL intervention in the FX market will be limited to smoothing short-term volatilities and to absorb foreign-financed budget spending.

VII. Structural Policies For 2011–12

28. **The structural reform program will complement macroeconomic policies**. The overarching objective is to promote an efficient public sector and higher sustainable private sector-led economic growth. Specific policies in the remainder of 2011 will focus on improving tax administration, strengthening public financial management, and developing the financial sector (Table 4). The two latter areas will draw on the Integrated Public Financial Management Reform Program (IPFMRP) and the Financial Sector Development Plan (FSDP), respectively.

Improving tax administration

29. **The Government will further step up efforts to improve tax administration and broaden the tax base**. The current tax administration suffers from weaknesses arising from having separate tax departments for GST and income, and it is not conducive to enhance tax compliance. To this end, the National Revenue Authority (NRA) is in the process of transferring all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrating the GST administration with MTO to improve the efficiency of tax collections (structural benchmark for September 2011, but full completion is delayed to end-December 2011). Moreover, the NRA will integrate GST operations (taxpayer services, filing and returns processing, and coordinated audit operations) with the Large Taxpayer Office (Structural benchmark for December 2011).

30. **The NRA will step up efforts to improve tax collection and compliance**. Measures include applying penalties for nonfiling of returns and underestimation of quarterly installment payments; and levying and collecting interest on late payment of tax. In a similar vein, a new small taxpayer regime will be implemented to improve voluntary compliance, and apply penalties for noncompliance (Structural Benchmark for December 2011).

Strengthening public financial management

31. **The Government has initiated a comprehensive review of the legal budget framework**. In particular, with respect to the existing GBBA, the review will make recommendations on how to strengthen budget execution and clarify further the procedures for un-appropriated expenditures, the use of contingency funds, and the circumstances under which warrants shall be issued by the President authorizing extra-budgetary expenditures without prior approval by the parliament. Following agreement with IMF staff, the Government will submit amendments to the GBAA to the Parliament by end-September 2012 (structural benchmark).

32. **The Government will strengthen the Medium-Term Expenditure Framework (MTEF) by enhancing the planning**, **monitoring and evaluation processes for capital projects**. With the recent enactment of the amendments to the GBAA, the Government will fully integrate a three-year public investment plan with the budget process for 2013 (structural benchmark for end-December 2012). As a first step, the Government will

rationalize the institutional arrangements for public investment planning and strengthen the Project Planning, Monitoring and Evaluation Division in the Ministry of Finance and Economic Development. The Government will also prepare and publish regulations to implement the Public Investment Plan for fiscal year 2013, in line with recent recommendations provided by FAD (Structural Benchmark for December 2011). To further decentralize responsibility to the MDAs, the Government will complete and distribute the MTEF manual by end-2011.

33. **The roll out of IFMIS to MDAs will continue to strengthen budget execution**. So far, IFMIS has been rolled out to 11 key MDAs with 2 additional MDAs in the process, accounting for about 65 percent of expenditures. It has also been rolled out to 15 of the 19 local councils to improve financial management. The MOFED will continue to provide training and support to IFMIS users across MDAs to ensure that activities are properly and adequately captured within the system.

34. **The Government will strengthen cash management**. To this effect, the Government will establish a high-level cash management committee under the leadership of MoFED, in collaboration with the Accounting General and the BSL, to take decisions on cash ceilings, short-term borrowing requirements, and placement of temporary cash surpluses (structural benchmark for end-March 2012). A cash management unit in MoFED will provide monthly cash flow projections to serve as input for decisions of the cash management committee. Also, preparatory work will start to develop a treasury single account (TSA) while efforts are being made to move towards cash-based International Public Sector Accounting Standards (IPSAS).

35. **Pay reform**. The Government recognizes the growing concern among public sector workers about low wages. With assistance from development partners, implementation of a multi-year pay reform plan (2011–15) will bring compensation of public servants to more competitive levels, with savings achieved through re-grading, rightsizing, and payroll clean-up. The reforms will also include job evaluation, filling critical technical positions, stronger performance management systems, and addressing motivation and retention issues. With effectuation of the first salary adjustments in the last quarter of 2011, the implementation of the pay reform in 2012 will focus on achieving the cost reducing and efficiency enhancing elements of the reform; accordingly, salaries will not be adjusted further in the first half of 2012 and the monthly cost of salary adjustments in the second half of 2012 will be limited to Le 6.3 billion. In line with this, the planned salary adjustments for public servants through 2015 have been revised.

Financial sector measures

36. **The BSL will continue to strengthen banking supervision**. To this end, the BSL will issue revised prudential guidelines in line with the amended Banking Act to enhance compliance with the Basel Core Principles (structural benchmark for end-September 2012). Moreover, the BSL is working with IFAD and WAMI to develop a new IT platform for banking supervision, which will enhance the BSL's capacity of banking supervision, and it will revise the supervision manual to fully reflect migration towards risk-based supervision.

37. **The BSL and MOFED will revise the guidelines for issuing of Treasury bills to enhance development of the secondary market**. This will clarify roles of market participants (including primary dealers, the BSL, and MOFED) and make Government strategy in the treasury bills market more transparent and credible. The guidelines will specify that (i) Government should announce in advance the schedule of Treasury bills issuance for the upcoming month; (ii) Government should not increase the offered amount during the auction, if there is excess demand; and (iii) Government can announce additional issuance if market conditions are favorable or there is a financing need. In this regard, the Government will seek technical assistance from MCM.

38. **To develop a long-term capital market**, the MOFED and the BSL will engage market participants, including the commercial banks, NASSIT and other nonbank financial institutions, to develop a long-term bond market consistent with the Government's financing need. At first, efforts will focus on developing the market and changing the maturity structure of domestic debt rather than issuing additional net Government debt. The Government will also strengthen the capital market regulatory structure and governance by enacting the Securities and Exchange Commission's (SEC) Bill and implementing associated regulations, and deepen the long-term capital market with the privatization and divestiture of slated public enterprises.

39. **Private sector development is constrained by limited access to financial services**. Lack of financial development is evident in low credit to the private sector. Access to credit will be enhanced by strengthening information structure through the newly established credit reference bureau. To improve efficiency of transactions in the economy, the BSL is working towards strengthening the payments and settlement systems. In this context, the AfDB is financing the automation of the payment system, which includes*:* (i) real time gross settlement; (ii) automated check processing and automated clearing house; (iii) scriptless securities settlement system; and (iv) core banking application. The BSL will have in place all components of the payment system by the end of 2011, including the necessary payment system legislation and manuals, in line with best international practice.

Other reforms

40. **The privatization program will continue**. In addition to privatizing the container terminal section of the Sierra Leone Port Authority in the first half of 2011, preparations are underway for selling the Government's 51 percent equity holding in Rokel Commercial Bank in 2012 (structural benchmark for June 2012). The Government also intends to sell all of its shares in the National Insurance Company in 2012. The Government will ensure that state-owned institutions will not acquire significant amounts of shares (capping equity ownership at 10 percent of total).

41. **The Government has committed to the principles of Extractive Industries Transparency Initiative (EITI)**. The first EITI Report (covering mining for 2006–07) was published in March 2010. An EITI validation report recommends a number of improvements to the governance and management of the processes. The Government will implement the recommendations made in the report by end-2012, with the view to maintain its EITI candidacy status.

42. **The Government sees the need to strengthen Sierra Leone's capacity to collect and disseminate economic statistics**. In this regard, the Government is seeking technical assistance from the IMF to improve the reporting of national accounts, balance of payments, and price statistics. There is a particular need to improve collection of data on mining and agricultural output and financing flows. The Statistics of Sierra Leone (SSL) will start publishing a single, reliable consumer price index before the end of 2011. The Government is also seeking technical assistance from UK DFID to strengthen the institutional and legal framework of Statistics Sierra Leone, consistent with international best practices.

VIII. Program Monitoring

43. The program will be monitored based on quantitative performance criteria for end-December 2011 (Table 3), end-June 2012, and end-December 2012 (Table 5) and structural benchmarks for 2011–12 (Tables 4 and 6).

Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2010 1/

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

	2009 6/	2010											
		June				*September 2/*				December			
	Stock	*Prog.*	*Adj. Prog.*	*Act.*	*Status*	*Prog.*	*Adj. Prog.*	*Act.*	*Status*	*Prog.*	*Adj. Prog.*	*Act.*	*Status*
Performance criteria													
Net domestic bank credit to the central government (ceiling)	647.3	191.5	240.7	206.6	Met	202.7	249.7	318.2	Not Met	250.3	229.5	413.5	Not Met
Unadjusted target (ceiling)			191.5				202.7				250.3		
Adjustment for the shortfall (excess) in external budget support			31.5				52.0				-9.3		
Adjustment for the issuance of government securities to the nonbank private sector			17.6				-5.0				-11.5		
Net domestic assets of the central bank (ceiling)	-442.3	198.6	247.7	192.4	Met	235.5	268.4	201.0	Met	235.1	178.3	244.1	Not Met
Unadjusted target (ceiling)			198.6				235.5				235.1		
Adjustment for the shortfall (excess) in external budget support			31.5				52.0				-9.3		
Adjustment for exchange rate depreciation (appreciation)			17.6				-19.1				-47.5		
Gross foreign exchange reserves of the central bank, US$ millions (floor)	336.4	-8.7	-24.3	-23.0	Met	-11.8	-25.1	-23.2	Met	0.0	2.7	8.9	Met
Unadjusted target (floor)			-8.7				-11.8				0.0		
Adjustment for the shortfall (excess) in external budget support 3/			-7.9				-13.0				2.3		
Adjustment for the shortfall in the US$ value of IMF disbursement			-7.2				0.2				-0.1		
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-0.4				-0.5				0.4		
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		0.0	Met	0.0		0.0	Met
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		0.0	Met	0.0		0.0	Met	0.0		0.0	Met
External payment arrears of the public sector (ceiling) 3/	…	0.0		…		0.0		…		0.0		…	
Indicative target													
Total domestic government revenue (floor)	…	432.8		417.5	Not Met	676.8		687.4	Met	987.9		1,007.6	Met
Poverty-related expenditures (floor)	…	252.2		325.2	Met	337.9		439.9	Met	417.0		635.1	Met
Memorandum items:													
External budgetary assistance (US$ million) 4/	…	29.6		21.7		52.1		39.0		77.8		80.1	
Net credit to government by nonbank sector 5/	…	44.0		26.4		45.4		50.4		18.4		29.9	
ECF disbursements (SDR millions)		11.4		7.0		11.4		11.4		15.9		15.9	
Exchange rate (Leones/US$)		3,990		3,906		3,990		4,081		3,990		4,198	

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).
2/ Indicative targets.
3/ These apply on a continuous basis.
4/ Including grants and loans.
5/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.
6/ Staff Report, November 19, 2010

Table 2. Sierra Leone: Structural Benchmarks for 2010

Measures	Timing	Macro Rationale	Status
• Adopt a domestic fuel pricing formula that reflects full pass-through of international oil prices.	End–June	To enhance transparency and eliminate risks for the budget in case of external shocks.	Not met.
• Adoption by the BSL of new off-site surveillance guidelines for banks.	End–June	To enhance the supervisory role of the BSL for financial sector development.	Met with delay. Implemented in November 2010.
• Establish a Domestic Tax Department (DTD) as the vehicle for achieving integration of domestic tax collection and make it functional, including recruiting Commissioner and Deputy Commissioner.	End-September	To improve efficiency of revenue collection efforts.	Met with delay. Implemented in November 2010.
• Submit to parliament amendments of the GBAA (2005) and Financial Management Regulation to ensure that only viable capital projects enter into the budget.	End–September	To improve efficiency of public investments and achieve the program growth targets.	Met with delay. The amendments were submitted to the parliament in May 2011.
• Establish reverse repo rate as the benchmark interest rate and announce the rate after every Monetary Policy Committee meeting.	Continuous from end-September	To increase the effectiveness of monetary policy and help develop a yield curve.	Met with delay.
• Establish a credit reference bureau.	End-December	To promote credit access for credit-worthy customers.	Met.
• 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.	Not met. An action plan has been developed and sent to the NRA Board. NRA Management intends to execute the establishment of the LTD and to integrate the GST administration within the same framework. The next step is to seek approval by the NRA Board.

Table 3. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2011 1/

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

	Dec. 2010 6/	2011										
		Mar. 2/				Jun.				*September 2/*	December	
	Stock	*Prog.*	*Adj. Prog.*	*Act.*	*Status*	*Prog.*	*Adj. Prog.*	*Act.*	*Status*	*Prog. 6/*	*Prog. 6/*	*Revised Prog.*
Performance criteria												
Net domestic bank credit to the central government (ceiling)	897.6	64.6	66.5	0.9	Met	106.6	146.7	76.5	Met	137.6	152.1	73.6
Unadjusted target (ceiling)			64.6				106.6					
Adjustment for the shortfall (excess) in external budget support			14.1				46.0					
Adjustment for the issuance of government securities to the nonbank private sector			-12.2				-5.8					
Net domestic assets of the central bank (ceiling)	-207.5	63.7	43.0	-151.5	Met	112.8	123.8	-93.0	Met	146.6	159.5	87.3
Unadjusted target (ceiling)			63.7				112.8					
Adjustment for the shortfall (excess) in external budget support			14.1				46.0					
Adjustment for exchange rate depreciation (appreciation)			-34.8				-35.0					
Gross foreign exchange reserves of the central bank, US$ millions (floor)	336.4	-22.7	-28.3	10.0	Met	-14.8	-33.8	-0.6	Met	-24.7	-9.9	0.0
Unadjusted target (floor)			-22.7				-14.8					
Adjustment for the shortfall (excess) in external budget support 3/			-3.5				-11.5					
Adjustment for the shortfall in the US$ value of IMF disbursement			0.0				-7.0					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-2.1				-0.5					
Contracting or guaranteeing of new nonconcessional external debt by the public sector with maturities of one year or more (ceiling) 3/	…	0.0		42.0	Not Met	0.0		42.0	Not Met	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) 3/	…	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0
External payment arrears of the public sector (ceiling) 3/	…	0.0		…		0.0		…		0.0	0.0	…
Indicative target												
Total domestic government revenue (floor)	…	260.0		350.3	Met	549.7		671.7	Met	831.8	1,156.6	1,425.7
Poverty-related expenditures (floor)	…	134.6		134.8	Met	271.0		274.7	Met	382.5	514.2	537.7
Memorandum items:												
External budgetary assistance (US$ million) 4/	…	16.7		13.2		31.3		19.8		42.5	53.5	71.2
Net credit to government by nonbank sector 5/	…	12.4		24.7		18.2		24.1		25.9	43.2	43.2
ECF disbursements (SDR millions)		0.0		0.0		4.4		0.0		4.4	8.9	8.9
Exchange rate (Leones/US$)	4198	3,990		4,338		3,990		4,355		3,990	3,990	3,990

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).
2/ Indicative targets.
3/ These apply on a continuous basis.
4/ Including grants and loans.
5/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.
6/ Staff Report, November 19, 2010

Table 4. Sierra Leone: Prior Action and Structural Benchmarks for 2011

Measures	Timing	Macro Rationale	Status
Prior Action (second and third review):			
• Submit to parliament amendments to the Bank of Sierra Leone Act, to formally cap annual direct credit from the BSL to the Government to 5 percent of previous year's domestic revenue.		Limit the monetization of the fiscal deficit in order to facilitate price stability.	Met.
Structural Benchmarks:			
• Submit to parliament amendments to the BSL and Banking Acts to increase operational independence of the BSL and improve regulation and supervision of the financial sector.	End–June	Facilitate efficient financial intermediation by improving the efficiency of the financial regulatory system.	Met with delay.
• Develop a pay reform plan for public servants.	End-June	To improve the quality of civil services by providing competitive wages.	Not met. A plan is in process of being completed, with salary adjustments consistent with the program.
• Transfer all eligible taxpayers to the Medium Taxpayer Office (MTO) and integrate GST administration with MTO.	End-September	To improve efficiency of revenue collection efforts.	Met.
• 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.	New benchmark. On track.
• Implement new small taxpayer regime.	End–December	To improve voluntary compliance and raise tax revenue.	Pending adoption of Finance Act.
• Prepare and publish regulations to implement a Public Investment Plan, fully integrated with the budget process.	End-December	To improve efficiency of public investments and achieve medium-term growth targets.	Revised benchmark. Original benchmark will be postponed to 2012

Table 5. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2012 1/

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

	Dec. 2011	2012			
		Program			
	Stock	Mar. 2/	Jun.	*September 2/*	December
Performance criteria					
Net domestic bank credit to the central government (ceiling)	1,140.8	35.4	24.8	11.6	132.8
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for the issuance of government securities to the nonbank private sector					
Net domestic assets of the central bank (ceiling)	-149.8	-43.1	-54.8	-46.7	-19.4
Unadjusted target (ceiling)					
Adjustment for the shortfall (excess) in external budget support					
Adjustment for exchange rate depreciation (appreciation)					
Gross foreign exchange reserves of the central bank, US$ millions (floor)	345.2	15.5	34.6	31.9	25.9
Unadjusted target (floor)					
Adjustment for the shortfall (excess) in external budget support 3/					
Adjustment for the shortfall in the US$ value of IMF disbursement					
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities					
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	0.0	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	0.0	0.0
External payment arrears of the public sector (ceiling) 3/	…	0.0	0.0	0.0	0.0
Indicative target					
Total domestic government revenue (floor)	…	365.2	798.9	1,222.9	1,606.9
Poverty-related expenditures (floor)	…	142.0	282.2	421.6	569.6
Memorandum items:					
External budgetary assistance (US$ million) 4/	…	37.8	65.1	66.4	67.2
Net credit to government by nonbank sector 5/	…	12.4	18.2	25.9	33.2
ECF disbursements (SDR millions)		0.0	4.4	4.4	8.9
Exchange rate (Leones/US$)	4400	4,400	4,400	4,400	4,400

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).
2/ Indicative targets.
3/ These apply on a continuous basis.
4/ Including grants and loans.
5/ Comprises treasury bills purchased by the National Social Security and Insurance Trust (NASSIT) and the nonfinancial private sector.
6/ Staff Report, November 19, 2010

Table 6. Sierra Leone: Structural Benchmarks for 2012

Measures	Timing	Macro Rationale
• Privatize Rokel Bank by selling all Government shares in the bank.	End-June	Enhance competition and efficiency in the banking system and increase fiscal space for infrastructure investment.
• Establish a high-level cash management committee under the leadership of Ministry of Finance and Economic Development in collaboration with the Accountant General and the Bank of Sierra Leone to take decisions on cash ceilings, short-term borrowing requirements, and placement of temporary cash surpluses.	End-March	Improve short-term liquidity management and budget execution with a view to avoid accumulation of payments arrears, and limit short-term borrowing from the BSL.
• Introduce a resource rent tax on mining operations.	End-June	Increase tax revenue in case of higher than normal profitability in the mining sector.
• Submit amendments to the GBAA to the Parliament. The amendments will clarify provisions related to supplementary budgets and contingency funds.	End-September	Strengthen budget preparation and execution.
• Issue revised prudential guidelines in line with Banking Act.	End-September	Improve regulation and supervision of the financial sector.
• Complete a three-year public investment plan, fully integrated with the budget process, to be submitted with the 2013 budget.	End-December	Strengthen medium-term expenditure framework, with focus on efficiency of public investments.

ATTACHMENT II. SIERRA LEONE: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 18, 2011

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 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 the remainder of 2011 will be converted from their U.S. dollar denominated value into Sierra Leonean currency (leone) using a program exchange rate of Le3990/US$. For 2012, foreign currency denominated values will be converted into Sierra Leonean currency (leone) using a program exchange rate of Le 4400/US$ and cross rates as of end September 2011.[2]

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.

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

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

[2] For calculating program targets for 2012, all end 2011 stock variables will be based on program exchange rate of Le4400/US$.

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

(downward) for any increase (decrease) in BSL short-term (one year or less in original maturity) foreign currency-denominated liabilities (to residents and nonresidents).

B. Net Domestic Assets of the BSL

5. **Definition**. Net domestic assets (NDA) of the BSL 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 BSL and the BSL 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 BSL will be adjusted upward (downward) by the leone value of the shortfall (excess) in the external budgetary assistance at the test dates—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:

- 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;
- the net position of the Government with the BSL, 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 BSL 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 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 non-accumulation 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.

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 criterion. 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. For debt with a maturity of more than 15 years, the average of the ten-year commercial interest reference rates (CIRRs) published by the OECD is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs. 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.

III. Quantitative Indicative target

G. Domestic Revenue of Central Government

15. **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.

H. Poverty-Related Expenditures

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

IV. Program Monitoring

17. 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 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 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 cashflow 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
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