

## International Monetary Fund

[Sierra Leone](#) and the  
IMF

**Sierra Leone:** Letter of Intent and Technical Memorandum of  
Understanding

**Press Release:**  
[IMF Executive Board  
Approves US\\$130  
Million in Immediate  
Assistance to Guinea,  
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Leone in Response to  
the Ebola Outbreak](#)  
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## Letter of Intent

September 17, 2014  
Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Madame Lagarde:

1. The Ebola Virus Disease that hit Sierra Leone in May this year has had devastating health and social impact on the population, and threatens to erode our progress towards macroeconomic stability. The rapid contagion and high mortality rate of the epidemic has overwhelmed our institutional and medical infrastructure. So far, some 1,000 persons have been infected, and 461 have died from the epidemic as of end-August. With the support of the United Nations and other bilateral partners, the Government of Sierra Leone initiated an *Accelerated Ebola Outbreak Response Plan* with an estimated cost of \$26 million to meet direct costs in the six months through end-2014. Donor contribution to this plan has left an uncovered gap of US\$18 million for which the United Nations has launched an Appeal to all Sierra Leone's development partners. Despite our efforts to contain the disease, contagion and morbidity have risen in recent days, indicating that the full cost for containment and humanitarian needs is going to be much higher than we had anticipated.
2. The Ebola epidemic has put a significant strain on the budget, in terms of revenue loss and additional expenditure, and generated important balance of payments needs. The latter is currently estimated at US\$ 110 million. The budget is also facing tremendous pressures stemming from revenue loss, estimated at US\$45.7 million in the second half of this year, and additional spending of about US\$36 million, bringing the Ebola-related budgetary needs to almost US\$82 million. While soliciting financial support from our development partners, we have scaled back non-priority spending and domestically financed investment for 2014. The Government expects some lingering effects of the epidemic in 2015 on revenue and spending, with a projected financing gap of 1.1 percent of non-iron ore GDP. Based on indications from Sierra Leone's development partners, we are confident that this gap will be fully covered with additional budget support. Nonetheless, we

stand ready to scale back non-priority spending or domestically-financed investment to ensure that the ECF-supported program is fully financed for 2014 and 2015.

3. The Government of Sierra Leone is therefore seeking an ad hoc review under the ECF arrangement to address urgent balance of payments and budgetary needs triggered by the epidemic. It is requesting an augmentation of access under the Extended Credit Facility in the amount of SDR 25.925 million (25 percent of quota), for immediate budget support. Accordingly, the Ministry of Finance and Economic Development, and the Bank of Sierra Leone (BoSL) [have signed] a Memorandum of Understanding defining each party's responsibilities for servicing the related financial obligations to the IMF. The government is also requesting a modification of two end-December performance criteria under the program: (i) net domestic bank credit to the central government, to reflect the requested IMF financing as well as additional borrowing from the securities market needed to cover additional spending triggered by the Ebola epidemic; and (ii) net domestic assets of the Bank of Sierra Leone. To ensure full accountability and effective use of the funds provided by the IMF and other development partners, the Government has put in place a comprehensive set of financial management procedures, including management of the Ebola Fund by the Emergency Operations Center, with fiduciary oversight by a consultancy firm, KPMG.

4. Prior to the onset of the EVD, we had made good progress towards fiscal consolidation and macroeconomic stability, albeit not without challenges. We kept to the quantitative performance criteria and structural benchmarks under the ECF-supported program, and were poised to complete the second review of the program in mid-December as scheduled. We continue to service our external debt obligations to our creditors, and are in good-faith discussions with our commercial creditors in the context of the debt buy-back arrangement supported by the World Bank.

5. The Government is committed to the design and effective implementation of measures and policies to address the immediate needs resulting from the EVD epidemic, and to support subsequent economic recovery in a manner that restores and maintains macroeconomic stability. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies agreed for restoring macroeconomic stability in line with the broad objectives of the ECF-supported program, and in accordance with the IMF policies on such matters. Furthermore, we will continue to provide the IMF with information in connection with progress in the implementation of policies and reforms under the ECF-supported program.

6. In line with our commitments to transparency in government operations, we authorize publication of this letter and the related staff report, including placement of these documents on the IMF website, in accordance with IMF procedures.

Very truly yours,

\_\_\_\_\_/s/\_\_\_\_\_

Kaifala Marah  
Minister of Finance and Economic Development

\_\_\_\_\_/s/\_\_\_\_\_

Momodu Kargbo  
Governor of Bank of Sierra Leone

**Table 1. Sierra Leone: Quantitative Performance Criteria and Indicative Targets for 2014<sup>1/</sup>**  
(Cumulative change from beginning of calendar year to end of month indicated; Le billions, unless otherwise indicated)

	Dec. 2013				Status	2014				Status	Rev.
	Stock	Mar.				Jun.			Dec.		
		Prog. 2/	Adj. Prog.	Act.		Prog. 2/	Adj. Prog.	Act.	Prog. 2/		
<b>Performance criteria</b>											
Net domestic bank credit to the central government (ceiling)	1,665	93	201	130	Met	184	318	217	Met	245	493
Unadjusted target (ceiling)			92.8				183.8				
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				
Adjustment for the issuance of government securities to the nonbank private sector			42.0				87.7				
Net domestic assets of the central bank (ceiling)	-295	20	86	55	Met	21	68	49	Met	10	140
Unadjusted target (ceiling)			19.9				21.3				
Adjustment for the shortfall (excess) in external budget support			66.4				46.9				
Gross foreign exchange reserves of the central bank, US\$ millions (floor)	474	10	-6	13	Met	31	6	26	Met	53	53
Unadjusted target (floor)			9.7				30.6				
Adjustment for the shortfall (excess) in external budget support 4/			-15.3				-10.8				
Adjustment for the shortfall in the US\$ value of IMF disbursement			0.0				-13.7				
Adjustment for the increase (decrease) in BSL short-term foreign currency liabilities			-0.4				-0.4				
Ceiling on new nonconcessional external debt (in \$ million) 3/ 4/	...	30		0	Met	30	...	9	Met	30	30
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
External payment arrears of the public sector (ceiling) 3/	...	0.0		0.0	Met	0.0	...	0.0	Met	0.0	0.0
<b>Indicative target</b>											
Total domestic government revenue (floor)	...	549		597	Met	1,247		1,174	Not Met	2,613	2,341
Poverty-related expenditures (floor)	...	231		267	Met	542		633	Met	1,158	1,145
Domestic primary balance (floor)	...	-176		-108	Met	-300		-451	Not Met	-512	-806
<i>Memorandum items:</i>											
External budgetary assistance (US\$ million) 5/	...	5.1		8.7		45.4		42.5		79.9	91.4
Net credit to government by nonbank sector 6/	...	0.0		-42.0		21.9		-65.8		66.0	66.0
ECF disbursements (SDR millions)		0.0		0.0		13.7		13.7		13.7	53.5
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/ Refers to program of Country Report No. 14/171.

3/ These apply on a continuous basis.

4/ 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.

5/ Including grants and loans.

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

<b>Table 2. Sierra Leone: Structural Benchmarks Under the ECF-Supported Program, 2014</b>		
<b>Measures</b>	<b>Timing</b>	<b>Status</b>
<b>Revenue Mobilization</b>		
<ul style="list-style-type: none"> <li>Establish a Treasury Single Account (TSA), and streamline NRA's transition accounts.</li> </ul>	June 2014	Not met
<ul style="list-style-type: none"> <li>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.</li> </ul>	December 2014	In progress
<ul style="list-style-type: none"> <li>Introduce a new Tax Administration Act.</li> </ul>	Dec. 2014	In progress
<b>Expenditure and Debt Management</b>		
<ul style="list-style-type: none"> <li>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.</li> </ul>	June 2014	Not met
<ul style="list-style-type: none"> <li>Prepare a monthly rolling Treasury cash flow table consistent with the revised 2013 budget.</li> </ul>	Continuous	Met
<ul style="list-style-type: none"> <li>Prepare a bi-annual report on PIP execution.</li> </ul>	Continuous	Met
<ul style="list-style-type: none"> <li>Prepare a quarterly report on external debt commitments, agreements and disbursements.</li> </ul>	Continuous	Met
<ul style="list-style-type: none"> <li>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.</li> </ul>	Oct. 2014	In progress
<b>Financial Sector Development</b>		
<ul style="list-style-type: none"> <li>Prepare a road map for developing and implementing risk-based supervision.</li> </ul>	June 2014	Met
<ul style="list-style-type: none"> <li>Establish a primary dealer agreement system for the government securities market.</li> </ul>	June 2014	Not met
<ul style="list-style-type: none"> <li>Introduce a wholesale foreign exchange auction.</li> </ul>	June 2014	Not met
<b>Business Environment</b>		
<ul style="list-style-type: none"> <li>Prepare a development strategy for small- and medium-sized enterprises.</li> </ul>	June 2014	Met
<ul style="list-style-type: none"> <li>Introduce a one-stop window for imports clearance.</li> </ul>	Dec. 2014	In progress

## Technical Memorandum of Understanding

### Freetown, September 17, 2014

#### 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 1 of the Letter of Intent (LOI).
2. **Program exchange rates.**<sup>1</sup> 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.<sup>2</sup>

#### 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* (5<sup>th</sup> 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<sup>3</sup>—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

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<sup>1</sup> The source of the cross exchange rates is International Financial Statistics.

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

<sup>3</sup> External budgetary assistance is defined as program grants and program loans, excluding HIPC assistance.

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 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 (excluding a foreign liability to China of Le 35 billion relating to a legacy clearing account for a previous bilateral trading agreement) 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 BoSL losses (Le 357.5 billion) and to increase its capital (Le 75 billion); (b) the stock of non-negotiable non-interest bearing securities (NNNIBS); (c) ways and means; and (d) any other type of direct credit from the BoSL to the government, including in 2014 the special on-lending arrangement relating to the augmentation of access under the ECF arrangement; less (a) central government deposits; and (b) any debt relief received, notably 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 1 of the LOI).

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.** For program monitoring purposes, poverty-related expenditures are defined as the total of current and capital expenditures of the following ministries and institutions: Education, Health, Social Welfare, Agriculture, Transport and Communications, Energy, Water, Police, Prisons Department, National Fire Authority; and capital expenditure for the Ministry of Works, Energy, Water, Health and Sanitation, Agriculture, Police, Prisons, Local Councils, Commission for Social Action, Anti-Corruption Commission, and Statistics Sierra Leone. Current expenditures are defined as expenditures on goods and services, transfers, and other current spending. Capital expenditures are defined as domestically-financed investment. For 2014–15, poverty-related spending encompasses budgetary expenditure for the Ebola Response Plan.

## **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.”

<b>Sierra Leone: Summary of Data Reporting to IMF Staff</b>			
<b>Type of Data</b>	<b>Tables</b>	<b>Frequency</b>	<b>Reporting Deadline</b>
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

<b>Sierra Leone: Summary of Data Reporting to IMF Staff</b> (concluded)			
<b>Type of Data</b>	<b>Tables</b>	<b>Frequency</b>	<b>Reporting Deadline</b>
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