

**FOR
AGENDA**

EBS/01/118
Supplement 1

CONFIDENTIAL

July 19, 2001

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Sierra Leone—Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for the First Annual Program**

The attached supplement to the paper on Sierra Leone's request for a three-year arrangement under the Poverty Reduction and Growth Facility and first annual program (EBS/01/118, 7/16/01) contains the text of the three-year arrangement and is tentatively scheduled for discussion on Monday, July 30, 2001. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Sierra Leone indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Kakoza (ext. 36514) and Mr. Tharkur (ext. 38539).

Att: (1)

Other Distribution:
Department Heads

Sierra Leone

Three-Year Arrangement under the Poverty Reduction and Growth Facility

Attached hereto* is a letter (the "Letter") dated June 21, 2001, with its annexed Memorandum on Economic and Financial Policies (the "Memorandum") and Technical Memorandum of Understanding, from the Minister of Finance of Sierra Leone requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth

(a) the objectives and policies of the program that the authorities of Sierra Leone intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Sierra Leone intend to pursue during the first year of the arrangement; and

(c) understandings of Sierra Leone with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Sierra Leone will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust, as amended.

1. (a) For a period of three years from July 1, 2001, Sierra Leone will have the right to request loan disbursements from the Trustee in a total amount equivalent to SDR 130.83 million, subject to the availability of recourses in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 74.83 million until June 30, 2002, the equivalent of SDR 102.83 million until June 30, 2003 and the equivalent of SDR 130.83 million until June 30, 2004.

(c) During the first year of the arrangement:

(i) the first loan, in an amount equivalent to SDR 46.84 million, will be available on July 31, 2001, at the request of Sierra Leone;

(ii) the second loan, in an amount equivalent to SDR 9.33 million, will be available on December 31, 2001 at the request of Sierra Leone subject to paragraph 2 below;

*See EBS/01/118 (7/16/01).

(iii) the third loan, in an amount equivalent to SDR 9.33 million, will be available on June 30, 2002 at the request of Sierra Leone subject to paragraph 2 below; and

(iv) the fourth loan, in an amount equivalent to SDR 9.33 million, will be available on June 30, 2002 at the request of Sierra Leone subject to paragraph 2 below.

(d) The timing of, and conditions for, the third and fourth loans respectively referred to in paragraph 1(c)(iii) and 1(c)(iv) above shall be determined in the context of the first review of Sierra Leone's program with the Trustee contemplated in paragraph 2(e) below. The right of Sierra Leone to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the second review of Sierra Leone's program with the Trustee contemplated in paragraph 2(e) of this arrangement.

2. Sierra Leone will not request the disbursement of the second, third or fourth loan specified respectively in paragraphs 1(c)(ii), 1(c)(iii) and 1(c)(iv) above:

(a) if the Managing Director of the Trustee finds that, with respect to the second loan, the data as of end-September 2001, with respect to the third loan, the data as of end-December 2001, and with respect to the fourth loan, the data as of end-March 2002 indicate that:

(i) the ceiling on the net domestic bank credit to the central government,
or

(ii) the ceiling on the net domestic assets of the central bank, or

(iii) the floor on the domestic primary budget balance of the central government, or

(iv) the ceiling on the stock of verified domestic payments arrears of the central government, or

(v) the ceiling on the subsidies to the National Power Authority, or

(vi) the floor on the gross foreign exchange reserves of the central bank, or

(vii) the ceiling on contracting or guaranteeing by the public sector of non-concessional external debt with a maturity of one year and up to and including twelve years, or

(viii) the ceiling on the outstanding stock of external debt with a maturity of less than one year owed or guaranteed by the public sector,

referred to in paragraph 47 and Table 1 of the Memorandum, was not observed; or

(b) if the Managing Director of the Trustee find that, with respect to the second loan, the new Financial Institutions Bill has not been passed by the Parliament of Sierra Leone by September 31, 2001 as specified in paragraph 47 and Table 2 of the Memorandum; or

(c) if, at any time during this arrangement, the public sector of Sierra Leone accumulates any external payment arrears as specified in paragraph 47 and Table 1 of the Memorandum; or

(d) if Sierra Leone has:

(i) imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons; or

(e) until the Trustee has determined that with regard to the second loan, the first review of Sierra Leone's program scheduled for completion no later than December 31, 2001, and with regard to the third and fourth loans, the second program review scheduled for completion no later than June 30, 2002, referred to in paragraph 45 of the Memorandum has been completed.

If Sierra Leone is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and Sierra Leone and understandings have been reached regarding the circumstances in which Sierra Leone may request further disbursements.

3. In accordance with paragraph 5 of the Letter, Sierra Leone will provide the Trustee with such information as the Trustee requests in connection with the progress of Sierra Leone in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 4 of the Letter, during the period of this arrangement, Sierra Leone shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Sierra Leone has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Sierra Leone will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Sierra Leone's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Sierra Leone or of representatives of Sierra Leone to the Trustee.