International Monetary Fund

Sierra Leone and the IMF

Press Release:
IMF Executive Board Concludes the 2013 Article IV Consultation with Sierra Leone
November 14, 2013

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

October 1, 2013

Letter of Intent

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

Dear Madame Lagarde:

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

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

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

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

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

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

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

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

Very truly yours,

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

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

Supplemental Letter of Intent

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

Dear Madame Lagarde:

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

Very truly yours,

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

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

Freetown, October 1, 2013

Introduction

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

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

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

Recent Economic Developments and Short-Term Outlook

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

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

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

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

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

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

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

Program Implementation—Taking Stock

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

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

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

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

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

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

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

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

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

Agenda for Prosperity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Medium-Term Macroeconomic Framework

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

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

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

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

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

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

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

Policies and Reforms for 2013–14

A. Fiscal Policy and Public Financial Management Reforms

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

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

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

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

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

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

- Submit to parliament the Extractive Industries Revenue Bill, including a resource rent tax (December 2013);

- Implement the small taxpayer regime (December 2013), to improve voluntary compliance and broaden the tax base;

- Introduce a new Tax Administration Act to harmonize and clarify tax procedures, particularly with regard to extractive industries (December 2014);

- Establish and staff an operative public investment program unit in the Ministry of Finance and Economic Development.

- Set up of a transparent Natural Resource Revenue Fund sub-account under the Treasury Single Account (TSA) to support transparent management of expected higher resource revenue (June 2014); and

- Complete a three-year public investment plan (PIP), fully integrated with the budget process and the revised MTEF for 2014–18, to be submitted to parliament with the 2015 budget, to support the implementation of the new PRSP, and enhance selectivity in public investments.

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

B. Monetary and Exchange Rate Policies and Financial Sector Issues

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

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

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

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

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

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

C. Debt Policy and Management

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

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

Other Structural Reforms

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

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

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

Program Monitoring

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

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

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

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

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

2/ These apply on a continuous basis.

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

4/ Including grants and loans.

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

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

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

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

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

Attachment 2. Technical Memorandum of Understanding

Freetown, October 1, 2013

Introduction

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

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

Quantitative Performance Criteria

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

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

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

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

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

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

B. Net Domestic Assets of the BSL

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

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

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

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

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

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

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

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

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

D. External Payment Arrears of the Public Sector

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

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

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

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

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

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

Quantitative Indicative Target

A. Domestic Primary Balance

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

B. Domestic Revenue of Central Government

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

C. Poverty-Related Expenditures

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

Program Monitoring

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

Annex. Implementation of the Revised Guidelines on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, which reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements."

Sierra Leone: Summary of Data Reporting to IMF Staff

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

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

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