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November 29, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Staff Report for the 1995 Article IV Consultation
and Request for Second Annual Arrangement Under the Enhanced
Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1995 Article IV consultation with Sierra Leone and its request for the second annual arrangement under the enhanced structural adjustment facility. This subject, together with the policy framework paper for Sierra Leone (EBD/95/162, 11/29/95), is tentatively scheduled for discussion on Monday, December 18, 1995. Draft decisions appear on pages 15 and 16.

Mr. Nowak (ext. 38969), Mr. Cowen (ext. 37207), or Mr. Ehrbeck (ext. 34031) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB), the European Commission (EC), and the WTO Secretariat, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

Staff Report for the 1995 Article IV Consultation and Request for
Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal,
Monetary and Exchange Affairs, Policy Development and
Review, Statistics, and Treasurer's Departments)

Approved by Paul A. Acquah and Thomas Leddy

November 28, 1995

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I. Introduction

The 1995 Article IV consultation discussions with Sierra Leone, together with negotiations on an economic program to be supported by the second annual ESAF arrangement, were completed in October 1995. 1/ 2/ The Fund staff mission met with the Head of State, Captain Strasser; the Secretary of State for Finance, Dr. Karimu; the Governor of the Bank of Sierra Leone, Mr. Swaray; and other senior officials and representatives of the private sector.

In the attached letter dated November 17, 1995, and the accompanying memorandum on economic and financial policies, the Government of Sierra Leone has set out its economic program for the period 1996-98 (Appendix I). In support of this program, and in light of Sierra Leone's financing needs, the Government requests a second annual ESAF arrangement in an amount equivalent to SDR 23.2 million (30.1 percent of quota). This would represent an augmentation of access under the second annual arrangement of SDR 13.1 million (17.0 percent of quota), of which approximately 60 percent would be made available upon Board approval of the arrangement. Access under the third annual arrangement would remain at SDR 10.1 million (13.1 percent of quota). The proposed phasing of disbursements for the remainder of the ESAF period is indicated in Table 1.

As of end-October 1995, Sierra Leone's outstanding use of Fund credit amounted to SDR 99.1 million (128.3 percent of quota). If all remaining disbursements under the ESAF arrangement are made, and taking into account the repayments falling due, Sierra Leone's use of Fund resources would total SDR 128.9 million (167.0 percent of quota) at end-1997.

Sierra Leone's economic program is being implemented in the context of a medium-term strategy, which has been formulated by the Government in close collaboration with the staffs of the Fund and the Bank, and which is described in an updated policy framework paper (PFP). The PFP was circulated to Executive Directors to the Executive Board of the World Bank concurrently with this report.

1/ This was the culmination of several rounds of discussions with the authorities. The dates of these contacts, and the staff representatives involved, are indicated in Appendix II. This report was prepared by a staff team consisting of Mr. Nowak (head-AFR), Mr. Cowen (AFR), Mr. Ehrbeck (AFR), and Mr. Tsaveas (PDR).

2/ Parallel structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) arrangements were approved by the Executive Board on March 28, 1994 in respective amounts of SDR 27.0 million (35.0 percent of quota) and SDR 88.8 million (115.0 percent of quota). See EBS/94/35 (3/1/94), Sup. 1, (3/24/94), and Sup. 2 (3/28/94). A total of SDR 90.5 million has been drawn to date under these arrangements.

Sierra Leone has indicated that it intends to accept the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement in December 1995. Sierra Leone is on the standard 12-month cycle for Article IV consultations.

Sierra Leone's relations with the Fund and World Bank are summarized in Appendixes II and III, respectively. An analysis of Sierra Leone's debt sustainability is presented in Appendix IV.

The quality of Sierra Leone's macroeconomic database has improved considerably in recent years, in large part because of the receipt of technical assistance (Appendix VI). For purposes of program monitoring, reliable data on key monetary aggregates, the exchange rate, and official external reserves are provided to the Fund on at least a weekly basis. Fiscal data are provided monthly with a lag of four to six weeks. However, certain problems in timeliness and quality persist with regard to the national accounts and certain balance of payments statistics.

II. Recent Economic Performance

In concluding the last Article IV consultation on March 23, 1994, Directors commended Sierra Leone on the successful conclusion of its rights accumulation program and on the strides that had been taken to stabilize the economy, despite adverse external and domestic circumstances. Directors noted, however, that economic activity had shown little sign of recovery and therefore welcomed the continuation of Sierra Leone's stabilization and structural adjustment efforts in the context of an economic program for 1994-96 supported by an ESAF arrangement. They also remarked that political uncertainties in Liberia and the rebel conflict in Sierra Leone would continue to pose risks to the program.

The Executive Board conducted the midterm review under the first annual ESAF arrangement on December 21, 1994. Shortly thereafter, rebel forces in Sierra Leone mounted a series of damaging attacks on key economic installations, which severely set back the Government's adjustment efforts. Production of rutile and bauxite was halted, and foreign exchange receipts and fiscal revenues fell drastically. ^{1/} Subsequently, diamond mining operations were also disrupted by rebel activity. Business and consumer confidence in Sierra Leone was badly shaken by these events, and the repercussions for economic activity beyond the mineral sector have been considerable; the staff estimates that real GDP will contract by at least 10 percent in 1995 (Table 2). The drop in output would have been considerably greater but for the relatively strong performance by the agricultural sector, partly as a result of favorable rains.

^{1/} Rutile and bauxite together account for 60 percent of Sierra Leone's officially recorded exports and contribute some 2 percent of GDP to government revenues.

In view of deviations that had occurred relative to program targets and uncertainties surrounding the security situation, it was not feasible for Sierra Leone to move forward with the second annual ESAF arrangement upon expiration of the first annual arrangement in March 1995 (Tables 3 and 4). Pending an improvement in security conditions, the Government adopted a "holding" program in February 1995 aimed at sustaining the momentum of economic reform and preserving the stabilization gains achieved over the previous three years. The holding program was implemented against the background of a virtual cessation of mining sector revenues, a sharp drop in imports and industrial production, and mounting pressures on the armed forces to bring the rebel war to a conclusion. Remedial action to contain the deterioration in the public finances included cuts in outlays on goods and services and capital projects. Economies were also made in the military budget to reduce overruns that had taken place. As a consequence, the overall fiscal deficit, excluding grants, increased in 1994/95 by only 1 percent of GDP (July-June), to 7.3 percent (Tables 5 and 6). This nevertheless represented considerable slippage from the original program target for 1994/95 of 5.2 percent of GDP.

The Bank of Sierra Leone has been able to maintain a tight rein on money supply growth during 1995 (Table 7). This task was aided by the extremely depressed state of private sector credit demand, but open market operations were also stepped up, and treasury bill rates rose from 8 percent at the end of December 1994 to 23 percent in mid-October (Table 8). As a result, broad money growth was held down to 11 percent, at an annualized rate, during the first nine months of 1995. 1/ However, cost-push pressures emanating from a marked depreciation of the leone and a sharp increase in imported rice prices have contributed to disappointing inflation performance. 2/ During the 12-month period through October, the consumer price index rose by 34 percent, although when adjusted to exclude cereal prices, the annual rate of inflation was 23 percent in the same period. 3/

The Bank of Sierra Leone has experienced a serious drain of its foreign exchange reserves, primarily as a result of the interruption to mineral exports (Table 9). After reaching a relatively healthy position of US\$41 million (3.1 months of imports) at end-1994, foreign exchange reserves plummeted to US\$10 million (or 0.9 month of imports) at the end of October. Despite these pressures, Sierra Leone has remained current in all its maturing external debt obligations, except those to commercial creditors, pending conclusion of an arrears clearance exercise.

1/ The growth rate indicated is a seasonally adjusted rate based on staff calculations. The seasonally unadjusted rate of growth of broad money was only 5 percent.

2/ The leone depreciated by about 35 percent between end-May and mid-October, while rice prices in domestic currency terms have more than doubled since the beginning of the year.

3/ The monthly rates of inflation slowed sharply in September and October to 8 percent, at an annualized rate.

Sierra Leone has continued to press ahead in implementing structural reforms. By the end of September 1995, the size of the civil service (excluding military and police personnel) had been reduced by some 12 percent from the end-1994 level, bringing the cumulative cut in the labor force to 50 percent since mid-1991, when the retrenchment program was initiated. A number of public entities have been sold, including the oil refinery and the cement company, while divestiture of the national petroleum company will be completed shortly, once certain legal complications are resolved. The fisheries licensing system has been overhauled, and surveillance of Sierra Leone's fisheries is being conducted by the navy until a World Bank-supported effort to upgrade the surveillance apparatus is completed.

III. Economic Program for 1996-98

1. Medium-term framework

While the security situation remains fragile, there have been a number of positive developments in the rebel conflict over the past several months. The armed forces have secured the rutile and bauxite mining installations, and the companies involved are expected to recommence production in mid-1996, once damage to infrastructure has been repaired. 1/ The main diamond mining area has also been secured by the military, and all the country's major cities are now under government control. The Government has been assisted in its campaign against the rebels by external military support. 2/ The Government has expressed its willingness to conduct peace talks with the rebels, who have recently shown signs that they may be agreeable to this. In the meantime, the Government has reaffirmed its intention of holding multiparty elections, which are now planned for February 1996.

The program for 1996-98 has been formulated on the expectation of a continued improvement in the security situation. It incorporates stabilization policies aimed at establishing a low-inflation financial environment that will set the stage for a recovery in private sector activity and contribute to a more viable external position. Structural policies will be directed at removing impediments to growth and improving the allocation of resources, including human capital. The key objectives of the program are as follows:

- To raise real GDP growth to 5 percent and 7 percent in 1996 and 1997, respectively. Thereafter, economic growth is expected to stabilize

1/ In the case of the rutile company, financing also has to be arranged to cover the cost of repairs and outlays associated with a large investment program.

2/ This support has consisted of troops of the countries in the region and hired military personnel.

near 5 percent, which would imply an increase in real per capita income of about 2 percent a year.

- To reduce inflation to 10 percent in 1996, and further to 5 percent by 1998. This would enable Sierra Leone to maintain a relatively stable exchange rate and a strong external competitive position.

- To cut the overall government budget deficit to 6.3 percent of GDP in 1995/96, and further to 3.6 percent of GDP in 1998. 1/ Over this period, the program will seek to raise the private savings ratio by 11 percentage points. The mobilization of government and private savings will generate the additional resources needed to raise private investment, while reducing dependence on foreign savings.

- To reconstitute Sierra Leone's foreign exchange reserves to the equivalent of around four months of imports by end-1998, which would provide a cushion against unforeseen adverse shocks.

2. Fiscal policy

The revised medium-term program calls for a faster pace of fiscal adjustment over the coming three-year period in order to make up the ground lost as a result of the disruption to mining activities. The underlying medium-term fiscal strategy, however, remains the same as that set out in the original program. Deficit-reduction measures will be supported by structural changes in the budget designed to place greater reliance on indirect sources of tax revenue, rather than income-based taxes. To this end, the Government is assessing, with technical assistance from the Fund, the feasibility of introducing a value-added tax. It also intends to lower the corporate income tax rate from 45 percent to 40 percent in April 1996 and undertake compensatory action in the area of expenditure taxes. Over the medium term, the peace dividend that should result from an easing of the rebel conflict will enable considerable budgetary resources to be used to fund additional development outlays and rehabilitation of the country's economic and social infrastructure.

The fiscal program for 1995/96 is based on the expectation that virtually no revenue will be forthcoming from the mining sector. Moreover, in light of the highly fragile state of the economy, no new major revenue-enhancing initiatives are planned for 1995/96, although an improvement in import duty collections is expected. 2/ The bulk of the

1/ From 1996 the budget will be presented on a calendar, rather than a July-June, basis.

2/ This projected increase in import duties reflects the real depreciation of the leone that has occurred so far this fiscal year and an anticipated pickup in import volumes, as the mining companies and businesses restock.

fiscal adjustment envisaged, therefore, will need to be borne by expenditures, particularly in the area of defense.

The Government has identified economies that can be made in the purchase of military hardware that will enable defense spending to be cut by 0.7 percent of GDP in 1995/96, and it is confident that the economies can, and will, be realized. To help in this effort, donor assistance is being sought to recruit an advisor in the procurement of military equipment. In addition, the size of the army is to be reduced in accordance with a strategy of reshaping the army into small and well-disciplined fighting units.

Other important features of the fiscal program for 1995/96 include:

- Introduction on January 1, 1996 of a "clean wages" policy, which will tax in-kind benefits on the same basis as cash income.
- Transfer of the freight levy to the budget, with no earmarking of the proceeds. 1/
- An increase in premium petrol prices on November 10, 1995 that raised the effective rate of excise duty from 80 percent to 112 percent. 2/
- A cap on the increase in the civil service emoluments bill (including the rice supplement) of 29 percent, implying a small real decline during 1995/96. 3/
- A reduction of 16 percent in the amount of rice paid in kind to certain public employees (army, police, and prison personnel) as from January 1, 1996, and monetization of this benefit over a two-year period.
- Lower development spending, from 1994/95, primarily as a result of constraints imposed by the security situation.

There is at present some uncertainty concerning the magnitude of the costs associated with the organization of the elections. Because of this, and to avoid the election process being impeded by fiscal constraints, any direct funding of the elections by the Government will be recorded separately from domestic financing of the budget, which is a program performance criterion. Such funding would, however, be captured by the

1/ Previously, proceeds from the freight levy, which is a tax on the use of Sierra Leone's port facilities, did not pass through the budget and were not accounted for in a transparent manner.

2/ Effective tax rates on petroleum products had declined from mid-1995 because the sharp depreciation of the leone was not passed through to pump prices; lower consumption also served to reduce revenues.

3/ The projected average inflation rate for 1995/96 is 32 percent.

central bank's net domestic asset ceilings. In any event, it is envisaged that virtually all of the funding required will be sought from donors, and a meeting for this purpose will be convened in New York on November 30, 1995.

3. Monetary policy

To achieve the program's inflation targets, the Bank of Sierra Leone will hold the growth of broad money down to 8 percent a year during the program period. Ample resources will be available to fund a recovery in private sector activity. Open market operations, which are effected through weekly treasury bill auctions, will continue to be the primary instrument of monetary management, and interest rates will be allowed to adjust to the levels necessary to meet the central bank's monetary targets. 1/ Statutory liquid asset requirements will be lowered over time to levels required for prudential purposes only.

Directives governing commercial bank lending practices were issued by the Bank of Sierra Leone in May 1994 in order to address serious difficulties experienced by the banks as a result of undercapitalization and poor loan recovery records. While capital adequacy ratios have since improved considerably, the lending portfolios of the banks remain contaminated by bad debts, and the Bank of Sierra Leone intends to undertake a restructuring program for the commercial banks that involves the provision of interest-free loans to be used for the purchase of government debt at market-related rates. Allowance has been made in the government budget for the additional interest cost associated with this operation. 2/ Meridien Bank has been sold and recapitalized.

4. Structural and social policies

The thrust of Sierra Leone's structural reform strategy is set out in the updated PFP. The key actions to be taken during 1996 are as follows:

- In order to improve the implementation capacity of the civil service, savings realized from further cuts in the size of the civil service will be used to fund increases in pay for managerial and supervisory staff, for whom present remuneration rates are highly uncompetitive.

1/ The auction system for official debt was expanded in March 1995 to include one-year treasury bonds, thereby allowing the term structure of interest rates to respond to market forces.

2/ The cost is projected at less than 0.2 percent of GDP, at an annual rate, which is based on the assumption that about 40 percent of the banks' loans are nonrecoverable and on the principle that the banks' shareholders will share 25 percent of the losses. The modalities involved in the restructuring will be discussed during a joint Fund and Bank staff visit to Freetown in early December 1995.

- The public enterprise reform program will remove from the public domain a number of enterprises whose functions can be managed more efficiently by the private sector. 1/ Reforms in this area are being implemented in connection with a Structural Adjustment Credit from the World Bank.

- The retail price-setting process for petroleum products will be reviewed with the intention of moving to the full decontrol of prices by end-1996. Thereafter, petroleum taxes will be based on an ad valorem rate.

- Fisheries surveillance will be contracted out to the private sector.

- The Government will ensure that satisfactory security is provided in the mining areas. The role of the military in these areas will be confined to security only.

- Government outlays in the social sectors will be raised by 5 percent per annum in real terms; observance of spending floors will constitute conditions for the release of World Bank funds.

- Improvements in the judicial system will be made by reviving the Law Reform Commission and liberalizing laws governing the establishment, operation, and winding up of business enterprises.

Because of the nature of alluvial diamond mining, it is difficult to police the trade in diamonds and bring these activities within the tax net. To encourage the export of diamonds through official channels, taxes have already been lowered to a total 2.5 percent of export value, diamonds may be purchased entirely in foreign exchange, and all surrender requirements have been abolished. Despite this, the staff estimates that only some 10-15 percent of diamonds exported from Sierra Leone are officially recorded. 2/ The Government is of the view that, while it would welcome a higher proportion of diamonds traded legally, it is the repatriation of proceeds from the sale of all diamonds, both legal and illegal, that is of the utmost importance. This can only be achieved by establishing a stable economic and political environment, which is an objective that lies at the core of the Government's structural adjustment program. Sierra Leone also possesses rich kimberlite diamond deposits; the concession to exploit

1/ Relatively few nonutility public enterprises remain in operation, and all of these are small. They include the Sierra Leone State Lottery, Wellington Distilleries, Forest Industries, the National Insurance Company, the Sierra Leone National Shipping Company, and the Sierra Leone Trading Corporation.

2/ This estimate is based upon trade data reported by the major diamond-cutting countries in Europe.

certain of these deposits was recently granted, and production is expected to begin in 1997. ^{1/}

5. External sector policies and financing

a. Exchange and trade policies

The Bank of Sierra Leone will continue to pursue a flexible exchange rate policy during the ESAF period, and will be guided in its purchases and sales of foreign exchange by its international reserve targets. Despite recent balance of payments pressures, the Government remains committed to maintaining a liberal exchange regime and achieving the program's balance of payments targets without recourse to the imposition of exchange controls. To demonstrate this commitment, the Government intends to accept the obligations of Article VIII of the Fund's Articles of Agreement by the end of 1995. Although quantitative limits apply on allocations of foreign exchange for travel, health, and education, they are indicative only and all bona fide requests in excess of these limits are freely provided without undue delay. Sierra Leone still maintains restrictions that are subject to Fund approval under Article VIII in the form of external payments arrears owed to creditors who did not participate in a recent commercial debt buy-back operation. In order to clear these remaining arrears, the Government is planning another buy-back operation, which will probably take place in 1996 and be financed from Sierra Leone's own resources. In addition, foreign exchange approval for certain current payments is conditional upon furnishing a tax clearance certificate, a requirement that gives rise to an exchange restriction. Steps are being taken to repeal the tax legislation that requires the tax certificate. The Bank of Sierra Leone will consider the elimination of all capital controls once it has rebuilt its foreign exchange position to a more comfortable level.

Sierra Leone undertook a major overhaul and streamlining of its external tariff system in 1994, and no further changes are envisaged at this time. In May 1995 the last remaining export taxes, which applied to coffee, cocoa, and ginger, were removed.

b. Balance of payments outlook and debt sustainability

Sierra Leone's medium-term balance of payments prospects, and overall economic prospects more generally, are very much dependent on developments on the security front. The staff has developed, in conjunction with Bank staff and the Sierra Leonean authorities, a baseline balance of payments scenario that has been formulated on the expectation of continued improvement in security conditions. Under this scenario, production of rutile and bauxite will resume in mid-1996 and display moderately strong

^{1/} Because kimberlite diamonds are deep mined, the extraction and export of kimberlite is more readily subject to Sierra Leone's laws and regulations than in the case of alluvial diamonds.

growth for several years thereafter in response to completion of large-scale investment projects. Kimberlite mining is expected to reach full production by 1999. 1/ Sierra Leone also has significant offshore diamond deposits, the commercial viability of which is currently being assessed by private mining interests; no provision has been made in the balance of payments projections for the exploitation of these deposits.

Oil consumption is expected to drop by about one fourth in 1997, once a major hydroelectric project, which is capable of supplying virtually all of Sierra Leone's electricity requirements, comes on stream. Nonrice imports are expected to grow at a slightly higher rate than GDP over the medium term, following a sharp rebound in 1996-97 as a result of large import requirements of the mining sector and the need for restocking by businesses. On the basis of the net effect of these factors, the trade deficit is projected to narrow sharply in 1996-97 and continue to improve until the early part of the next decade. The improvement in the current account balance will be much less marked, however, since dividend and profit remittances are likely to rise strongly as mining operations return to normal.

Sierra Leone's external debt strategy is being executed on two fronts. First, the authorities are intent on normalizing relations with external creditors. To this end, Sierra Leone has remained current in all obligations to multilateral and official bilateral creditors, and is in full compliance with all rescheduling agreements. It also successfully concluded a buy-back operation of its commercial debt in July 1995, with funding from the World Bank and donors and with the use of its own resources. 2/ All arrears that remain to multilateral creditors, which amount to US\$22 million, will be cleared by mid-1996. 3/ The second element of Sierra Leone's debt strategy involves an easing in the debt service burden by means of a progressive reduction in real resource requirements through adjustment, which will permit reduced dependence on external borrowing. Any new borrowing will be undertaken strictly on concessional terms.

On the basis of projected resource requirements and financing availability, a cumulative external financing gap of some US\$90 million is expected for 1996-98 (Table 10). This gap could be filled by debt relief from the Paris Club and other bilateral and commercial creditors (approximately US\$43 million in debt payments will be eligible for relief), additional donor support in the context of a Consultative Group meeting

1/ Technical studies indicate a kimberlite output potential of at least US\$50 million at today's prices, but in the interest of caution, the staff projections have assumed a maximum production level of US\$25 million.

2/ This operation cleared about 80 percent of Sierra Leone's commercial debt through a combination of cash payments and discounts from the creditors. Further details are contained in Appendix IV.

3/ These creditors are the Arab Bank for Economic Development in Africa, the Islamic Development Bank, and the OPEC Fund.

in the first half of 1996, and possible further recourse to the Fund's concessional resources upon expiration of the present three-year ESAF arrangement.

Both liquidity and solvency indicators of debt sustainability indicate that, while Sierra Leone's debt burden is extremely onerous at present, it should become much more manageable within three to four years' time. ^{1/} The scheduled debt service ratio is projected to decline from 80 percent in 1995 to 15 percent by 1998, although it will rebound slightly, to about 20 percent, during 1999-2001 when the bulk of the ESAF repayments fall due. The net present value of debt payments as a ratio of exports of goods and services is expected to fall below 200 percent in 1998. This improvement in Sierra Leone's debt-servicing capacity primarily reflects the impact of the adjustment program and is contingent upon the assumptions made regarding the security outlook and the resumption of mining activities.

The staff has carried out a number of sensitivity tests to assess the impact of changes in underlying program assumptions on Sierra Leone's foreign reserve position and debt-servicing capacity (Tables 11 and 12). Certain of the scenarios (such as those dealing with lower rutile and bauxite exports) may be interpreted as measuring the sensitivity of Sierra Leone's balance of payments to adverse developments in the security situation. Since the buildup of reserves in the baseline scenario is reasonably strong, the sensitivity tests indicate that Sierra Leone could sustain moderate adverse shocks and still enjoy some reserve accumulation. The results nonetheless point to the need for corrective policy action, such as further fiscal adjustment, in order to ensure that economic growth performance is sustained in the event that the baseline scenario does not unfold as anticipated.

In summary, while noting the uncertainties associated with the security situation and the margins of error inherent in forecasting so far into the future, the long-term balance of payments outlook appears relatively favorable. With strong policy implementation, the debt service burden should shrink to manageable proportions well before the end of the decade, and Sierra Leone should be able to fulfill its obligations to the Fund without major difficulties (Table 13).

IV. Program Monitoring

The program will be monitored on the basis of the following financial performance criteria and benchmarks: (a) net domestic assets of the Bank of Sierra Leone; (b) net domestic financing of the budget; (c) domestic arrears of the Government; (d) net international reserves of the Bank of Sierra Leone; (e) new nonconcessional external loans carrying a maturity of one

^{1/} A more complete examination of Sierra Leone's debt sustainability is presented in Appendix IV.

year or more; (f) the stock of external short-term debt; and (g) reduction in external payments arrears (Table 14). Structural performance criteria and benchmarks relate to: (a) the retail pricing of petroleum products; (b) civil service retrenchment; and (c) the government wage bill (Table 15). Performance criteria will apply at end-March 1996. Benchmarks will apply at end-December 1995 and end-June 1996, and indicative benchmarks for end-September and end-December 1996. In addition, there will be a midterm review under the second annual ESAF arrangement, to be completed no later than June 30, 1996.

V. Staff Appraisal

For several years now, economic reform in Sierra Leone has taken place against the background of a serious rebel conflict, which has dislocated economic activity and imposed severe strains on the country's social fabric. In spite of this, however, the Government has pressed on with its adjustment program and accomplished considerable progress in stabilizing and restructuring the economy. The rebel attacks on Sierra Leone's major mining installations that took place at the very end of 1994 and into 1995 posed a particularly damaging setback to the economic reform process, depriving the country of some 60 percent of its exports and costing the Government the equivalent of 2 percent of GDP in lost fiscal revenues. In response to these developments, the Government adopted a "holding" program aimed at limiting the adverse impact on the budget, so that policy implementation could be brought quickly back on track once the security situation improved. Unavoidably, however, Sierra Leone's foreign exchange reserves were run down to uncomfortably low levels, and the exchange rate was subject to acute downward pressure. The inflationary impact of the currency depreciation was compounded by large increases in imported rice prices.

With recent gains on the security front and the prospect of a recovery in mineral production, the staff believes that there is now a basis for a resumption of Fund financial support for Sierra Leone's adjustment efforts, which have been cast in the context of a comprehensive medium-term framework. This staff is, in particular, impressed with the degree of fiscal adjustment contemplated (around 2 percent of GDP, after adjustment for the loss of mining revenues). Significant downside risks persist, however, and developments in certain critical areas will need to be monitored with the utmost vigilance. First, and most notably, the rebel conflict continues to pose a major threat to the Government's ability to effectively carry out the stabilization program. The staff would therefore urge the Government to fulfill its commitment to undertake further organizational and administrative steps to improve both the strategic and cost effectiveness of its military operations. It will be difficult for Sierra Leone to enjoy significant per capita income growth, or make substantive inroads into alleviating its pressing social problems, until the security situation has been brought fully under control.

Second, the program has assumed that rutile and bauxite mining production will recommence in mid-1996 and reach normal levels of output by 1997. In addition to developments on the security front, this timing will depend on certain other factors, such as international market conditions for the minerals and, in the case of rutile, securing the financing necessary to fund a large-scale investment project and the cost of repairs to infrastructure. Delays in the timing envisaged, or slippages in any other area of program implementation, would require offsetting fiscal action, which would take the form of further adjustments in petroleum taxes, cuts in the rice supplement, or additional savings in recurrent spending.

Sierra Leone's capacity to effectively implement the program is conditional upon the presence of a well-trained and motivated civil service. In light of overall fiscal constraints, increases in pay for managerial staff from their present highly uncompetitive levels can only be funded from savings realized from the retrenchment program; successful execution of this program is therefore essential.

The Government has undertaken to hold multiparty elections in February 1996, and the economic program will help provide the successor government with a strong strategy and framework for economic reform. Sierra Leonean citizens and the international diplomatic community have been involved in the planning of the elections with the aim of ensuring as broad a representation of the population as possible. Establishing stable and democratic civilian rule will strengthen the Government's hand in its efforts to successfully prosecute the rebel war and contribute to the restoration of consumer and investor confidence. It should also help facilitate broader financial support among the donor community for Sierra Leone's adjustment efforts.

The Government has indicated that it intends to make a renewed effort in 1996 to clear the external payments arrears that remained outstanding following conclusion of a recent debt buy-back operation. Moreover, it intends to repeal legislation that requires a tax clearance certificate to be furnished for certain current account payments. In light of these considerations, the staff recommends that approval for the retention of the exchange restrictions subject to approval under Article VIII be extended until mid-June 1996. The staff welcomes Sierra Leone's intention to accept by the end of 1995 the obligations of Article VIII of the Fund's Articles of Agreement.

Sierra Leone is presently facing a very serious shortfall in foreign exchange earnings, which threatens to derail the momentum of economic reform. Lost revenues from rutile and bauxite, net of related import and service payments, amount to US\$25 million in 1995, while higher rice prices have raised the annual import bill by over US\$10 million. In response to the gravity of the situation, the Government is endeavoring to mobilize additional concessional resources, and it has requested that access under the second annual ESAF arrangement be augmented by SDR 13.1 million (17.0 percent of quota). The staff considers the shortfall to be primarily

temporary in nature, pending the resumption of rutile and bauxite production in mid-1996 and an anticipated softening in international rice prices. In view of this, and on the basis of Sierra Leone's immediate financing requirements, its economic track record, and the strength of its adjustment program, the staff is of the view that the increase in access requested is warranted, notwithstanding the considerable uncertainties regarding the security situation.

There would still remain a relatively modest financing gap for 1996, which could be filled by debt relief from the Paris Club creditors and by additional donor support, in the context of the Consultative Group; the augmentation of access under the ESAF should help mobilize these donor funds. The staff's debt sustainability analysis suggests that Sierra Leone should be able to discharge its obligations to the Fund without major difficulties through the end of the ESAF repayment period.

The staff believes that Sierra Leone's current macroeconomic database provides an adequate basis upon which to monitor economic performance under the program. In the areas where weakness persist, notably the national and balance of payments statistics, remedial action is being taken by the authorities with technical assistance support.

It is proposed that Sierra Leone remain on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. Sierra Leone: 1995 Consultation

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Section 2(a) in light of the 1995 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Sierra Leone maintains exchange restrictions subject to Fund approval under Article VIII, Section 2(a) in the form of (i) limitations on the availability of foreign exchange for the payment of external debt obligations, as evidenced by some external payments arrears, and (ii) tax clearance certificates required for payments and transfers for certain types of current international transactions. In view of Sierra Leone's intention to eliminate these exchange restrictions, the Fund grants approval of the retention of these measures until June 30, 1996, or the conclusion of the next Article IV consultation, whichever is earlier.

B. Sierra Leone: Enhanced Structural Adjustment Facility - Request for Second Annual Arrangement

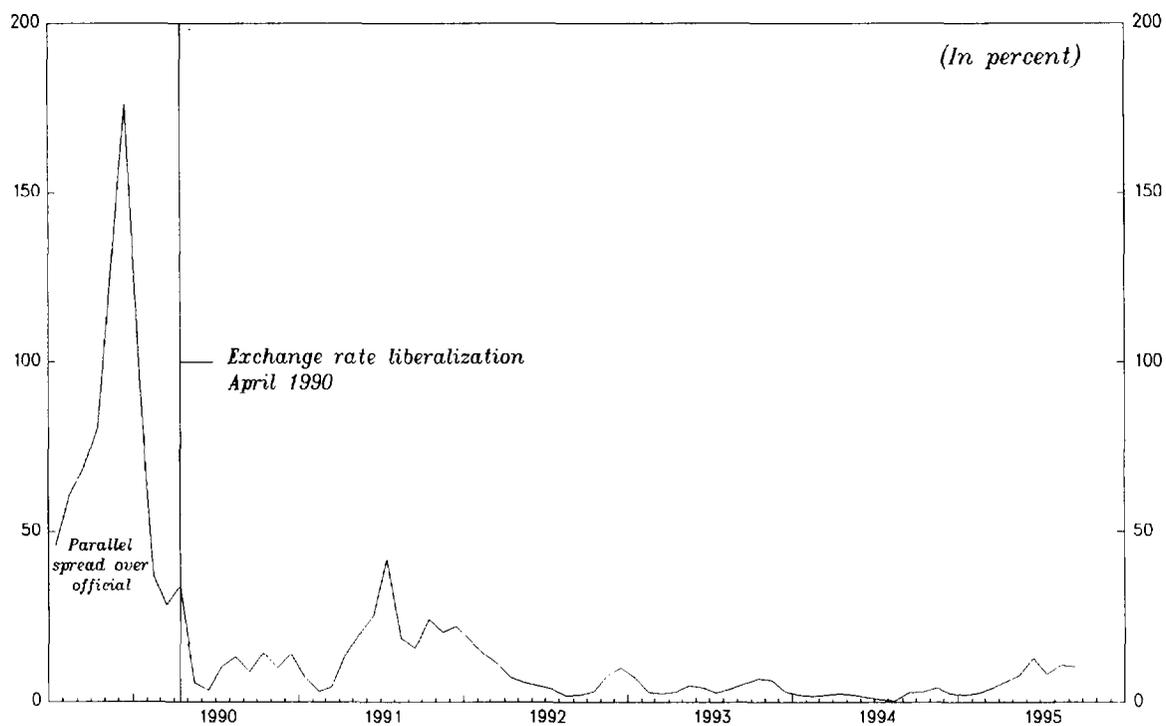
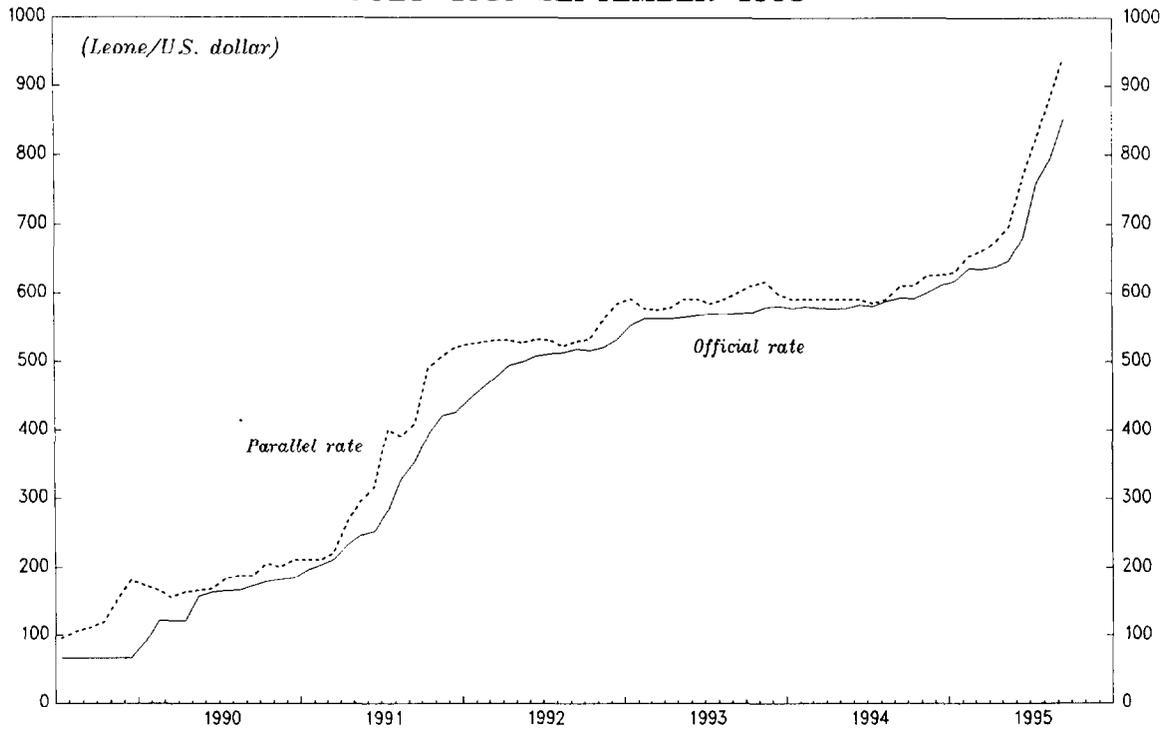
1. The Government of Sierra Leone has requested:
 - (a) the second annual arrangement under the enhanced structural adjustment facility, and
 - (b) that the amount for the second annual arrangement be increased to the equivalent of SDR 23.236 million.

2. The Fund has appraised the progress of Sierra Leone in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper for Sierra Leone set forth in EBD/95/162.

3. The Fund approves the arrangement set forth in EBS/95/198.

CHART 1

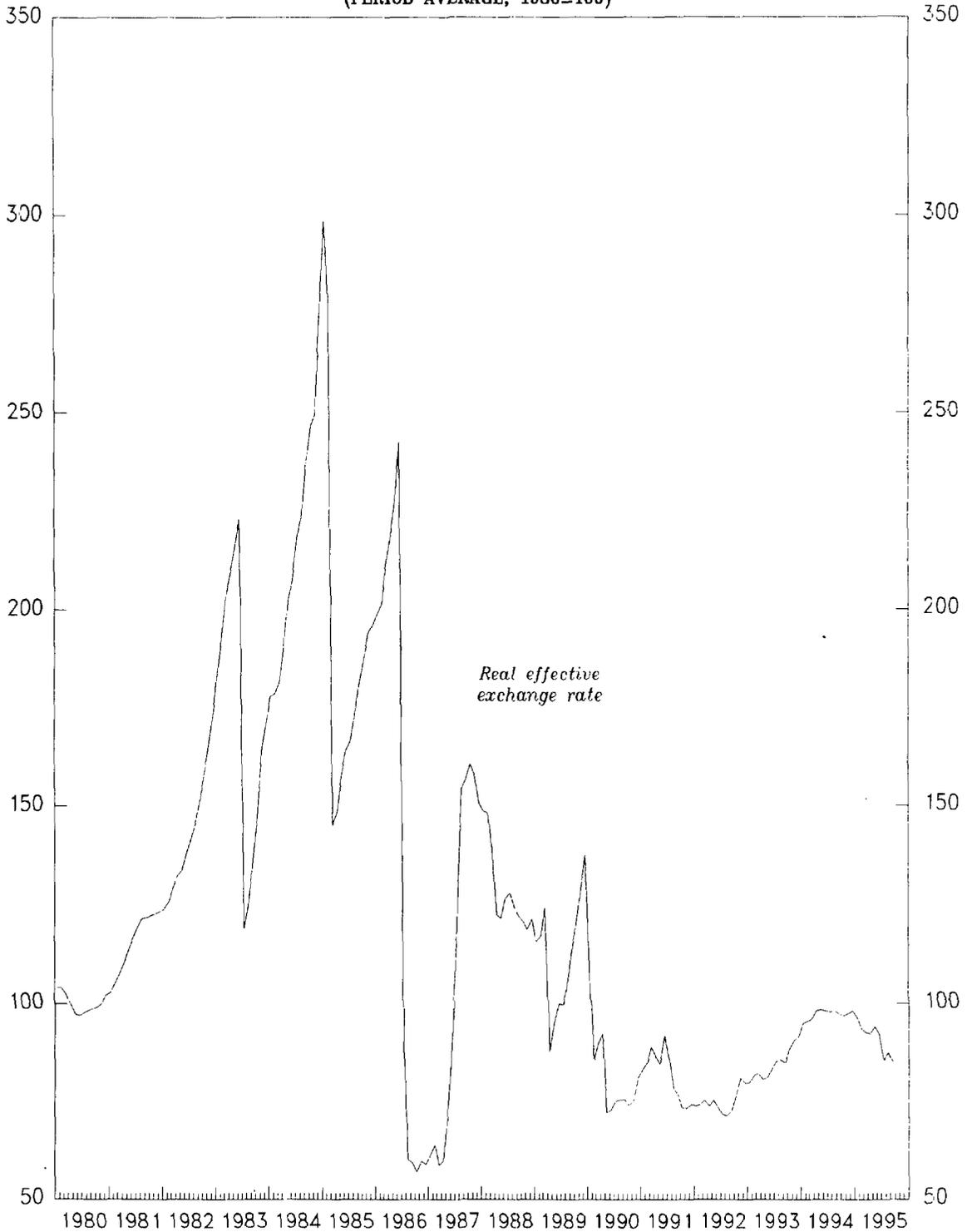
SIERRA LEONE
OFFICIAL AND PARALLEL MARKET EXCHANGE RATES
JULY 1989-SEPTEMBER 1995



Source: Data provided by the Sierra Leonean authorities.

CHART 2

SIERRA LEONE
REAL EFFECTIVE EXCHANGE RATE
JANUARY 1980-SEPTEMBER 1995
(PERIOD AVERAGE; 1980=100)



Source: IMF, Information Notice System.

Table 1. Sierra Leone: Use of Fund Credit, October 1995–December 1998

	Outstanding October 31, 1995	1995	1996				1997				1998			
		Nov. – Dec.	Jan. – Mar.	Apr. – June	July – Sept.	Oct. – Dec.	Jan. – Mar.	Apr. – June	July – Sept.	Oct. – Dec.	Jan. – Mar.	Apr. – June	July – Sept.	Oct. – Dec.
(In millions of SDRs)														
Total transactions (net)	...	11.50	-0.15	8.59	-0.15	3.44	-0.15	4.61	-0.15	-0.45	-0.15	-0.45	-0.15	-0.45
Disbursements	...	13.06	--	10.18	--	5.06	--	5.06	--	--	--	--	--	--
Repurchases/repayments	...	1.16	--	1.16	--	1.16	--	--	--	--	--	--	--	--
SAF	...	1.16	--	1.16	--	1.16	--	--	--	--	--	--	--	--
ESAF	...	--	--	--	--	--	--	--	--	--	--	--	--	--
Charges	...	0.40	0.15	0.44	0.15	0.45	0.15	0.45	0.15	0.45	0.15	0.45	0.15	0.45
Total Fund credit outstanding ^{1/}	99.05	110.95	110.95	119.97	119.97	123.87	123.87	128.93	128.93	128.93	128.93	128.93	128.93	128.93
Under SAF	30.49	29.33	29.33	28.17	28.17	27.02	27.02	27.02	27.02	27.02	27.02	27.02	27.02	27.02
Under ESAF	68.56	81.62	81.62	91.80	91.80	96.85	96.85	101.91	101.91	101.91	101.91	101.91	101.91	101.91
(In percent of quota)														
Total Fund credit outstanding ^{1/}	128.30	143.72	143.72	155.40	155.40	160.45	160.45	167.01	167.01	167.01	167.01	167.01	167.01	167.01
Under SAF	39.49	37.99	37.99	36.49	36.49	34.99	34.99	34.99	34.99	34.99	34.99	34.99	34.99	34.99
Under ESAF	88.81	105.72	105.72	118.91	118.91	125.46	125.46	132.01	132.01	132.01	132.01	132.01	132.01	132.01

Source: IMF, African and Treasurer's Departments.

^{1/} End of period.

Table 2. Sierra Leone: Selected Economic and Financial Indicators, 1991-98

	1991	1992	1993	1994	1995		1996		1997	1998
		Actual		Est.	Prog. 1/	Rev.	Prog. 1/	Rev.	Projections	
(Annual percentage change, unless otherwise indicated)										
Income and expenditure										
Real GDP	-10.1	-7.9	0.6	3.5	4.5	-10.0	5.0	4.9	6.8	5.0
Real GDP per capita	-12.4	-10.2	-1.9	0.9	1.9	-12.3	2.3	2.2	4.1	2.3
GDP deflator	95.3	57.2	26.0	14.5	9.1	29.1	7.3	20.9	7.8	5.5
Nominal GDP	75.6	44.8	26.8	18.5	14.0	16.2	12.7	26.8	15.1	10.7
Consumer prices (end-period)	115.3	34.8	15.1	22.3	8.0	35.0	6.5	10.0	6.0	5.0
Consumer prices (annual average)	102.7	65.5	17.6	18.4	9.1	29.1	7.3	20.9	7.8	5.5
Money and credit										
Broad money	76.2	33.2	17.1	9.8	8.5	11.0	8.0	8.0	8.0	8.0
Velocity (percent change)	-0.4	8.6	8.3	8.0	5.1	4.7	4.3	17.4	6.6	2.5
Domestic credit 2/	49.2	-9.6	-5.6	8.3	7.5	5.7	4.4	16.0	6.8	-5.4
Government 2/	21.8	-16.9	-16.5	4.7	-4.6	5.4	-4.5	7.2	-0.2	-11.4
Private sector 3/	150.4	28.3	44.0	11.8	29.4	1.0	18.4	31.1	20.1	15.7
Reserve money	63.4	18.9	4.4	24.6	7.0	-4.7	6.0	5.2	8.0	8.0
Interest rate 4/	61.0	40.0	19.3	4.0	...	...	...	...	...	...
External sector										
Exports (U.S. dollars)	-0.3	3.3	-21.1	-0.1	24.7	-66.7	15.6	101.0	67.1	8.5
Imports (U.S. dollars)	2.3	-2.3	-4.3	0.8	22.8	-7.0	8.1	16.7	15.0	1.5
Terms of trade (- = deterioration)	0.2	-6.6	3.6	-16.4	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	0.3	-8.3	10.7	9.7	...	...	...	...	...	...
(In percent of GDP)										
Consumption	91.0	91.5	94.5	97.1	92.1	107.4	91.8	103.7	95.6	92.7
Government	10.1	9.5	11.2	11.9	11.0	11.3	11.0	10.6	10.9	10.9
Private	80.9	82.0	83.3	85.2	81.1	96.1	80.8	93.1	84.7	81.8
Gross investment	11.6	10.3	9.9	8.3	12.3	5.8	13.0	9.4	12.4	14.1
Government	4.5	4.8	4.5	4.1	5.5	2.8	6.0	3.9	5.4	5.9
Private	7.1	5.5	4.6	4.2	6.8	3.0	7.0	5.5	7.0	8.2
Gross national saving	-0.2	-2.5	-2.5	-6.9	0.3	-9.2	1.4	-4.4	-	1.8
Gross domestic saving	9.0	8.5	5.5	2.9	7.9	-7.4	8.2	-3.7	4.4	7.3
Government	2.4	3.4	2.7	1.9	3.8	-0.6	4.1	1.3	3.0	3.8
Private	6.6	5.1	2.8	1.0	4.1	-6.8	4.1	-5.1	1.5	3.5
Current account balance including official transfers	-11.8	-12.8	-12.4	-15.2	-12.0	-15.0	-11.6	-13.8	-12.4	-12.4
Current account balance, excluding official transfers	-16.2	-16.6	-16.2	-18.1	-16.2	-20.0	-14.6	-17.8	-15.7	-15.1
Goods and nonfactor services (net)	-2.6	-1.8	-4.5	-5.4	-4.4	-13.3	-4.8	-13.1	-7.9	-6.8
Unrequited private transfers and factor services (net)	-13.6	-14.8	-11.7	-12.7	-11.8	-6.7	-9.8	-4.7	-7.7	-8.3
Overall balance of payments 5/	-8.0	-4.5	-6.0	-7.1	-4.1	-6.7	-4.1	-3.0	-2.3	-2.4
Government revenue 6/	11.4	12.0	13.8	14.0	14.3	11.1	14.9	10.9	13.8	14.7
Government total expenditure 6/	20.9	20.9	20.5	20.4	19.6	18.3	19.8	17.2	18.2	18.3
Overall fiscal deficit (commitment basis) 6/	-9.5	-9.0	-6.7	-6.3	-5.2	-7.3	-4.9	-6.3	-4.3	-3.6
Domestic financing 6/	2.6	0.1	-1.1	-0.6	-0.7	0.4	-0.6	1.2	-	-0.8
External debt	246.8	153.2	165.9	155.5	149.9	111.2 7/	141.5	120.0 8/	117.0 8/	118.9 8/
(In percent of merchandise exports)										
Debt service due 9/	57.6	59.3	69.6	76.8	63.0	224.9	36.4	73.0	27.7	25.2
External interest due 9/	35.8	38.3	39.3	48.7	36.3	137.9	20.9	30.8	12.8	12.6
Memorandum items:										
(In millions of U.S. dollars, unless otherwise specified)										
External current account balance, excluding official transfers	-121.2	-120.2	-123.9	-162.3	-150.3	160.5	-155.4	-148.0	-142.5	-148.0
Gross international reserves (months of imports)	0.7	1.5	2.4	3.1	3.0	2.3	3.5	1.9	2.8	3.8

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ Midterm review of the first annual ESAF program (December 1994)

2/ Changes as a percentage of beginning-period money stock.

3/ Including credit to public entities.

4/ Minimum savings deposit rate, end of period.

5/ Before debt relief and IMF balance of payments support.

6/ Fiscal year ending June for data through 1996, and calendar-year basis thereafter. Program fiscal year data for 1994 are from the first annual ESAF arrangement program (March 1994).

7/ Reduction reflects 1995 commercial debt buy-back.

8/ Including gap financing.

9/ Before debt relief.

Table 3. Sierra Leone: Financial Benchmarks and Performance Criteria Under the First Annual ESAF Arrangement, March 1994 - June 1995 ^{1/}

	1994								1995			
	March		June		September		December		March		June	
	Indic. Target	Actual	Bench-mark	Actual	Perf. Crit.	Actual	Bench-mark ^{2/}	Actual	Indic. Bench. ^{2/}	Actual	Indic. Bench. ^{2/}	Actual
(In millions of leones)												
Net domestic assets (NDA) of the Bank of Sierra Leone ^{3/} Original program definition ^{4/} ^{5/}	137,163	135,075	136,899	132,484	136,432	128,691	134,652	138,661	41,359	45,708	36,147	43,400
Net domestic financing (NDF) of the budget deficit ^{6/}												
Unadjusted	-5,086	-1,732	-6,362	...	-7,054	...	-8,236	...	-9,368	...	-9,301	...
Adjusted	...	...	-6,907	-5,301	-7,332	-8,603	-5,679	-1,561	-6,889	2,939	-23,126	-3,325
Maximum level of domestic arrears of the Government ^{7/}	600	546	600	151	600	112	600	443	600	446	600	524
(In millions of U.S. dollars)												
Net international reserves (NIR) of the Bank of Sierra Leone ^{8/} Original program definition ^{5/}	-260.5	-254.1	-258.8	-245.7	-258.2	-247.8	-254.0	-252.6	-107.0	-108.6	-111.0	-116.6
New external loan commitments, 1-12 years' maturity ^{3/} ^{9/}	--	--	--	--	--	--	--	--	--	--	--	--
Stock of external short-term debt ^{3/} ^{10/}	50.0	38.8	50.0	37.5	50.0	38.0	50.0	39.6	50.0	39.6	50.0	8.9
Minimum reduction in external payments arrears ^{11/}	--	--	--	--	--	--	--	--	21.5	--	21.5	--

^{1/} See notes below for contingency mechanisms.

^{2/} Midterm review under the first annual ESAF program (December 1994).

^{3/} Ceiling.

^{4/} Defined as reserve money less revaluation adjustment less net international reserves, calculated at the constant exchange rate of Le 571.91 = US\$1.

^{5/} Program data for March and June 1995 adjusted to facilitate comparison with definitional changes made subsequently.

^{6/} Cumulative from January 1, 1993. Defined as change in net claims on Government by banking system plus net sales of government debt to the nonbank public.

^{7/} Domestic arrears are defined as lodgements outstanding at the Ministry of Finance and the Bank of Sierra Leone and checks issued, but not cashed.

^{8/} Floor.

^{9/} Commitments on external loans (other than rescheduling) contracted or guaranteed by the Government, Bank of Sierra Leone, and parastatals, except borrowing on concessional terms according to the OECD DAC definition and borrowing from multilateral institutions.

^{10/} Debt of the Government and the Bank of Sierra Leone, with a maturity of less than one year, and net of any increase arising from nonpayment of interest on existing obligations.

^{11/} Cumulative. No new external arrears will be accumulated, except on debts subject to rescheduling or debt buy-back operations and on debts to multilateral organizations to be covered by arrears clearance exercises. Reductions in arrears indicated refer to multilateral creditors.

Contingency mechanisms

A. Under original program

1. Excess foreign financing -- balance of payments

The floor on net international reserves (NIR) is to be adjusted upward, and the ceiling on net domestic assets (NDA) adjusted downward, by 50 percent of the excess of external nonproject grants and loans (including debt rescheduling, but excluding funds received to cover debt buy-backs) that pass through the budget over the amounts envisaged in the program's balance of payments projections.

2. Excess foreign financing -- budget

Net domestic financing of the budget (NDF) is to be adjusted downward by the excess of external nonproject grants and loans (including debt rescheduling, but excluding funds received to cover debt buy-backs) passing through the budget over the amounts envisaged in the program's fiscal projection.

3. Commercial debt buy-back operation

NIR for end-December 1994 is to be adjusted upward, and NDA downward, in the event that a commercial debt buy-back operation is not completed.

B. Under revised program

1. Excess net foreign financing -- balance of payments

The floor on NIR is to be adjusted upward, and the ceiling on NDA downward, by 50 percent of excess net foreign financing (nonproject grants and loans minus external cash debt service payments) over the amounts envisaged in the program's balance of payments projections.

2. Excess net foreign financing -- budget

NDF will be adjusted downward by the excess of net foreign financing (nonproject grants and loans minus external cash debt service payments) passing through the budget over the amounts envisaged in the program's fiscal projections.

3. Commercial debt buy-back operation

At end-June 1995, NIR will be adjusted upward, and NDA downward, up to a maximum equivalent to US\$4.5 million to the extent that Sierra Leone does not use its own foreign exchange reserves to finance a commercial debt buy-back operation.

4. Proceeds from privatization

NIR will be adjusted upward, and NDA downward, by the amount of privatization proceeds received in foreign exchange above the level assumed in the program. NDF will be adjusted downward by the total amount of privatization proceeds received, in foreign exchange and local currency, above the level assumed in the program.

Table 4. Sierra Leone: Structural Performance Criteria and Benchmarks
Under the First Annual ESAF Arrangement, March 1994-June 1995

Measures	Test dates	Performance
1. Adjust retail petroleum prices to ensure full pass-through of any changes in the exchange rate and oil import price.	Continuous through end-March 1995 <u>1/</u>	Implemented through end-June 1994. Not implemented as of September 1, 1994. Implemented from December 1, 1994 through end-May 1995.
2. Achieve cumulative target for retrenchment of government employees from July 1, 1991:		
30,000	End-June 1994	27,304
30,000	End-September 1994 <u>2/</u>	30,032
32,500	End-December 1994 <u>3/</u>	31,299
35,000	End-March 1995 <u>3/</u>	30,126
	End-May 1995	30,556
3. Maintain positive real interest rates on treasury bills. <u>4/</u>	End-June 1994	Negative 7 percent
	End-September 1994	Negative 18 percent
	End-December 1994	Negative 18 percent
	End-March 1995	Negative 14 percent
	End-June 1995	Negative 4 percent

1/ Performance criterion for end-September 1994.

2/ Performance criterion.

3/ Indicative benchmarks revised from original program of March 1994.

4/ Indicative benchmark. The real rate is defined as the yield on treasury bills sold at auction less an index calculated on the basis of progressively declining weights for past monthly CPI inflation rates over the previous 12-month period; the real rate will be measured on a quarterly average basis.

Table 5. Sierra Leone: Central Government Budgetary Operations, 1991/92-1996/97

(In millions of leones, fiscal year ending June 30) 1/

	1991/92	1992/93	1993/94	1994/95		1995/96	1996	1996/97
		Actual		Program 2/	Estimate	Program	Prog.	Proj.
Revenue	35,384	54,543	67,448	79,786	61,743	74,065	91,505	110,169
Taxes on income and profit	7,866	12,590	14,147	14,058	9,528	10,532	15,205	20,999
Taxes on goods and services	13,801	19,494	24,024	29,492	23,309	24,472	30,295	36,713
Excise duties	8,470	12,356	16,275	18,964	15,479	14,884	17,974	21,341
Of which: petroleum	(5,545)	(9,072)	(14,052)	(16,431)	(13,702)	(12,654)	(14,954)	(17,483)
Road user fees	1,350	1,701	1,742	2,864	2,420	3,363	3,689	4,116
Royalties	2,387	1,790	1,981	3,492	1,354	1,266	2,425	3,739
Licenses	421	922	829	969	828	761	1,223	1,439
Domestic sales tax	948	2,285	2,656	3,203	2,824	3,380	3,998	4,583
Other taxes on goods and services	225	440	541	--	404	817	987	1,495
Taxes on international trade	12,333	18,895	26,608	32,974	25,715	35,822	42,063	47,909
Other taxes	395	1,513	464	2,648	1,854	2,638	3,269	3,814
Nontax revenue	989	2,051	2,205	614	1,337	600	673	734
Expenditure	61,845	81,144	97,845	109,070	102,281	117,274	133,855	149,169
Recurrent expenditure	47,085	63,642	75,497	81,406	82,534	96,774	104,056	108,754
Personnel	11,733	17,478	22,417	25,711	26,314	33,894	36,139	38,332
Wages and salaries	9,580	15,145	19,723	22,365	22,150	25,957	29,432	34,999
Rice supplement	2,153	2,333	2,694	3,346	4,164	7,938	6,708	3,333
Goods and services	7,516	12,878	16,403	19,995	17,276	23,550	25,978	28,644
Social and economic	(...)	(...)	(...)	(...)	(9,965)	(15,162)	(17,014)	(19,144)
General and other	(...)	(...)	(...)	(...)	(7,311)	(8,388)	(8,964)	(9,500)
Emergency defense	5,385	9,659	13,226	12,703	18,552	13,649	13,753	13,333
Subventions to universities/colleges	1,572	1,943	2,393	2,677	2,589	2,449	2,748	2,997
Road maintenance	322	1,380	1,992	2,864	2,426	3,363	3,689	4,116
Socially oriented outlays	162	401	3,171	3,600	2,500	4,164	5,348	5,916
Liberian relief operations	202	282	357	300	295	300	300	--
Domestic interest	5,609	3,900	3,503	2,637	2,700	4,510	6,167	5,833
Foreign interest	14,584	15,721	12,035	10,919	9,882	10,894	9,933	9,583
Development expenditure	14,760	17,502	22,348	27,664	19,747	20,500	29,798	40,415
Overall deficit (commitment basis)	-26,461	-26,601	-30,397	-29,284	-40,538	-43,209	-42,350	-39,000
Change in arrears	9,959	3,609	1,975	-869	-272	-5,051	-2,500	-2,083
Domestic suppliers	-469	-1,811	-32	-1,000	-576	-1,000	-500	--
Foreign interest arrears	10,178	5,670	4,427	--	--	--	--	--
Tax arrears	--	--	-2,515	2,000	1,166	2,000	1,500	1,000
Government arrears to parastatals 3/	--	--	329	-1,869	-862	-2,000	-1,500	-1,000
Government arrears to military contractors	--	--	--	--	--	-4,051	-2,000	-2,083
Other 4/	250	-250	-234	--	--	--	--	--
Overall deficit (cash basis)	-16,502	-22,992	-28,422	-30,153	-40,810	-48,260	-44,850	-41,083
Total financing	16,502	22,992	28,422	30,153	40,810	48,260	44,850	41,083
Foreign financing	16,339	10,848	21,121	24,810	32,505	29,442	34,226	35,083
Disbursements 5/	18,385	26,498	38,212	39,268	48,207 6/	47,226	49,050	51,525
Amortization due	-14,646	-20,042	-20,062	-14,458	-15,702	-17,784	-14,824	-16,442
Arrears accumulated	12,600	4,392	2,971	--	--	--	--	--
Domestic financing	356	-4,502	-2,643	-4,000	1,977	8,386	4,288	--
Bank	-694	-2,563	-6,116	-6,604	-51	9,211	4,288	--
Bank of Sierra Leone	(-21)	(-7,224)	(-7,429)	(-471)	(-4,892)	(...)	(...)	(...)
Commercial banks	(-673)	(4,661)	(1,313)	(-6,132)	(4,826)	(...)	(...)	(...)
Nonbank public	1,050	-1,939	3,473	2,604	2,028	-825	--	--
Debt relief	--	16,599	9,518	7,796	7,796	6,500	6,000	6,000
Privatization (net)	--	--	1,300	1,547	--	3,933	335	--
Unaccounted	-193	47	-874	--	-1,468	--	--	--
Memorandum items:								
Military expenditure (cash basis)	8,047	13,349	18,891	19,291	25,682	26,875	25,376	24,138
Wages and salaries	1,170	1,668	2,939	3,288	3,115	3,383	4,689	5,462
Rice supplement	861	999	1,288	1,537	2,094	3,992	3,374	1,676
Risk allowance	--	1,023	1,438	1,763	1,920	1,800	1,560	1,584
Emergency defense	6,016	9,659	13,226	12,703	18,552	13,649	13,753	13,333
Arrears clearance	--	--	--	--	--	4,051	2,000	2,083
Foreign grants 7/	9,177	10,361	9,758	14,604	26,431	23,402	24,000	25,000
Overall deficit (commitment basis - incl. foreign grants)	-17,284	-16,240	-20,639	-14,680	-14,107	-19,807	-18,350	-14,000
GDP at current market prices	295,259	395,057	480,113	557,793	558,006	680,892	764,063	833,340

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ Totals may differ from the sum of components owing to rounding error. Beginning 1996, budget changes to calendar-year basis.

2/ Midterm review of the first annual ESAF arrangement (December 1994).

3/ The payment in 1994/95 of government arrears to parastatals relates to overdue payments incurred since 1976.

4/ Includes identified check float and clearance of wage arrears with overseas missions.

5/ Grants and loans.

6/ Includes counterpart to external grants used to fund debt buy-back.

7/ Tentative estimates.

Table 6. Sierra Leone: Indicators of Central Government Budgetary Operations, 1991/92-1996/97

(In percent of GDP fiscal year ending June 30) 1/

	1991/92	1992/93	1993/94	1994/95		1995/96	1996	1996/97
		Actual		Program 2/	Estimate	Program	Prog.	Proj.
Revenue	12.0	13.8	14.0	14.3	11.1	10.9	12.0	13.2
Taxes on income and profit	2.7	3.2	2.9	2.5	1.7	1.5	2.0	2.5
Taxes on goods and services	4.7	4.9	5.0	5.3	4.2	3.6	4.0	4.4
Excise duties	2.9	3.1	3.4	3.4	2.8	2.2	2.4	2.6
Of which: petroleum	(1.9)	(2.3)	(2.9)	(2.9)	(2.5)	(1.9)	(2.0)	(2.1)
Road user fees	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.5
Royalties	0.8	0.5	0.4	0.6	0.2	0.2	0.3	0.4
Licenses	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.2
Domestic sales tax	0.3	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Other taxes on goods and services	0.1	0.1	0.1	--	0.1	0.1	0.1	0.2
Taxes on international trade	4.2	4.8	5.5	5.9	4.6	5.3	5.5	5.7
Other taxes	0.1	0.4	0.1	0.5	0.3	0.4	0.4	0.5
Nontax revenue	0.3	0.5	0.5	0.1	0.2	0.1	0.1	0.1
Expenditure	20.9	20.5	20.4	19.6	18.3	17.2	17.5	17.9
Recurrent expenditure	15.9	16.1	15.7	14.6	14.8	14.2	13.6	13.1
Personnel	4.0	4.4	4.7	4.6	4.7	5.0	4.7	4.6
Wages and salaries	3.2	3.8	4.1	4.0	4.0	3.8	3.9	4.2
Rice supplement	0.7	0.6	0.6	0.6	0.7	1.2	0.9	0.4
Goods and services	2.5	3.3	3.4	3.6	3.1	3.5	3.4	3.4
Social and economic	(...)	(...)	(...)	(...)	(1.8)	(2.2)	(2.2)	(2.3)
General and other	(...)	(...)	(...)	(...)	(1.3)	(1.2)	(1.2)	(1.1)
Emergency defense	1.8	2.4	2.8	2.3	3.3	2.0	1.8	1.6
Subventions to universities/colleges	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Road maintenance	0.1	0.3	0.4	0.5	0.4	0.5	0.5	0.5
Socially oriented outlays	0.1	0.1	0.7	0.6	0.4	0.6	0.7	0.7
Liberian relief operations	0.1	0.1	0.1	0.1	0.1	--	--	--
Domestic interest	1.9	1.0	0.7	0.5	0.5	0.7	0.8	0.7
Foreign interest	4.9	4.0	2.5	2.0	1.8	1.6	1.3	1.1
Development expenditure	5.0	4.4	4.7	5.0	3.5	3.0	3.9	4.8
Overall deficit (commitment basis)	-9.0	-6.7	-6.3	-5.2	-7.3	-6.3	-5.5	-4.7
Change in arrears	3.4	0.9	0.4	-0.2	--	-0.7	-0.3	-0.2
Domestic suppliers	-0.2	-0.5	--	-0.2	-0.1	-0.1	--	--
Foreign interest arrears	3.4	1.4	0.9	--	--	--	--	--
Tax arrears	--	--	-0.5	0.4	0.2	0.3	0.2	0.1
Government arrears to parastatals 3/	--	--	0.1	-0.3	-0.2	-0.3	-0.2	-0.1
Government arrears to military contractors	--	--	--	--	--	-0.6	-0.3	-0.2
Other 4/	0.1	-0.1	--	--	--	--	--	--
Overall deficit (cash basis)	-5.6	-5.8	-5.9	-5.4	-7.3	-7.1	-5.9	-4.9
Total financing	5.6	5.8	5.9	5.4	7.3	7.1	5.9	4.9
Foreign financing	5.5	2.7	4.4	4.4	5.8	4.3	4.5	4.2
Disbursements 5/	6.2	6.7	8.0	7.0	8.6 6/	6.9	6.4	6.2
Amortization due	-5.0	-5.1	-4.2	-2.6	-2.8	-2.6	-1.9	-2.0
Arrears accumulated	4.3	1.1	0.6	--	--	--	--	--
Domestic financing	0.1	-1.1	-0.6	-0.7	0.4	1.2	0.6	--
Bank	-0.2	-0.6	-1.3	-1.2	--	1.4	0.6	--
Bank of Sierra Leone	(--)	(-1.8)	(-1.5)	(-0.1)	(-0.9)	(...)	(...)	(...)
Commercial banks	(-0.2)	(1.2)	(0.3)	(-1.1)	(0.9)	(...)	(...)	(...)
Nonbank public	0.4	-0.5	0.7	0.5	0.4	--	--	--
Debt relief	--	4.2	2.0	1.4	1.4	1.0	0.8	0.7
Privatization (net)	--	--	0.3	0.3	--	0.6	0.0	--
Unaccounted	-0.1	--	-0.2	--	-0.3	--	--	--
Memorandum items:								
Military expenditure (cash basis)	2.7	3.4	3.9	3.5	4.6	3.9	3.3	2.9
Wages and salaries	0.4	0.4	0.6	0.6	0.6	0.5	0.6	0.7
Rice supplement	0.3	0.3	0.3	0.3	0.4	0.6	0.4	0.2
Risk allowance	--	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Emergency defense	2.0	2.4	2.8	2.3	3.3	2.0	1.8	1.6
Arrears clearance	--	--	--	--	--	0.6	0.3	0.2
Foreign grants 7/	3.1	2.6	2.0	2.6	4.7	3.4	3.1	3.0
Overall deficit (commitment basis - incl. foreign grants)	-5.9	-4.1	-4.3	-2.6	-2.5	-2.9	-2.4	-1.7

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ Totals may differ from the sum of components owing to rounding error. Beginning 1996, budget changes to calendar-year basis.

2/ Midterm review of the first annual ESAF arrangement (December 1994).

3/ The payment in 1994/95 of government arrears to parastatals relates to overdue payments incurred since 1976.

4/ Includes identified check float and clearance of wage arrears with overseas missions.

5/ Grants and loans.

6/ Includes counterpart to external grants used to fund debt buy-back.

7/ Tentative estimates.

Table 7. Sierra Leone: Monetary Aggregates, December 1993–December 1996

	1993		1994		1995				1996			
	December		March		June		Sept.	Dec.	June		Sept.	Dec.
	Actual	Actual	Prog. 1/	Actual	Prog. 1/	Actual	Est.	Prog.	March	Program	Sept.	Dec.
Monetary survey												
(In millions of leones; end of period)												
Foreign assets (net) 2/ 3/	-124,920	-135,876	-56,910	-57,312	-64,425	-67,244	-98,874	-107,799	-115,765	-120,885	-124,629	-122,827
Net domestic assets	173,896	189,627	109,938	114,107	117,421	122,124	156,778	167,462	175,420	181,061	184,796	187,263
Domestic credit	18,752	22,828	19,451	25,961	19,595	18,723	21,615	25,895	31,347	33,269	35,337	35,448
Claims on Government (net)	3,754	6,062	-3,370	9,640	-3,303	3,332	6,030	8,954	11,300	12,542	14,042	13,242
Claims on private sector 4/	14,998	16,766	22,821	16,321	22,898	15,391	15,585	16,941	20,047	20,726	21,294	22,206
Other items (net)	155,144	166,799	90,486	88,146	97,826	103,401	135,164	141,567	144,073	147,793	149,459	151,815
Money and quasi-money	48,975	53,751	53,028	56,794	52,996	54,879	57,905	59,663	59,655	60,177	60,168	64,437
Money	33,661	36,796	...	40,677	...	39,151	41,669	...	...	...	...	...
Currency	21,883	23,604	20,821	25,407	19,494	23,363	23,542	24,554	24,548	24,967	24,187	25,907
Demand deposits	12,127	13,897	...	15,975	...	16,483	18,586	...	...	...	...	...
Interbank adjustment	-350	-705	...	-704	...	-694	-459	...	...	...	...	...
Quasi-money	15,314	16,955	...	16,117	...	15,728	16,236	...	...	...	...	...
Balance sheet of the Bank of Sierra Leone												
Reserve money	25,154	31,345	25,801	29,136	24,671	28,117	27,903	29,863	29,163	29,249	29,351	31,429
Net international reserves 2/ 3/	-136,356	-144,492	-67,410	-68,424	-74,925	-78,732	-113,643	-120,199	-128,965	-135,885	-139,629	-137,827
Net domestic assets	133,620	138,661	41,359	45,708	36,147	43,400	21,569	30,086	38,151	45,158	49,004	49,280
Net claims on Government	-1,863	-856	-5,022	-48	-4,361	-8,225	-8,037	-3,275	1,973	4,937	6,935	4,172
Other items (net)	135,483	139,517	46,381	45,756	40,508	51,625	29,606	33,360	36,178	40,221	42,068	45,108
Revaluation adjustment	27,890	37,176	51,852	51,852	63,449	63,449	119,976	119,976	119,976	119,976	119,976	119,976
Memorandum items:												
(In percent)												
Claims on Government/ Domestic credit	20.0	26.6	-17.3	37.1	-16.9	17.8	27.9	34.6	36.0	37.7	39.7	37.4
Money multiplier (Ratio of broad money to reserve money)	1.95	1.71	2.06	1.95	2.15	1.95	2.08	2.00	2.05	2.06	2.05	2.05
Currency / Deposits	81.0	77.1	65.0	79.8	58.5	73.1	67.9	70.5	69.0	69.0	67.5	67.5
Bank reserves / Deposits	10.6	24.6	15.0	10.9	15.0	14.1	12.2	14.5	14.0	14.0	14.0	14.0
Liquid assets / Deposits	41.8	55.2	31.5	43.0	29.3	53.9	54.7	50.8	40.5	34.5	35.1	39.1
(Percentage change)												
Broad money (year-on-year)	17.1	9.8	8.5	16.2	8.5	12.4	25.5 5/	11.0	5.0	10.0	3.9	8.0
Reserve money (year-on-year)	4.4	24.6	-4.2	8.2	-15.3	-3.5	15.4 5/	-4.7	0.1	0.2	5.2	5.2

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ ESAF program (December 1994); program data adjusted according to footnote 3 below to facilitate comparison with outturn.

2/ Net international reserves of the Bank of Sierra Leone valued at end-December 1993 exchange rate (Le 571.95 = US\$ 1) until end-1994, at Le 630.00 = US\$ 1 for end-March 1995, at Le 675.00 = US\$ 1 for end-June 1995, and Le 900 = US\$ 1 thereafter; the counterpart to the revaluation of international reserves is included in "other items net" in the Monetary Survey and reported separately in the balance sheet of the Bank of Sierra Leone.

3/ Beginning in March 1995, net foreign assets of the Bank of Sierra Leone have been defined as gross reserves minus liabilities to the Fund; other international liabilities, which amounted to Le 93.9 billion at end-March 1995, are included in "other items net".

4/ Including public enterprises.

5/ The increase also reflects special factors affecting monetary data which date back to September 1994.

Table 8. Sierra Leone: Structure of Interest Rates, June 1990–September 1995

	1990	1991	1992		1993		1994				1995		
	June	June	June	Dec.	June	Dec.	March	June	Sept.	Dec.	March	June	Sept.
(In percent per annum)													
Lending rates													
Treasury bills ^{1/}													
Ordinary ^{2/}	70.60	70.60	93.70	43.80	28.00	20.30	16.00	8.80	11.40	8.36	12.02	13.15	15.04 ^{3/}
Special ^{4/}	103.20	103.20	103.20	...	...	...	...	...	...	...	...	...	...
Commercial banks' prime rate ^{5/}	35.00	55.00	75.00	57.00	54.60	39.00	33.00	25.00	26.00	28.00	28.00	26.00	28.00
Deposit rates ^{6/}													
Time deposits with commercial banks													
Up to one month	22.00	42.00	57.00	42.00	26.00	17.00	15.00	11.10	7.50	5.00	5.91	4.59	5.12
1–3 months	23.00	43.00	58.00	43.00	27.00	18.00	17.00	10.00	7.75	6.70	6.50	5.61	5.61
3–6 months	24.00	45.00	60.00	44.00	28.00	19.00	18.00	10.00	8.25	7.30	7.20	6.61	6.61
6–9 months	25.00	45.00	60.00	45.00	29.00	20.00	19.00	13.00	8.75	7.80	7.20	8.00	8.00
9–12 months	25.00	46.00	61.00	46.00	30.00	21.00	20.00	13.00	9.25	8.00	7.90	8.00	8.00
12–18 months	26.00	46.00	61.00	47.00	31.00	22.00	21.00	13.00	9.25	8.00	7.90	...	...
18–24 months	26.00	46.00	61.00	47.00	31.00	22.00	21.00	13.00	9.25	8.00	7.90	...	...
Savings deposits	20.00	40.00	55.00	40.00	25.00	16.00	15.00	10.30	6.25	5.13	5.00	4.04	4.04
Post office savings deposits	20.00	40.00	55.00	40.00	25.00	16.00	15.00	10.30	6.25	5.13	5.00	5.00	5.00

Source: Data provided by the Sierra Leonean authorities.

^{1/} Annual rate equivalent. Ordinary treasury bills are sold to banks and other financial and nonfinancial institutions, while special treasury bills are sold to the non bank public. Both are zero coupon bills issued at a discount to face value in lots of 91-day maturities.

^{2/} Since late January 1992, rates on ordinary treasury bills have been market determined at weekly auctions by the Bank of Sierra Leone with commercial banks.

^{3/} Stood at 23 percent on October 20, 1995.

^{4/} As of August 1992, the treasury bill market was unified, and the issuance of special treasury bills discontinued.

^{5/} Lending rates freely determined by commercial banks since April 1990.

^{6/} Deposit rates have been freely determined by commercial banks since August 16, 1993. Prior to that date, the Bank of Sierra Leone administered minimum deposit rates.

Table 9. Sierra Leone: Balance of Payments, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995		1996	1997	1998
	Actual	Actual	Prog. 1/	Rev. Prog.	Projections		
Current account balance	-95.7	-134.7	-111.4	-120.7	-114.5	-112.3	-121.0
Trade balance	-30.0	-31.3	-27.1	-99.6	-83.0	-54.3	-45.9
Exports	118.0	117.9	150.3	39.3	79.0	132.0	143.2
Rutile	57.3	55.2	65.4	--	25.0	55.0	59.4
Bauxite	24.2	16.4	24.2	--	7.0	18.0	19.0
Diamonds	19.5	30.2	38.0	23.5	30.0	32.0	32.8
Kimberlite	--	--	--	--	--	7.5	10.0
Other	17.0	16.1	22.7	15.8	17.0	19.5	22.0
Imports (c.i.f.)	148.0	149.2	177.4	138.8	162.0	186.3	189.1
Petroleum 2/	22.0	28.7	24.5	20.6	26.0	28.0	21.0
Rice	33.0	24.4	37.9	37.0	37.0	38.0	37.4
Other	93.0	96.1	115.0	81.3	99.0	120.3	130.7
Services	-94.0	-128.9	-123.2	-61.1	-65.3	-88.8	-103.0
Nonfactor services (net)	-4.4	-16.2	-13.7	-7.1	-26.2	-17.9	-20.9
Receipts	69.3	47.9	76.3	70.0	76.1	88.3	106.8
Payments	73.7	64.1	90.0	77.1	102.3	106.2	127.7
Interest	-46.3	-56.1	-54.5	-52.4	-22.4	-15.1	-16.2
Investment income (net) 3/	-43.4	-56.6	-55.0	-1.6	-16.7	-55.7	-65.8
Transfers	28.3	25.5	38.9	40.0	33.8	30.8	27.8
Official	28.2	25.2	38.6	39.8	33.5	30.2	27.0
Private transfers (net)	0.1	0.3	0.3	0.2	0.3	0.6	0.8
Capital account	49.5	72.1	73.1	66.9	89.2	98.7	104.8
Medium- and long-term (net)	33.1	55.1	55.1	48.9	72.2	81.7	87.8
Official	15.1	37.9	33.3	30.6	53.9	56.7	59.8
Drawings	47.6	68.5	73.5	63.1	83.9	76.3	77.8
Repayments due	32.5	30.6	40.2	32.4	30.0	19.5	18.1
Private	18.0	17.2	21.8	18.3	18.3	25.0	28.0
Short-term (including errors and omissions) 4/	16.4	17.0	18.0	18.0	17.0	17.0	17.0
Overall balance	-46.2	-62.6	-38.3	-53.7	-25.3	-13.5	-16.3
Repayment of arrears (net)	--	--	26.0	30.3	21.5	--	--
Debt relief (including standstill on commercial debt)	63.0	57.7	53.2	57.4	3.0	3.0	3.0
Net Fund credit	-5.3	9.4	10.6	16.0	17.6	5.8	-1.8
Disbursements	--	133.6	14.1	19.6	22.9	7.6	--
Repayments	3.3	3.7	3.5	3.6	5.3	1.8	1.8
Reduction of arrears	2.0	120.5	--	--	--	--	--
Change in gross reserves	11.5	4.6	11.4	-10.7	2.4	20.0	21.0
Central Bank	10.5	11.1	11.4	-14.5	-0.2	17.0	17.0
Commercial banks	1.0	-6.5	--	3.8	2.6	3.0	4.0
Financing gap 5/	--	--	11.9	--	28.6	24.7	36.1

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ ESAF program (December 1994).

2/ Crude petroleum and petroleum products.

3/ Consists mostly of earnings retained offshore from bauxite and rutile exports.

4/ Including repatriation of earnings from unrecorded diamond exports.

5/ After identified disbursements, debt rescheduling already obtained, and short-term capital movements.

Table 10. Sierra Leone: Financing Requirements, 1994-98

(In millions of U.S. dollars)

	1994		1995		1996	1997	1998
	Prog. 1/	Actual	Prog. 1/	Rev. Prog.	Projections		
Current account (excluding interest and official transfers)	-87.0	-103.8	-95.5	-108.1	-125.6	-127.3	-131.8
Debt service obligations	91.3	90.3	95.0	88.4	57.7	36.5	36.1
Of which: Interest	(47.2)	(58.2)	(54.8)	(54.2)	(24.3)	(16.9)	(18.0)
Of which: Amortization	(44.1)	(32.2)	(40.2)	(34.3)	(33.5)	(19.5)	(18.1)
Bilateral	42.3	40.0	39.5	39.5	35.2	22.6	17.6
Paris Club creditors	39.8	38.1	38.0	36.1	31.5	18.2	13.3
Other bilateral	1.5	1.0	1.5	2.3	1.9	2.0	2.0
Multilateral	13.1	10.1	13.4	10.4	13.0	10.0	14.6
IMF	6.2	3.7	5.1	3.6	5.3	1.8	1.8
IBRD/IDA	3.8	3.2	4.2	3.2	4.0	4.1	4.6
AfDB/AfDF	1.5	0.9	1.6	1.0	1.3	1.6	3.4
Other 1/	1.6	2.3	2.5	2.5	2.5	2.5	4.8
Scheduled obligations on short-term and commercial debt	36.4	40.3	38.5	38.5	9.5	3.9	3.9
Interest on exceptional financing	3.5	--	3.7	--	--	--	--
Reduction of arrears	120.5	120.5	26.0	30.3	21.5	--	--
Paris Club	--	--	--	--	--	--	--
IMF	120.5	120.5	--	--	--	--	--
Other bilateral and multilaterals 2/	--	--	21.5	--	21.5	--	--
Commercial creditors	--	--	4.5	30.3	--	--	--
Increase in gross reserves	4.1	4.6	11.4	-10.7	2.4	20.0	21.0
Central Bank	10.6	11.1	5.4	-14.5	-0.2	17.0	17.0
Commercial banks	-6.5	-6.5	6.0	3.8	2.6	3.0	4.0
Gross financing requirement	302.9	-319.2	229.1	-216.2	-207.3	-183.8	-188.9
Identified disbursements	238.3	244.5	144.8	140.8	158.6	139.1	132.8
Balance of payments support	178.3	182.6	53.3	51.1	71.1	39.1	20.0
IMF	133.6	133.6	14.1	19.6	22.9	7.6	--
IBRD	15.1	18.1	20.0	15.0	18.0	22.0	--
AfDB	7.0	10.0	8.2	10.0	1.2	2.0	--
EU	11.8	11.8	8.0	2.0	5.0	3.0	--
Other	10.8	9.1	3.0	4.5	24.0	4.5	20.0
Grants	25.2	25.2	24.7	39.8	33.5	30.2	27.0
Project loans	16.8	19.5	45.0	31.6	35.7	44.8	57.8
Foreign direct investment	18.0	17.2	21.8	18.3	18.3	25.0	28.0
Debt relief (including standstill on payments to commercial creditors)	47.6	57.7	53.2	57.4	3.0	3.0	3.0
Short-term capital movements (including errors and omissions) 3/	17.0	17.0	18.0	18.0	17.0	17.0	17.0
Financing gap 4/	--	--	11.9	--	28.6	24.7	36.1

Sources: Data provided by the authorities; and staff estimates and projections.

1/ ESAF Program (December 1994).

2/ IFC, BADEA, IFAD, Islamic Development Bank, and OPEC Fund.

3/ Includes repatriation of proceeds from unrecorded diamond exports.

4/ After identified disbursements, Paris Club VI reschedulings and short-term capital movements.

Table 11. Sierra Leone: Balance of Payments,
Medium- and Long-Term Projections, 1994-2006

	1994	1995	1996	1997	1998	1999	2000	2002	2004	2006
	Actual	Est.	Projections							
(In millions of U.S. dollars)										
Current account balance	-134.7	-120.7	-114.5	-112.3	-121.0	-108.1	-87.6	-81.4	-88.6	-96.7
Trade balance	-31.3	-99.6	-83.0	-54.3	-45.9	-29.2	-19.0	-12.7	-25.3	-36.5
Exports	117.9	39.3	79.0	132.0	143.2	169.6	182.2	204.2	221.6	241.7
Imports (c.i.f)	149.2	138.8	162.0	186.3	189.1	198.8	201.1	216.9	246.9	278.1
Services	-128.9	-61.1	-65.3	-88.8	-103.0	-106.3	-95.5	-94.6	-88.4	-84.5
Non-factor services (net)	-16.2	-7.1	-26.2	-17.9	-20.9	-12.7	0.1	8.3	18.8	27.3
Interest	-56.1	-52.4	-22.4	-15.1	-16.2	-15.7	-12.5	-11.7	-11.0	-10.5
Investment income (net)	-56.6	-1.6	-16.7	-55.7	-65.8	-78.0	-83.1	-91.2	-96.1	-101.3
Transfers	25.5	40.0	33.8	30.8	27.8	27.4	26.9	25.9	25.1	24.4
Official	25.2	39.8	33.5	30.2	27.0	26.4	25.8	24.6	23.5	22.4
Private (net)	0.3	0.2	0.3	0.6	0.8	1.0	1.1	1.3	1.6	1.9
Capital account	72.1	66.9	89.2	98.7	104.8	96.0	97.7	105.4	112.4	117.6
Medium- and long-term (net)	55.1	48.9	72.2	81.7	87.8	78.0	79.7	87.4	94.4	99.6
Official	37.9	30.6	53.9	56.7	59.8	56.0	52.7	49.4	46.4	41.4
Drawings	68.5	63.1	83.9	76.3	77.8	74.0	73.6	72.8	72.1	71.4
Repayments due	30.6	32.4	30.0	19.5	18.1	18.0	20.9	23.4	25.7	29.9
Private	17.2	18.3	18.3	25.0	28.0	22.0	27.0	38.0	48.1	58.2
Short-term (including errors and omissions)	17.0	18.0	17.0	17.0	17.0	18.0	18.0	18.0	18.0	18.0
Overall balance	-62.6	-53.7	-25.3	-13.5	-16.3	-12.1	10.1	24.0	23.8	20.9
Repayment of arrears (net)	--	30.3	21.5	--	--	--	--	--	--	--
Debt relief (including standstill on commercial debt) 1/	57.7	57.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Net Fund credit	9.4	16.0	17.6	5.8	-1.8	-15.6	-30.5	-39.6	-26.3	--
Disbursements	133.6	19.6	22.9	7.6	--	--	--	--	--	--
Repayments	3.7	3.6	5.3	1.8	1.8	15.6	30.5	39.6	26.3	--
Reduction of arrears	120.5	--	--	--	--	--	--	--	--	--
Change in gross reserves	4.6	-10.7	2.4	20.0	21.0	13.5	13.5	8.0	9.0	9.3
Central Bank	11.1	-14.5	-0.2	17.0	17.0	11.0	11.0	5.5	6.5	6.8
Commercial banks	-6.5	3.8	2.6	3.0	4.0	2.5	2.5	2.5	2.5	2.5
Financing gap 2/	--	--	28.6	24.7	36.1	38.1	30.9	20.5	8.4	-14.7

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

1/ Debt relief covers the period to end-1995.

2/ After identified disbursements, debt rescheduling already obtained, and short-term capital movements.

Table 12. Sierra Leone: Medium-Term Outlook for the Balance of Payments
Sensitivity Tests, 1995-2006 ^{1/}

(In millions of U.S. dollars, unless otherwise indicated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Baseline scenario												
Exports	39.3	79.0	132.0	143.2	169.6	182.2	196.4	204.2	212.6	221.6	231.3	241.7
Of which: rutile	(--)	(25.0)	(55.0)	(59.4)	(66.9)	(74.5)	(83.4)	(85.5)	(87.6)	(89.8)	(92.1)	(94.4)
bauxite	(--)	(7.0)	(18.0)	(19.0)	(19.5)	(20.0)	(20.5)	(21.0)	(21.5)	(22.0)	(22.6)	(23.1)
kimberlite	(--)	(--)	(7.5)	(10.0)	(25.0)	(25.6)	(26.3)	(26.9)	(27.6)	(28.3)	(29.0)	(29.7)
Imports, cif	138.8	162.0	186.3	189.1	198.8	201.1	203.7	216.9	231.3	246.9	261.9	278.1
Of which: petroleum products	(20.6)	(26.0)	(28.0)	(21.0)	(20.0)	(20.0)	(21.0)	(22.1)	(23.2)	(24.3)	(25.5)	(26.8)
Current account (ex. off. transfers)	-160.5	-148.0	-142.5	-148.0	-134.5	-113.3	-103.7	-106.0	-108.7	-112.1	-115.7	-119.1
(as percentage of GDP)	-20.0	-17.8	-15.7	-15.1	-12.8	-10.0	-8.5	-8.1	-7.7	-7.4	-7.1	-6.8
Aid flows ^{2/}	140.8	158.6	139.1	132.8	122.4	126.4	131.4	135.4	140.2	143.6	147.5	152.0
Of which: program support ^{2/}	(31.5)	(48.2)	(31.5)	(20.0)	(20.0)	(19.6)	(19.2)	(18.8)	(18.4)	(18.1)	(17.7)	(17.4)
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	36.7	16.4	14.3	16.9	19.8	19.9	20.2	19.1	15.2	10.8	8.7
Reserves (end of period)	26.2	26.0	43.0	60.0	71.0	82.0	90.0	95.5	101.4	108.0	114.2	121.0
in months of imports, cif	2.3	1.9	2.8	3.6	4.3	4.9	5.3	5.3	5.3	5.2	5.2	5.2
Scenario A: Lower rutile exports ^{3/}												
Exports	39.3	74.0	121.0	131.3	156.2	167.3	179.7	187.1	195.1	203.6	212.8	222.8
Of which: rutile	(--)	(20.0)	(44.0)	(47.5)	(53.5)	(59.6)	(66.7)	(68.4)	(70.1)	(71.8)	(73.6)	(75.5)
Imports, cif	138.8	161.5	185.2	187.5	197.4	199.6	202.1	215.2	229.5	245.1	260.1	276.3
Current account (ex. off. transfers)	-160.5	-148.8	-144.1	-149.6	-136.5	-115.6	-106.2	-108.5	-111.3	-114.8	-118.5	-121.9
(as percentage of GDP)	-20.0	-17.9	-15.9	-15.3	-13.0	-10.2	-8.7	-8.3	-7.9	-7.6	-7.2	-6.9
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	38.0	17.3	15.0	17.7	20.7	20.9	21.2	20.0	15.9	11.3	9.1
Reserves (end of period)	26.2	25.2	39.3	54.5	63.5	72.3	77.8	80.7	84.1	87.9	91.4	95.3
in months of imports, cif	2.3	1.9	2.5	3.5	3.9	4.3	4.6	4.5	4.4	4.3	4.2	4.1
Shortfall of reserves ^{4/}	--	0.8	3.7	5.4	7.4	9.7	12.2	14.7	17.4	20.1	22.8	25.7
Scenario B: No bauxite exports												
Exports	39.3	72.0	114.0	124.2	150.1	162.2	175.9	183.2	191.1	199.6	208.7	218.5
Of which: bauxite	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Imports, cif	138.8	161.3	184.5	187.2	196.8	199.1	201.7	214.8	229.1	244.7	259.7	275.8
Current account (ex. off. transfers)	-160.5	-149.1	-145.2	-150.9	-137.4	-116.3	-106.8	-109.1	-111.9	-115.4	-119.1	-122.5
(as percentage of GDP)	-20.0	-18.0	-16.0	-15.4	-13.1	-10.3	-8.8	-8.3	-7.9	-7.6	-7.3	-7.0
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	38.5	17.8	15.5	18.1	21.1	21.1	21.4	20.2	16.0	11.4	9.2
Reserves (end of period)	26.2	26.0	40.4	54.7	62.9	70.9	76.0	78.4	81.2	84.5	87.5	90.8
in months of imports, cif	2.3	1.9	2.6	3.5	3.8	4.3	4.5	4.4	4.3	4.1	4.0	4.0
Shortfall of reserves ^{4/}	--	--	2.6	5.3	8.1	11.0	14.0	17.1	20.2	23.5	26.8	30.1
Scenario C: Delay in kimberlite exports ^{5/}												
Exports	39.3	79.0	124.5	133.2	152.1	166.6	195.1	202.9	211.3	220.2	229.9	240.2
Of which: kimberlite	(--)	(--)	(--)	(--)	(7.5)	(10.0)	(25.0)	(25.6)	(26.3)	(26.9)	(27.6)	(28.3)
Imports, cif	138.8	162.0	186.3	189.1	198.8	201.1	203.7	216.9	231.3	246.9	261.9	278.1
Current account (ex. off. transfers)	-160.5	-148.0	-145.5	-152.0	-141.5	-119.6	-104.2	-106.5	-109.2	-112.6	-116.3	-119.6
(as percentage of GDP)	-20.0	-17.8	-16.0	-15.5	-13.4	-10.6	-8.5	-8.1	-7.7	-7.4	-7.1	-6.8
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	36.7	17.0	14.9	18.0	20.8	20.0	20.3	19.2	15.2	10.9	8.8
Reserves (end of period)	26.2	26.0	40.0	53.0	57.0	61.7	69.2	74.2	79.6	85.6	91.3	97.5
in months of imports, cif	2.3	1.9	2.6	3.4	3.4	3.7	4.1	4.1	4.1	4.2	4.2	4.2
Shortfall of reserves ^{4/}	--	--	3.0	7.0	14.0	20.3	28.8	21.3	21.8	22.4	22.9	23.5
Scenario D: Lower aid flows ^{6/}												
Exports	39.3	79.0	132.0	143.2	169.6	182.2	196.4	204.2	212.6	221.6	231.3	241.7
Imports, cif	138.8	162.0	186.3	189.1	198.8	201.1	203.7	216.9	231.3	246.9	261.9	278.1
Current account (ex. off. transfers)	-160.5	-148.0	-142.3	-147.9	-134.3	-113.1	-103.4	-105.6	-108.3	-111.7	-115.3	-118.6
(as percentage of GDP)	-20.0	-17.8	-15.7	-15.1	-12.8	-10.0	-8.5	-8.1	-7.7	-7.3	-7.0	-6.7
Aid flows ^{2/}	140.8	149.0	132.8	128.8	118.4	122.4	127.6	131.7	136.5	140.0	144.0	148.5
Of which: program support ^{2/}	(31.5)	(38.6)	(25.2)	(16.0)	(16.0)	(15.7)	(15.4)	(15.1)	(14.8)	(14.5)	(14.2)	(13.9)
Debt service (accrued)	88.4	57.7	36.3	35.9	49.0	63.7	67.9	73.1	73.0	61.1	45.3	38.1
as percentage of exports of G&S	80.1	36.7	16.3	14.3	16.8	19.7	19.5	19.8	18.7	14.7	10.3	8.2
Reserves (end of period)	26.2	16.3	19.7	32.7	39.7	46.7	50.9	52.6	54.9	57.8	60.5	63.8
in months of imports, cif	2.3	1.2	1.3	2.1	2.4	2.8	3.0	2.9	2.8	2.8	2.8	2.8
Shortfall of reserves ^{4/}	--	9.6	23.3	27.3	31.3	35.2	39.1	42.8	46.5	50.1	53.7	57.2
Scenario E: Higher cost of oil imports ^{7/}												
Exports	39.3	79.0	132.0	143.2	169.6	182.2	196.4	204.2	212.6	221.6	231.3	241.7
Imports, cif	138.8	167.2	191.9	193.1	202.8	205.1	207.9	221.3	235.9	251.7	267.0	283.5
Of which: petroleum products	(20.6)	(31.2)	(33.6)	(25.2)	(24.0)	(24.0)	(25.2)	(26.5)	(27.8)	(29.2)	(30.6)	(32.2)
Current account (ex. off. transfers)	-160.5	-153.2	-148.1	-152.2	-138.5	-117.3	-107.9	-110.4	-113.3	-116.9	-120.8	-124.4
(as percentage of GDP)	-20.0	-18.5	-16.3	-15.6	-13.2	-10.4	-8.8	-8.4	-8.0	-7.7	-7.4	-7.1
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	36.7	16.4	14.3	16.9	19.8	19.9	20.2	19.1	15.2	10.8	8.7
Reserves (end of period)	26.2	20.8	28.3	50.6	52.3	68.6	67.1	77.7	73.9	85.3	81.6	92.9
in months of imports, cif	2.3	1.5	1.8	3.1	3.1	4.0	3.9	4.2	3.8	4.1	3.7	3.9
Shortfall of reserves ^{4/}	--	5.2	14.7	9.4	18.7	13.4	22.9	17.8	27.6	22.7	32.7	28.0
Scenario F: Higher rehabilitation imports ^{8/}												
Exports	39.3	79.0	132.0	143.2	169.6	182.2	196.4	204.2	212.6	221.6	231.3	241.7
Imports, cif	138.8	164.0	188.7	191.7	201.6	204.0	206.7	221.0	234.7	250.7	266.0	282.5
Current account (ex. off. transfers)	-160.5	-150.0	-144.9	-150.7	-137.3	-116.2	-106.6	-109.2	-112.2	-115.9	-119.8	-123.4
(as percentage of GDP)	-20.0	-18.1	-15.9	-15.4	-13.0	-10.3	-8.7	-8.3	-7.9	-7.6	-7.3	-7.0
Aid flows ^{2/}	140.8	158.6	139.1	132.8	122.4	126.4	131.4	135.4	140.2	143.6	147.5	152.0
Of which: program support ^{2/}	(31.5)	(48.2)	(31.5)	(20.0)	(20.0)	(19.6)	(19.2)	(18.8)	(18.4)	(18.1)	(17.7)	(17.4)
Debt service (accrued)	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5	40.4
as percentage of exports of G&S	80.1	36.7	16.4	14.3	16.9	19.8	19.9	20.2	19.1	15.2	10.8	8.7
Reserves (end of period)	26.1	24.0	38.6	53.0	61.1	69.2	74.3	76.6	79.1	81.8	84.0	86.4
in months of imports, cif	2.3	1.8	2.5	3.3	3.6	4.1	4.3	4.2	4.0	3.9	3.8	3.7
Shortfall of reserves ^{4/}	--	2.0	4.4	7.0	9.8	12.7	15.7	18.9	22.4	26.1	30.2	34.6

Source: Data provided by the authorities; and staff estimates and projections.

^{1/} Scenarios A, B, C, D make the strong assumption that imports do not adjust to shocks, apart from those that are direct inputs to the production of rutile and bauxite.

^{2/} Excluding IMF.

^{3/} Assumed that rutile exports are 20 percent lower.

^{4/} Relative to the baseline scenario.

^{5/} Assumed that kimberlite exports start in 1999 instead of 1997.

^{6/} Assumed that program support (excluding IMF) is 20 percent lower.

^{7/} Assumed that the value of oil imports is 20 percent higher.

^{8/} Assumed that imports (excluding rice and petroleum) are 2 percent higher.

Table 13. Sierra Leone: Indicators of Fund Credit, 1995–2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	(In millions of SDRs)										
Outstanding Fund credit and overdue obligations (end of period)	111.0	123.9	129.0	129.0	119.9	100.8	78.1	52.8	27.0	10.3	--
SAF/ESAF	111.0	123.9	129.0	129.0	119.9	100.8	78.1	52.8	27.0	10.3	--
Repayments in arrears	--	--	--	--	--	--	--	--	--	--	--
Fund charges in arrears	--	--	--	--	--	--	--	--	--	--	--
Debt service to the Fund	1.6	3.5	1.2	1.2	10.3	20.2	23.7	26.2	26.6	17.4	10.9
Charges	0.4	1.2	1.2	1.2	1.2	1.1	1.0	0.9	0.8	0.7	0.6
Repayments	1.2	2.3	--	--	9.1	19.1	22.7	25.3	25.8	16.7	10.3
Arrears reduction	--	--	--	--	--	--	--	--	--	--	--
Debt service to other international financial institutions	5.8	21.2	5.8	8.9	12.1	14.5	15.7	17.6	18.3	16.2	10.1
Interest	2.5	2.8	2.3	3.3	3.1	2.4	2.1	2.0	1.8	1.8	1.6
Amortization	3.3	3.5	3.6	5.6	9.0	12.0	13.6	15.6	16.4	14.4	8.4
Arrears	--	14.9	--	--	--	--	--	--	--	--	--
Total debt service	88.4	80.2	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5
Interest	54.2	24.3	16.9	18.0	17.5	14.2	13.4	13.0	12.4	12.1	11.6
Amortization	34.3	33.5	19.5	18.1	31.8	49.8	55.9	61.6	62.4	50.9	35.9
Arrears	--	22.5	--	--	--	--	--	--	--	--	--
	(In percent)										
Outstanding Fund credit (excluding arrears) as percent of:											
Total medium- and long-term credit outstanding	19.0	18.9	18.3	16.8	14.6	12.2	9.5	6.5	3.4	1.3	--
GDP	21.1	22.6	21.4	19.9	17.2	13.5	9.7	6.1	2.9	1.0	--
Merchandise exports	431.6	237.4	147.4	136.0	107.0	84.0	60.4	39.3	19.3	7.1	--
Quota	143.8	160.5	167.1	167.1	155.3	130.6	101.2	68.4	35.0	13.3	--
Debt service to Fund (excluding arrears reduction) as percent of:											
Total debt service obligations	1.8	4.4	3.3	3.3	20.9	31.6	34.2	35.1	35.6	27.6	23.0
Merchandise exports	6.2	6.7	1.4	1.3	9.2	16.8	18.3	19.5	19.0	11.9	7.2
Quota ^{1/}	2.1	4.5	1.6	1.6	13.3	26.2	30.7	33.9	34.5	22.5	14.1

Sources: Data provided by the Sierra Leonean authorities; and staff estimates and projections.

Table 14. Sierra Leone: Financial Benchmarks and Performance Criteria
Under the Second Annual ESAF Arrangement, December 1995 - December 1996 ^{1/}

	1995		1996			
	September Est.	December Bench- mark	March Perf. Crit.	June Bench- mark	Sep. Indicative Benchmarks	Dec.
(In millions of leones)						
Net domestic assets (NDA) of the Bank of Sierra Leone ^{2/ 3/}	21,569	30,086	38,151	45,158	49,004	49,280
Net domestic financing (NDF) of the budget deficit ^{4/}	-1,452	1,472	3,818	5,060	6,560	5,760
Maximum level of domestic arrears of the Government ^{5/}	600	600	600	600	600	600
(In millions of U.S. dollars)						
Net international reserves (NIR) of the Bank of Sierra Leone ^{6/}	-126.3	-133.6	-143.3	-151.0	-155.1	-153.1
New external loan commitments, maturity of one year or more ^{7/ 7/}	--	--	--	--	--	--
Stock of external short-term debt ^{2/ 8/}	8.9	10.0	10.0	10.0	10.0	10.0
Minimum reduction in external payments arrears ^{9/}	--	--	--	21.5	21.5	21.5

^{1/} See notes below for contingency mechanisms.

^{2/} Ceiling.

^{3/} Defined as reserve money less revaluation adjustment less net international reserves (gross reserves less liabilities to the Fund), calculated at a constant exchange rate of Le 900 = US\$1.

^{4/} Cumulative from January 1, 1993. Defined as change in net claims on Government by banking system plus net sales of government debt to the nonbank public, excluding any domestic financing of direct costs incurred by the Government in relation to the February 1996 elections.

^{5/} Domestic arrears are defined as lodgements outstanding at the Ministry of Finance and the Bank of Sierra Leone and checks issued, but not cashed.

^{6/} Floor.

^{7/} Commitments on external loans (other than rescheduling) contracted or guaranteed by the Government, Bank of Sierra Leone, and parastatals, except borrowing on concessional terms, defined as including a grant element of at least 35 percent discounted on the basis of OECD commercial interest reference rates.

^{8/} Debt of the Government and the Bank of Sierra Leone, with a maturity of less than one year, and net of any increase arising from nonpayment of interest on existing obligations.

^{9/} Cumulative. No new external arrears will be accumulated, except on debts subject to rescheduling or debt buy-back operations. Reductions in arrears indicated refer to multilateral creditors.

Contingency mechanisms

1. Excess net foreign financing -- balance of payments

The floor on NIR is to be adjusted upward, and the ceiling on NDA downward, by 50 percent of the excess of net foreign financing (nonproject grants and loans minus external cash debt service payments) over the amounts envisaged in the program's balance of payments projections.

2. Excess net foreign financing -- budget

Net domestic financing of the budget (NDF) will be adjusted downward by the excess of net foreign financing (nonproject grants and loans minus external cash debt service payments) passing through the budget over the amounts envisaged in the program's fiscal projections.

3. Proceeds from privatization

NIR will be adjusted upwards, and NDA downward, by the amount of privatization proceeds received in foreign exchange above the level assumed in the program. NDF will be adjusted downward by the total amount of privatization proceeds received, in foreign exchange and local currency, above the level assumed in the program.

Table 15. Sierra Leone: Structural Performance Criteria and Benchmarks
Under the Second Annual ESAF Arrangement, December 1995-December 1996

Measures	Test dates
1. Adjust retail petroleum prices to ensure full pass-through of any changes in the exchange rate and oil import price.	Continuous <u>1/</u>
2. Decontrol retail petroleum prices.	End-July 1996 <u>2/</u>
3. Achieve cumulative target for retrenchment of government employees from May 31, 1995: <u>3/</u>	
10,000	End-December 1995 <u>4/</u>
12,500	End-March 1996 <u>5/</u>
15,000	End-June 1996 <u>4/</u>
17,500	End-September 1996 <u>2/</u>
20,000	End-December 1996 <u>2/</u>
4. Observe limits on government wages and salaries, excluding the rice supplement (in millions of leones) <u>6/</u>	
11,850	End-December 1995 <u>4/</u>
18,903	End-March 1996 <u>5/</u>
25,957	End-June 1996 <u>4/</u>
33,899	End-September 1996 <u>2/</u>
41,841	End-December 1996 <u>2/</u>

1/ Monitored on the basis of an agreed formula used to determine retail prices on November 10, 1995. Performance criterion for end-March 1996.

2/ Indicative benchmark.

3/ Coverage extended to include military and police personnel. Size of labor force at end-May 1995 was 70,790.

4/ Benchmark.

5/ Performance criterion.

6/ Cumulative from July 1, 1995.

Sierra Leone - Second Annual Arrangement Under
the Enhanced Structural Adjustment Facility

Attached hereto is a letter, dated November 17, 1995 with an annexed memorandum on economic and financial policies for 1996, from the Secretary of State for Finance, requesting from the Fund the second annual arrangement under the enhanced structural adjustment facility and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. Under the second annual arrangement:
 - (a) the first loan, in an amount equivalent to SDR 13.056 million, will be available on December --, 1995 at the request of Sierra Leone; and
 - (b) the second loan, in an amount equivalent to SDR 10.180 million, will be available on June 30, 1996 at the request of Sierra Leone subject to paragraph 2 below.
2. Sierra Leone will not request disbursement of the second loan specified in paragraph 1 (b) above:
 - (a) if the Managing Director finds that the data at the end of March 1996 indicate that
 - (i) the limit on net domestic assets of the Bank of Sierra Leone, or
 - (ii) the limit on domestic financing of the budget deficit, or
 - (iii) the limit on domestic arrears of the Government, or
 - (iv) the floor for net international reserves of the Bank of Sierra Leone, or
 - (v) the limit on the contracting or guaranteeing by the Government of new nonconcessional external loans, or
 - (vi) the limit on outstanding short-term external debt contracted or guaranteed by the Government or the Bank of Sierra Leone, or
 - (vii) the reduction in external payments arrears, specified in Table 1 of the annexed memorandum was not observed, or

(viii) any of the structural performance criteria specified in Table 2 of the annexed memorandum was not observed; or

(b) if Sierra Leone

- (i) has imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) has introduced or modified multiple currency practices, or
- (iii) has concluded bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) has imposed or intensified import restrictions for balance of payments reasons; or

(c) until the Fund determines that the midterm review of Sierra Leone's program referred to in paragraph 6 of the attached letter dated November 17, 1995, and paragraph 17 of the memorandum annexed thereto has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(b) above may be made available only after consultation has taken place between the Fund and Sierra Leone, and understandings have been reached regarding the circumstances in which Sierra Leone may request the disbursement of that second loan.

3. Before approving the third annual arrangement, the Fund will appraise the progress of Sierra Leone in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

- (a) the indicators specified in Tables 1 and 2 attached to the annexed memorandum;
- (b) imposition or intensification of restrictions on payments and transfers for current international transactions;
- (c) introduction or modification of multiple currency practices;
- (d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and
- (e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 4 of the attached letter, Sierra Leone will provide the Fund with such information as the Fund requests in connection with the program of Sierra Leone in implementing the policies and reaching the objectives supported by this arrangement.

5. In accordance with paragraph 5 of the attached letter, during the period of the second annual arrangement, Sierra Leone will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement and while Sierra Leone has outstanding financial obligations to the Fund arising from loans under that arrangement, Sierra Leone will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Sierra Leone's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Sierra Leone or of representatives of Sierra Leone to the Fund.

Freetown, Sierra Leone

November 17, 1995

Dear Mr. Camdessus:

1. The objectives of Sierra Leone's three-year program of economic and financial adjustment are set out in the updated policy framework paper for the period 1995-98, which has been prepared in close collaboration with the staffs of the Fund and World Bank.

2. The attached memorandum on the economic and financial policies of Sierra Leone, based on the PFP referred to above, presents the Government's economic policy intentions and quantitative targets for 1996. In support of these objectives and policies, the Government of Sierra Leone hereby requests the second annual arrangement under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 23.2 million (30.1 percent of quota). This would include an augmentation of access of SDR 13.1 million (17.0 percent of quota) under the second annual arrangement, which has proven necessary in light of the magnitude and nature of Sierra Leone's balance of payments needs.

3. The Government of Sierra Leone remains fully committed to its three-year program of economic and financial adjustment set out in its policy framework paper for the period 1995-98. Despite continued adverse conditions, economic performance and policy implementation remain broadly on track.

4. The Government of Sierra Leone will provide the Fund with such information as the Fund requests in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The Government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of the program, but will take any further measures that may become necessary for this purpose. During the period of the second annual ESAF arrangement, the Government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement, and while Sierra Leone has outstanding financial obligations to the Fund arising from loans made under that arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Sierra Leone's economic and financial policies.

6. In addition, the Fund will conduct a midterm review of Sierra Leone's program supported by the second annual arrangement, to be completed no later than June 30, 1996. It will establish benchmarks for the remaining period of the arrangement.

Yours sincerely,

/ s /

John A. Karimu
Secretary of State for Finance

Attachment

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Memorandum on the Economic and Financial Policies
of Sierra Leone for 1996

I. Introduction and Recent Economic Performance

1. This memorandum provides a progress report on Sierra Leone's economic performance since the midterm review under the first annual arrangement of the enhanced structural adjustment facility (ESAF). It also sets out the Government's policy objectives for 1996 and presents financial and structural performance criteria and benchmarks intended to guide and monitor policy implementation.

2. The Government's economic program for 1994 was cast in a medium-term framework and formulated on the expectation of a major improvement in the security situation. In the event, unfortunately, hostilities intensified throughout the country and, in December 1994 and January 1995, rebels staged attacks on strategic economic installations, most notably the bauxite and rutile mines. The subsequent closure of these mines involved significant losses of fiscal revenue and foreign exchange earnings; the insurgency also precipitated shortfalls in donor flows. ^{1/} Diamond mining was also disrupted by rebel attacks. These developments rendered the targets set out in the ESAF arrangement unattainable and the Government adopted, with assistance from Fund and World Bank staff, a "holding program", which was formulated with a view to containing the adverse impact of the deterioration in the security situation.

3. As a result of the closure of the mines, sluggish import demand, and overruns in military spending, the overall government budget deficit (excluding grants) for 1994/95 (July-June) widened to 7.3 percent of GDP, compared with the program target of 5.2 percent and an outturn in 1993/94 of 6.3 percent of GDP. Monetary growth, however, has remained essentially on target, largely because of slack demand for private sector credit and a step up in open market operations by the central bank. Inflation performance nevertheless has been badly affected by various cost-push factors; reflecting the foreign exchange shortage, the exchange rate depreciated by around 35 percent between end-May and mid-October 1995, while food prices jumped, following sharp increases in the cost of cereal imports. As a result, the consumer price index rose by 30 percent at an annual rate in September 1995, although the monthly increase was only 6 percent at an annualized rate. The Bank of Sierra Leone's foreign exchange reserves have

^{1/} During the initial attacks on the rutile and bauxite mines, the rebels took several key expatriate management personnel hostage, which subsequently proved a major obstacle in mobilizing donor support.

come under acute pressure and, despite the exchange rate depreciation, the Bank was left with only US\$10 million at the end of October (equivalent to less than a month's imports) compared with over US\$40 million at the end of 1994.

4. The Government has managed to press ahead in implementing structural reforms over the past eighteen months. Fisheries surveillance operations have been conducted by the naval wing of the Sierra Leonean armed forces, and this arrangement has worked reasonably well, enabling the sector to contribute to revenue for the first time in many years. The pace of civil service retrenchment has been accelerated and the size of the civil service (excluding military and police) is now one-half of its level in mid-1991, when the retrenchment program began. With regard to public enterprise reform, the oil refinery, cement company and Bennimix Food Company have been sold, while the divestiture of Sierra Leone National Petroleum Company is near completion.

II. Policies for 1996

5. There have been a number of positive developments on the security front in recent months. The rebels have been dislodged from the rutile, bauxite, and diamond mining areas, and the country's main road arteries are now open. Diamond mining activities are expected to return to normal early in 1996, while rutile and bauxite production should resume around the middle of the year. The Government has attempted to establish a dialogue with the rebel forces, but is intent in the meantime on moving ahead with multiparty elections that are set for February 1996.

6. The Government is determined to recover from the setbacks it has experienced on the security front and in economic performance during 1995. It intends to ensure that there is no reversal of the stabilization gains achieved since 1992 and will aim to provide a base upon which economic recovery may proceed once the nation returns to democratic rule and the rebel hostilities are concluded. In view of the disruptions to mining activity, however, it has proven necessary to revise the program's economic growth targets for 1995-97. Despite a strong policy stance, real GDP is now projected to decline by 10 percent in 1995, but should recover by 5 percent in 1996 and by 7 percent in 1997, as mining activities return to normal. In light of recent price developments, it has also been necessary to adjust the inflation target for 1995 upwards from 8 percent to 35 percent. Thereafter, inflation is targeted to fall sharply to 10 percent as the rate of depreciation of the leone slows and international rice prices weaken. Sierra Leone urgently needs to replenish its foreign exchange reserves, which it intends to accomplish through maintenance of tight demand management conditions and a flexible exchange rate policy and through the mobilization of external assistance.

A. Fiscal policy

7. The Government recognizes that strict financial discipline is the key to success in the stabilization effort, particularly under current conditions when the economy is being buffeted by such severe adverse shocks. The fiscal slippages that occurred last year will therefore necessitate stronger adjustment in 1995/96 than previously envisaged. The Government's 1995/96 budget is being executed against the background of depressed domestic demand conditions and little prospect of any significant revenue from the mining sector. It calls for a reduction in the overall fiscal deficit to 6.3 percent of GDP and, to meet this target, the bulk of adjustment will need to fall on expenditures, particularly defense spending. In 1995/96, the Government will aim to reduce total military expenditure, including arrears payments, from 4.6 percent of GDP to 3.9 percent. Economies are to be made in the purchase of military hardware, while the size of the army is to be cut significantly. Other savings will be realized through a reduction in the rice supplement and its monetization over a two-year period. Development spending will be sharply lower because of the difficulties involved in working on projects in upcountry areas. Expenditures in the social and economic sectors, where spending cuts in the past have led to a deterioration in the quality of services provided, are to be raised in real terms. The Government also intends to clear most of its remaining arrears to parastatals, in large part through an offset against overdue tax liabilities of the parastatals. The Government is seeking donors' assistance to help finance the cost of holding the forthcoming elections.

8. The increase in the civil service wage bill, excluding the rice supplement, for 1995/96 will be capped at 17 percent. However, the present uncompetitive level of government pay scales is impairing the ability of the civil service to effectively carry out the economic recovery program. The Government, therefore, intends to cut the size of the civil service (including military and police) further by around 20 percent between end-May 1995 and end-June 1996; savings from this retrenchment program will be used to fund increases in rates of civil service pay, particularly for managerial and supervisory staff.

9. Revenue measures for 1995/96 include an increase in the effective rate of petroleum taxation in November and introduction of a "clean wages" policy, effective January 1, 1996. ^{1/} Receipts from the freight levy have been incorporated into the budget and all related revenues now flow through the Consolidated Revenue Fund. In line with the Government's strategy of reducing its dependance on direct taxation, effective April 1996, the rate

^{1/} The "clean wages" policy will tax in-kind benefits and other salary supplements at the same rate as cash income. Although its introduction will be accompanied by an increase in the income tax threshold, this measure is expected to result in a small increase in revenues from personal income taxes.

of corporate income taxation will be lowered from 45 percent to 40 percent and indirect tax measures adopted to compensate for the impact on revenue.

B. Monetary and financial sector policies

10. The overall stance of monetary policy will continue to be guided by the need to meet the program's broad money growth and inflation targets, while ensuring that sufficient bank credit is available to finance the anticipated recovery in private sector activity. In doing so, the Bank of Sierra Leone will continue to exercise monetary control through the use of indirect instruments. Although this strategy has been working well, certain steps to sharpen further the effectiveness of open market operations and foster the development of financial markets are being taken. The auction system for official debt was expanded in March 1995 to include one-year treasury bonds, thereby allowing the term structure of interest rates to respond to market forces. Official debt instruments of varying maturities, in addition to the present three-month treasury bills and one-year bond, will be introduced. In addition, with technical assistance from the Fund, the Bank of Sierra Leone is looking at ways of deepening the secondary market.

11. In early 1994, the Government initiated a comprehensive review of the regulatory framework governing the operation of the financial sector, with a view to clarifying the mandate and independence of the Bank of Sierra Leone, strengthening its supervisory functions, and tightening the prudential requirements for commercial banks. To this end, draft banking legislation is being prepared with technical assistance from the Fund and the World Bank.

12. In response to the financial difficulties experienced by some commercial banks beginning in late 1993, the Bank of Sierra Leone prepared a program of corrective action to strengthen the banking sector. Remedial diagnostic studies of the commercial banks, aimed at improving their operating efficiency, have revealed shortcomings in management practices and serious under-capitalization. Most commercial banks have now taken steps to restructure themselves in line with the recommendations of these studies and improved their capital adequacy, although loan recovery performance remains weak. The Government intends to undertake a commercial bank restructuring operation, whereby the Bank of Sierra Leone will extend interest-free loans to the commercial banks for the purchase of government debt at market-related yields. In the wake of the closing of Meridien International Bank Limited earlier this year, Meridien BIAO (SL) Ltd. began experiencing financial difficulties; the Bank of Sierra Leone took measures to ensure the continued viability of the bank. In August a newly formed bank (Union Trust Bank) bought Meridien BIAO (SL) Ltd. on an ongoing concern basis.

C. External policies and the balance of payments

13. The Bank of Sierra Leone will continue to pursue a flexible exchange rate policy, only intervening in the interbank market to meet its international reserve targets and to maintain orderly market conditions.

The Bank continues to encourage greater depth in the foreign exchange market by encouraging the establishment of foreign exchange bureaux (11 are presently in operation) and by maintaining a liberal exchange system. In this connection, while quantitative limits apply on the availability of foreign exchange for travel and other current payments and transfers, approval is readily granted for all bona fide requests in excess of these limits. Some external payments arrears on commercial debt remain following completion of a buy-back operation in July 1995; efforts will be made to clear these arrears through a further buy-back exercise. The Government also intends to repeal legislation by September 1996, which requires a tax clearance certificate to be produced for certain current account payments. Sierra Leone intends to accept the obligations of Article VIII of the Fund's Articles of Agreement in December 1995. In addition, the Bank of Sierra Leone is considering the removal of all restrictions on capital flows once its international reserves have reached more comfortable levels.

14. Sierra Leone expects its foreign exchange position to remain difficult until exports of rutile and bauxite resume in mid-1996. The external current account deficit (including official transfers) is expected to narrow slightly from 15 percent of GDP in 1995 to just under 14 percent in 1996, but over the medium term it should improve markedly as rutile exports respond to planned new investments and as production from a new kimberlite mine comes on stream.

15. Sierra Leone recognizes that the regularization of relations with its external creditors is essential if it is to enjoy access to new flows of external assistance. Considerable efforts have been undertaken to this end, including the clearance of arrears to the Fund in early 1994, the conclusion of a Paris Club agreement in July 1994, and successful completion of the commercial debt buy-back operation. 1/ Furthermore, financial obligations falling due to all official bilateral and multilateral creditors are being discharged on schedule. Arrears amounting to US\$22 million still remain outstanding to certain multilateral creditors. 2/ Sierra Leone is seeking to clear these arrears before end-June 1996 through bridge loans and cash payments. As a performance criterion, for the remainder of the program, no new external payments arrears will be accumulated, except on debts to commercial creditors who did not participate in the debt-buy back operation. To ensure that Sierra Leone's debt service burden is kept to manageable proportions, the Government will not contract or guarantee any new medium- or long-term loans on nonconcessional terms. It will also cap its stock of external short-term debt.

1/ The debt buy-back, which was funded by IDA, bilateral donors, and Sierra Leone's own resources, reduced the country's outstanding public debt by about US\$350 million, or one third of the total.

2/ The creditors are the Arab Bank of Economic Development in Africa, the Islamic Development Bank, and the OPEC Special Fund.

16. Sierra Leone is seeking to rebuild its foreign exchange reserves to the equivalent of 1.9 months of imports by end-1996, from 0.9 month at end-October 1995. To assist in this effort, and to help arrest the sharp real depreciation that has occurred in the exchange rate, the Government is requesting an increase in access under the second annual of the ESAF arrangement. The Government is also seeking additional flows of balance of payments assistance, or an acceleration in this assistance, from other members of the international financial community.

III. Program Monitoring

17. Performance under the second annual ESAF arrangement would be monitored on the basis of the performance criteria and benchmarks set out in Tables 1 and 2. Performance criteria would apply to end-March 1996, benchmarks to end-December 1995 and end-June 1996, and indicative benchmarks to end-September and end-December 1996. The second disbursement under the second annual ESAF arrangement would be conditional upon observance of the performance criteria at end-March 1996 and completion of the midterm review, which would take place no later than June 30, 1996.

18. The Government has received, and will continue to seek, technical assistance to achieve further improvements in macroeconomic data management to ensure effective program monitoring.

Table 1. Sierra Leone: Financial Benchmarks and Performance Criteria
Under the Second Annual ESAF Arrangement, December 1995 – December 1996 1/

	1995		1996			
	September Est.	December Bench- mark	March Perf. Crit.	June Bench- mark	Sep. Indicative Benchmarks	Dec.
(In millions of leones)						
Net domestic assets (NDA) of the Bank of Sierra Leone 2/ 3/	21,569	30,086	38,151	45,158	49,004	49,280
Net domestic financing (NDF) of the budget deficit 4/	-1,452	1,472	3,818	5,060	6,560	5,760
Maximum level of domestic arrears of the Government 5/	600	600	600	600	600	600
(In millions of U.S. dollars)						
Net international reserves (NIR) of the Bank of Sierra Leone 6/	-126.3	-133.6	-143.3	-151.0	-155.1	-153.1
New external loan commitments, maturity of one year or more 2/ 7/	--	--	--	--	--	--
Stock of external short-term debt 2/ 8/	8.9	10.0	10.0	10.0	10.0	10.0
Minimum reduction in external payments arrears 9/	--	--	--	21.5	21.5	21.5

1/ See notes below for contingency mechanisms.

2/ Ceiling.

3/ Defined as reserve money less revaluation adjustment less net international reserves (gross reserves less liabilities to the Fund), calculated at a constant exchange rate of Le 900 = US\$1.

4/ Cumulative from January 1, 1993. Defined as change in net claims on Government by banking system plus net sales of government debt to the nonbank public, excluding any domestic financing of direct costs incurred by the Government in relation to the February 1996 elections.

5/ Domestic arrears are defined as lodgements outstanding at the Ministry of Finance and the Bank of Sierra Leone and checks issued, but not cashed.

6/ Floor.

7/ Commitments on external loans (other than rescheduling) contracted or guaranteed by the Government, Bank of Sierra Leone, and parastatals, except borrowing on concessional terms, defined as including a grant element of at least 35 percent discounted on the basis of OECD commercial interest reference rates.

8/ Debt of the Government and the Bank of Sierra Leone, with a maturity of less than one year, and net of any increase arising from nonpayment of interest on existing obligations.

9/ Cumulative. No new external arrears will be accumulated, except on debts subject to rescheduling or debt buy-back operations. Reductions in arrears indicated refer to multilateral creditors.

Contingency mechanisms

1. Excess net foreign financing -- balance of payments

The floor on NIR is to be adjusted upward, and the ceiling on NDA downward, by 50 percent of the excess of net foreign financing (nonproject grants and loans minus external cash debt service payments) over the amounts envisaged in the program's balance of payments projections.

2. Excess net foreign financing -- budget

Net domestic financing of the budget (NDF) will be adjusted downward by the excess of net foreign financing (nonproject grants and loans minus external cash debt service payments) passing through the budget over the amounts envisaged in the program's fiscal projections.

3. Proceeds from privatization

NIR will adjusted upwards, and NDA downward, by the amount of privatization proceeds received in foreign exchange above the level assumed in the program. NDF will be adjusted downward by the total amount of privatization proceeds received, in foreign exchange and local currency, above the level assumed in the program.

Table 2. Sierra Leone: Structural Performance Criteria and Benchmarks
Under the Second Annual ESAF Arrangement, December 1995-December 1996

Measures	Test dates
1. Adjust retail petroleum prices to ensure full pass-through of any changes in the exchange rate and oil import price.	Continuous <u>1/</u>
2. Decontrol retail petroleum prices.	End-July 1996 <u>2/</u>
3. Achieve cumulative target for retrenchment of government employees from May 31, 1995: <u>3/</u>	End-December 1995 <u>4/</u> End-March 1996 <u>5/</u> End-June 1996 <u>4/</u> End-September 1996 <u>2/</u> End-December 1996 <u>2/</u>
4. Observe limits on government wages and salaries, excluding the rice supplement (in millions of leones) <u>6/</u>	10,000 12,500 15,000 17,500 20,000 11,850 18,903 25,957 33,899 41,841 End-December 1995 <u>4/</u> End-March 1996 <u>5/</u> End-June 1996 <u>4/</u> End-September 1996 <u>2/</u> End-December 1996 <u>2/</u>
<u>1/</u> Monitored on the basis of an agreed formula used to determine retail prices on November 10, 1995. Performance criterion for end-March 1996.	
<u>2/</u> Indicative benchmark.	
<u>3/</u> Coverage extended to include military and police personnel. Size of labor force at end-May 1995 was 70,790.	
<u>4/</u> Benchmark.	
<u>5/</u> Performance criterion.	
<u>6/</u> Cumulative from July 1, 1995.	

Sierra Leone - Relations with the Fund
(As of October 31, 1995)

I. Membership Status: Joined 9/10/62; Article XIV.

II. <u>General Resources Account:</u>	<u>SDR Million</u>	<u>% Quota</u>
Quota	77.20	100.0
Fund holdings of currency	77.19	100.0
Reserve position in Fund	0.02	--

III. <u>SDR Department:</u>	<u>SDR Million</u>	<u>% Allocation</u>
Net cumulative allocation	17.46	100.0
Holdings	2.99	17.2

IV. <u>Outstanding Purchases and Loans:</u>	<u>SDR Million</u>	<u>% Quota</u>
SAF arrangements	30.49	39.5
ESAF arrangements	68.56	88.8

V. Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expira- tion Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF	3/28/94	3/27/97	88.78	63.50
SAF	3/28/94	3/27/95	27.02	27.02
SAF	11/14/86	11/13/89	40.53	11.58

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue 10/31/95</u>	<u>1995</u>	<u>Forthcoming</u>		<u>1998</u>	<u>1999</u>
			<u>1996</u>	<u>1997</u>		
Principal	--	1.2	2.3	--	--	9.1
Charges/interest	--	0.4	1.1	1.1	1.1	1.1
Total	<u>--</u>	<u>1.6</u>	<u>3.4</u>	<u>1.1</u>	<u>1.1</u>	<u>10.2</u>

Sierra Leone - Relations with the Fund (continued)
(As of October 31, 1995)

B. Nonfinancial Relations

VII. Exchange rate arrangement

Since April 25, 1990, the exchange rate has been market determined. Commercial banks may buy and sell foreign exchange from/to individual customers as well as trade between themselves or with the Bank of Sierra Leone (BSL) on a freely negotiable basis. The Bank of Sierra Leone fixes an official exchange rate every Friday morning, at the weighted average rate of commercial bank transactions in the previous week, for customs valuation purposes and for official transactions. As of October 31, 1995, the BSL rate was Le 931.0 = US\$1.

VIII. 1994 Article IV Consultation

Sierra Leone is on the standard 12-month Article IV consultation cycle. The staff report for the 1994 Article IV consultation (EBS/94/35) was discussed by the Executive Board on March 23, 1994; the following decision was adopted:

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1994 Article XIV consultation with Sierra Leone, in the light of the 1994 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Sierra Leone maintains exchange restrictions in the form of limits on the availability of foreign exchange for travel under the transitional arrangements of Article XIV, Section 2, and exchange measures subject to Fund approval under Article VIII, Sections 2(a) and 3, in the form of (i) limitations on the availability of foreign exchange for the payment of external debt obligations under prospective rescheduling, and as evidenced by some external payments arrears; (ii) a two-year limitation on the remittances of profits from capital investment made in accordance with the capital investment code; (iii) bilateral payments agreements with two Fund members; and (iv) a multiple currency practice arising from the different exchange rates applicable to capital investment transactions made in accordance with the debt-equity conversion code. The Fund welcomes Sierra Leone's intention to eliminate before November 15, 1994 the exchange measures that are subject to Article VIII. In the meantime, the Fund grants approval for the retention of those measures until November 15, 1994.

Sierra Leone - Relations with the Fund (continued)
(As of October 31, 1995)

IX. Exchange System: Midterm Review Under the
First Annual ESAF Arrangement

On the occasion of the midterm review under the first annual ESAF arrangement (EBS 94/226) on December 21, 1994, the Board took the following decision regarding the exchange system:

Sierra Leone maintains an exchange measure subject to Fund approval under Article VIII, Sections 2(a) in the form of limitations on the availability of foreign exchange for the payment of external debt obligations, as evidenced by some external payments arrears. The Fund welcomes Sierra Leone's intention to eliminate this exchange measure before June 30, 1995. In the meantime the Fund grants approval for the retention of the measure until the conclusion of the 1995 Article IV consultation with Sierra Leone or June 30, 1995, whichever is earlier.

X. 1995 Article IV Consultation

The dates of missions for discussions on the 1995 Article IV consultation and the second annual ESAF arrangement were January 26-February 11, 1995 and June 10-24, 1995. The missions consisted of Mr. Nowak (head-AFR), Mr. Cady (AFR), Mr. Cowen (AFR), and Mr. Tsaveas (PDR). Ms. Brogan (staff assistant-AFR) also participated in the first mission and Ms. Heflin (administrative assistant-AFR) in the second. Discussions were also held in Washington D.C. in July and again in October 1995.

XI. Technical Assistance

- | | |
|---|--|
| 1. CBD advisory mission on financial rehabilitation | June 14-27, 1990 |
| 2. MAE operations advisor | June-July 1990 |
| 3. MAE accounting advisor | October-November 1990 |
| 4. LEG mission to advise on tax legislation | April 1992 (interrupted by change of government) |
| 5. FAD missions to advise on taxation. | August/September 1992 and April 1993 |
| 6. STA mission to review monetary statistics | May 1993 |

Sierra Leone - Relations with the Fund (concluded)
(As of October 31, 1995)

7. LEG missions to assist in drafting February 1994 and
of taxation legislation May/June 1994

In addition under the IMF/UNDP technical assistance program there are resident experts in the Ministry of Finance (budget advisor), funded by the UNDP, and the Bank of Sierra Leone (Director of Research), funded by the IMF.

XII. Resident Representative

The current Fund resident representative, Mr. Slaheddine Khenissi, took up his assignment in August 1995 for an initial period of two years.

Sierra Leone - Relations with the World Bank Group

In recent years, World Bank activities in Sierra Leone have focused on sectoral programs and projects in the agriculture, education, infrastructure, and, more recently, health sectors. The Bank has worked closely with the Fund in its discussions with the Government on economic reform over the past two years. Following clearance of arrears to the IBRD and IDA of US\$13.4 million in April 1992, the Bank approved a Reconstruction Import Credit (RIC) of US\$43.4 million, a Power rehabilitation project of US\$21 million, a Road rehabilitation project of US\$45 million, an Infrastructure rehabilitation project of US\$26 million, and a Technical assistance project of US\$10 million. Disbursements on existing projects in agriculture, education, and health, and power have also been resumed. On October 14, 1993, the Bank approved an IDA structural adjustment credit for US\$50 million; the first tranche of US\$20 million was made available upon approval and the second tranche of US\$15 million was released on February 10, 1995. Sierra Leone completed a commercial debt buy-back operation in July 1995, which was partially financed by the IDA Debt Buy-Back Facility. A grant of US\$21 million was allocated under this facility, of which US\$1 million was used in preparation of the debt buy-back proposal.

Sierra Leone - Financial Relations with the World Bank Group
(As of September 30, 1995)

	<u>Commitments</u>		<u>Of which</u>	
	<u>IBRD</u>	<u>IDA</u>	<u>Undisbursed</u>	
<u>(In millions of U.S. dollars)</u>				
IBRD/IDA lending operations				
Structural adjustment	--	94.2	--	22.8
Population and health	--	5.3	--	1.9
Agriculture	5.0	21.5	--	17.6
Education	--	20.0	--	13.3
Transportation	6.0	45.0	--	27.7
Power	7.7	21.0	--	17.6
Technical assistance	--	10.0	--	3.7
Urban infrastructure	--	26.0	--	17.2
Urban water supply	--	38.4	--	38.4
Total	<u>18.7</u>	<u>281.4</u>	--	<u>160.2</u>
Of which: repaid	16.4	6.0	--	--
Total outstanding	<u>2.3</u>	<u>275.4</u>	--	--
IFC				
Investment		21.7		9.7

Source: World Bank Group.

Sierra Leone: Debt Sustainability Analysis 1/

Sierra Leone's economic problems emanate from a long period of economic mismanagement in the 1980s and early 1990s and from the deterioration in the security situation over the last few years, which has affected mineral exports and threatened to set back recent gains in economic stabilization and structural reforms. Over the past few months, there have been positive indications that the security situation is improving and, assuming that this trend continues and policy implementation remains on track, Sierra Leone should be able to achieve sustainable growth, while moving to a viable external position. The baseline scenario that the staff has used for its debt sustainability analysis is based on relatively conservative assumptions, but there remain substantial downside risks related primarily to developments on the security front. The overall conclusion is that, while financing gaps will continue to persist until the middle of the next decade, Sierra Leone's ability to service its debt without jeopardizing its growth potential should improve significantly over the next three to four years.

Table 1 of this Appendix summarizes the export and import assumptions underlying the baseline scenario for the long-term balance of payments projections. On the basis of these assumptions, net resource transfers (i.e., the current account, excluding interest and official transfers) are expected to decline from 15 percent of GDP in 1995 to 6 percent by 2005. The baseline scenario also incorporates Sierra Leone's debt management strategy. Its medium- and long-term external debt (disbursed) at the end of 1995 is projected at US\$890 million, of which around 62 percent is owed to multilateral institutions (19 percent to the Fund), 37 percent to bilateral (mainly Paris Club) creditors, and the remainder to commercial creditors (Table 2). In July 1995 it concluded a buyback of its outstanding debt to commercial creditors that cleared US\$346 million in debt (including interest arrears); this covered over 92 percent of direct debt and more than 50 percent of "pipeline" debt. The authorities plan to take steps in 1996 to clear the remaining commercial debt. 2/ Since 1992 Sierra Leone has moved to regularize its arrears with all bilateral and multilateral creditors. After the clearance of arrears to the Fund in early 1994, the

1/ The staff has discussed the debt sustainability analysis with World Bank staff, who are currently working on this issue. The Bank has not expressed any objections to the main elements of this analysis nor its basic conclusions and, based on preliminary comparisons, the Fund staff expects no substantive differences to arise.

2/ The direct debt relates to obligations contracted by the Government and the Bank of Sierra Leone, while "pipeline" debt refers to maturing trade credits, for which the Bank of Sierra Leone was unable to make foreign exchange available.

only other arrears that remain relate to three multilateral institutions (Islamic Development Bank, OPEC Fund, and Arab Bank for the Economic Development of Africa); the authorities are pursuing discussions on eliminating these arrears before end-June 1996 through bridging loans and cash payments. Sierra Leone is current on all maturing obligations, other than commercial debt payments that remain outstanding after the debt buy-back exercise. It will not undertake any new medium- or long-term borrowing on nonconcessional terms.

Sierra Leone faces substantial debt service obligations in 1996-97 on pre-cutoff-date debt to bilateral creditors and on debt that was previously rescheduled on nonconcessional terms. In 1998 and beyond, however, these obligations drop off sharply. The current Paris Club consolidation period runs through the end of 1995, and the projections assume that Sierra Leone will receive cash-flow relief on concessional terms (i.e., a 67 percent net present value reduction) for pre-cutoff date debt and debt previously rescheduled on nonconcessional terms for the remaining period covered by the present ESAF arrangement. It is also assumed that Sierra Leone will receive cash flow relief on nonconcessional terms for payments due on debt previously rescheduled on concessional terms (i.e., Paris Club reschedulings of 1992 and 1994). This cash flow relief will not cover previously rescheduled short-term arrears, but would be needed to cover the anticipated financing gaps. The projections do not allow for the possibility of a "top-up" for debt that was rescheduled on London terms (i.e., increasing the degree of concessionality from 50 percent to 67 percent). 1/

In addition to debt service payments, Sierra Leone's financing requirements cover the need to reconstitute the central banks foreign reserve position. The program aims at raising Sierra Leone's foreign exchange reserves to the equivalent of about five months of imports by the end of the decade, a level that is considered necessary given the variability of the country's exports.

The foreign aid projections take into account existing commitments and disbursement under new commitments that can safely be relied upon. It is, however, possible that the move to multiparty democracy in 1996 and a termination of the rebel hostilities will lead to additional flows of aid, but such flows have not been built into the program. The projections indicate some fall-off in balance of payments assistance, largely reflecting uncertainties surrounding the availability of future financing from the African Development Fund and reduced dependence on aid. Project grants are expected to fall off progressively at a rate of about 2 percent a year in nominal terms, while project loans should rise until 1998 and stay constant in nominal terms thereafter. Foreign direct investment should pick up modestly from current depressed levels, in response to the Government's

1/ Since payments on debt that is reschedulable on concessional terms are minimal after 1998, a stock-of-debt operation would make little difference relative to the baseline assumption.

privatization program and implementation of the structural adjustment program more generally; apart from mining, investment will be directed mainly at the tourism, fisheries, and agricultural sectors, where substantial untapped potential exists.

Sierra Leone will still be faced with moderately sized financing gaps for the next ten years or so. It is envisaged that these gaps will be filled by a rescheduling of pre-cutoff date debt, additional donor support, and the possible further use of the Fund's concessional resources when the present ESAF arrangement expires.

If Sierra Leone continues to confine its external financing to grants and concessional loans only, and if it is able to attract a moderate increase in non-debt-creating inflows, the baseline scenario indicates that it will be able to move to a more sustainable external debt path while still generating the investment resources needed to meet the growth targets of at least 2 percent per capita each year. Sierra Leone's stock of external debt was reduced by about one-third, to the equivalent of 111 percent of GDP at end-1995, as a result of the commercial debt buy-back exercise (Table 3, Appendix IV). Under the baseline scenario, external debt is expected to rise slightly to 120 percent of GDP in 1996 before declining progressively to 73 percent by 2005. The ratio of debt service payments to exports of goods and services would decline from 80 percent in 1995 to about 11 percent by 2005. The net present value of future debt service payments would drop from 65 percent of GDP to 25 percent over this same period. In addition, the staff projections indicate that the fiscal debt service burden would decline from 30 percent of government revenue in 1995 to 12 percent by 2000.

Table 1. Long-Term Balance of Payments Projections:
Baseline Trade Account Assumptions

1. Real GDP to contract by 10 percent in 1995, and rise by 5 percent and 7 percent in 1996 and 1997, respectively; and growth to remain at 5 percent per annum thereafter.
2. Inflation to decline to 5 percent in 1998 and beyond.
3. Rutile and bauxite production to return to normal by 1997. Rutile production to rise by an average of 12 percent a year in dollar terms during 1998-2001 in response to completion of new investment project, but increase of only 2-3 percent a year thereafter. Bauxite output to grow by 3 percent a year.
4. Alluvial diamond mining to return to normal by early 1996, and exports to grow by 3 percent thereafter. Kimberlite exports to commence in 1997, to rise to US\$25 million in 1999, and remain at that level in real terms.
5. Other exports, which are primarily cocoa and coffee, to grow by 12 percent per annum in U.S. dollar terms (although they would still not reach the level recorded in 1988 until early in the next decade).
6. Petroleum imports to fall by 25 percent in 1997 when the Bumbuna hydroelectric power facility comes on stream. Rice import costs to remain at present levels through 1997, but to decline gradually over time as policy measures in agricultural sector take hold and the security situation improves. Other imports to rise sharply in 1996-97 as a result of mining sector investments and business stock replenishment.

Table 2. Sierra Leone: External Public Debt Outstanding, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	Actual			Projections			
(In millions of U.S. dollars; end of period)							
Total ^{1/}	1157	1182	1334	1001	1075	1140	1201
Total medium- and long-term	995	1005	1141	891	965	1030	1091
Multilateral debt	305	341	479	551	642	712	725
Of which: to the Fund	(92)	(84)	(146)	(167)	(187)	(195)	(195)
Bilateral debt	439	394	372	328	311	306	354
Of which: Paris Club	(339)	(297)	(278)	(239)	(225)	(224)	(277)
Pre-cutoff	322	281	262	224	211	210	264
Post-cutoff	17	16	16	15	14	14	13
Of which: non-Paris Club	(100)	(97)	(94)	(89)	(86)	(82)	(78)
Japan	42	41	40	38	37	36	35
China	46	45	44	41	39	36	34
Other	12	11	11	11	10	9	9
Commercial debt	251	270	290	12	12	12	12
Short-term	162	177	193	110	110	110	110
(As a percentage of total medium- and long-term debt)							
Multilateral debt	30.7	33.9	42.0	61.9	66.5	69.2	66.5
Of which: to the Fund	(9.3)	(8.3)	(12.8)	(18.7)	(19.4)	(18.9)	(17.8)
Bilateral debt	44.1	39.2	32.6	36.8	32.2	29.7	32.5
Of which: Paris Club	(34.0)	(29.6)	(24.3)	(26.8)	(23.3)	(21.8)	(25.4)
Pre-cutoff	32.4	27.9	22.9	25.1	21.8	20.4	24.2
Post-cutoff	1.7	1.6	1.4	1.7	1.5	1.3	1.2
Of which: non-Paris Club	(10.0)	(9.7)	(8.3)	(10.0)	(8.9)	(7.9)	(7.1)
Japan	4.2	4.1	3.5	4.3	3.9	3.5	3.2
China	4.7	4.5	3.8	4.5	4.0	3.5	3.1
Other	1.2	1.1	1.0	1.2	1.0	0.9	0.8
Commercial debt	25.2	26.8	25.4	1.3	1.2	1.1	1.1

Sources: Data provided by the Bank of Sierra Leone; and staff estimates and projections.

^{1/} Excludes debt accumulated to fill financing gaps.

Table 3. Sierra Leone:
Key Indicators of External Indebtedness, 1995–2005

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total debt service	88.4	57.7	37.3	38.1	52.6	68.5	74.6	80.8	81.9	70.7	55.5
Interest	54.2	24.3	17.8	20.0	20.8	18.7	18.7	19.2	19.4	19.8	19.6
Principal	34.3	33.5	19.5	18.1	31.8	49.8	55.9	61.6	62.4	50.9	35.9
Scheduled debt service on existing contracted debt	88.4	57.7	36.5	36.1	49.2	64.0	69.3	74.7	74.8	63.0	47.5
Principal	34.3	33.5	19.5	18.1	31.8	49.8	55.9	61.6	62.4	50.9	35.9
Medium – and long – term	34.3	33.5	19.5	18.1	31.8	49.8	55.9	61.6	62.4	50.9	35.9
Multilateral	6.2	7.6	5.4	8.4	22.8	37.4	43.3	48.9	50.7	38.6	23.1
Bilateral	27.1	25.0	13.2	8.8	8.1	11.5	11.7	11.8	10.8	11.5	11.9
Paris Club	23.7	21.5	9.1	4.6	3.9	6.9	6.8	7.3	6.5	7.2	7.6
Post – cutoff	1.2	0.5	0.7	0.9	1.3	2.5	2.7	3.0	3.0	3.0	3.0
Pre – cutoff	22.5	21.0	8.4	3.8	2.6	4.5	4.1	4.4	3.5	4.2	4.7
Of which: PRD on London terms	(22.3)	(7.0)	(7.1)	(3.3)	(2.1)	(4.0)	(3.6)	(3.9)	(3.0)	(3.7)	(4.2)
Other	3.4	3.5	4.1	4.1	4.1	4.6	4.9	4.5	4.3	4.3	4.3
Commercial	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Short – term	--	--	--	--	--	--	--	--	--	--	--
Interest	54.2	24.3	16.9	18.0	17.5	14.2	13.4	13.0	12.4	12.1	11.6
Medium – and long – term	22.2	21.3	16.9	18.0	17.5	14.2	13.4	13.0	12.4	12.1	11.6
Multilateral	4.2	5.4	4.6	6.2	5.9	4.8	4.2	4.0	3.6	3.5	3.1
Bilateral	12.4	10.2	9.3	8.8	8.6	6.4	6.2	6.0	5.8	5.6	5.5
Paris Club	12.4	10.1	9.1	8.6	8.6	6.4	6.2	6.0	5.8	5.6	5.5
Post – cutoff	1.3	1.4	1.4	1.5	1.5	1.2	1.1	1.1	1.0	1.0	0.9
Pre – cutoff	11.0	8.7	7.7	7.2	7.1	5.2	5.0	5.0	4.8	4.7	4.6
Of which: PRD on London terms	(10.2)	(8.4)	(7.4)	(6.9)	(6.8)	(4.9)	(4.7)	(4.7)	(4.5)	(4.4)	(4.3)
Other	0.1	0.2	0.2	0.2	--	--	--	--	--	--	--
Commercial	5.6	5.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Short – term	32.0	3.0	--	--	--	--	--	--	--	--	--
Debt service on new borrowing	--	--	1.0	2.5	4.2	5.6	6.6	7.7	8.8	9.6	10.1
Interest	--	--	0.2	0.5	0.8	1.1	1.3	1.5	1.8	1.9	2.0
Principal	--	--	0.8	2.0	3.4	4.5	5.3	6.1	7.0	7.7	8.1
<u>Memorandum items:</u>											
Total debt service	88.4	57.7	37.3	38.1	52.6	68.5	74.6	80.8	81.9	70.7	55.5
After debt restructuring ¹ :	31.1	34.5	27.0	28.6	42.9	58.8	65.4	71.5	73.5	61.8	55.5
Total debt stock	890.7	993.6	1061.4	1160.8	1246.7	1254.4	1245.0	1232.0	1218.2	1208.4	1198.6
As a percentage of GDP	110.8	119.6	116.8	118.7	118.4	110.7	102.1	93.9	86.2	79.5	73.3
NPV of cash debt service payments	522.8	529.2	518.8	528.2	539.7	547.4	534.3	513.9	476.8	435.3	403.2
As a percentage of GDP	65.0	63.7	57.1	54.0	51.3	48.3	43.8	39.2	33.8	28.6	
As a percentage of exports of goods and services	473.3	336.9	233.4	209.5	185.4	169.2	153.4	139.2	121.9	104.9	92.1
Debt service ratio as a percentage of exports of goods and services	80.1	36.7	16.4	14.3	16.9	19.8	19.9	20.2	19.1	15.2	10.8
Current account	-120.7	-114.5	-112.3	-121.0	-108.1	-87.6	-78.5	-81.4	-84.7	-88.6	-92.8
As a percentage of GDP	-15.0	-13.8	-12.4	-12.4	-10.3	-7.7	-6.4	-6.2	-6.0	-5.8	-5.7

Sources: Data provided by the authorities; and staff estimates and projections.

¹ Assuming cash flow reschedulings on concessional terms.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995

Measures taken	Changes and extent of changes
<hr/>	
A. <u>Fiscal policy</u>	
1. <u>Revenue</u>	
a. December 1989	(i) Increase in excise duties on beer, tobacco, and petroleum products. (ii) Renegotiation of rutile agreement.
b. February 1990	Introduction of special excise duties on petroleum products.
c. June 1990	(i) Elimination of all export duties except 1 percent levy on cocoa, coffee, and ginger exports and 2.5 percent levy on diamond and gold exports, of which 1.5 percent is an income tax and the remainder an assessment fee. (ii) Abolishment of turnover tax of 10 percent on imported goods, and replacement with sales tax of 10 percent on all goods. (iii) Increases in various administrative fees and charges. (iv) Imposition of license fees on diamond dealers.
d. November 1990	(i) Introduction of an incentive scheme for tax collection (0.5 percent for first 10 percent of the excess of actual over estimated collection; to 1 percent for next 10 percent of the excess; and 2 percent for collections exceeding 20 percent). (ii) Settlement of an agreement made with a reputable international firm to initiate a strict inspection of imports.
e. January 1991	(i) Increase in vehicle license and registration fees.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
f. April 1991	(ii) Removal of levy on gold exports of 2.5 percent. Increase in minimum chargeable income from 3.5 percent to 7 percent of turnover.
g. July 1991	(i) Introduction of a withholding tax on investment income. (ii) Increase in payroll tax on expatriate employees. (iii) Revision to sales tax base from c.i.f. imports to landed cost (i.e., inclusive of import duties and fees). (iv) Increase in excise duties on petroleum products by Le 100/imperial gallon. (v) Extension of import and sales tax to parastatals and government departments. (vi) Imposition of import duty on mining equipment and industrial machinery.
h. October 1991	Increase in excise duties on petroleum products by Le 170/imperial gallon.
i. January 1992	(i) Enforcement of standard assessment of diamond miners and dealers. (ii) Increase in levy on diamond exports from 2.5 percent to 3 percent; the additional 0.5 percent charge is to offset cost of security provided in diamond mining region. (iii) Taxation of rental income.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
j. February 1992	<p>(iv) Removal of duty-free status of specified imports of student returnees.</p> <p>(v) Restrictions on duty-free entry of personal effects.</p> <p>(i) Removal of ban on tobacco.</p> <p>(ii) Imposition of import and excise duties on tobacco.</p> <p>(iii) Reduction in time lag allowed for payment of petroleum excise duty to Government (21 days to 7 days).</p>
k. April 1992	Increase in minimum chargeable income from 3.5 percent to 10 percent of turnover.
l. July 1992	<p>(i) Inclusion of allowances in individual taxable income.</p> <p>(ii) Increase in sales tax from 10 percent to 15 percent.</p> <p>(iii) Increase in petroleum excise tax from 70 percent to 95 percent (including road user charge).</p> <p>(iv) Extension of sales tax on nonexcisable domestic manufactures.</p> <p>(v) Revocation of certain parastatals' company tax exemptions.</p> <p>(vi) Increase in import duty on petroleum products from 8 percent to 10 percent.</p> <p>(vii) Increase in payroll tax on expatriate employees.</p> <p>(viii) Assessment of sales tax on total of ex factory price plus excise duty.</p> <p>(ix) Rationalization of import tariff, and increased sales tax from 10 percent to 15 percent.</p>

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
	(x) Increase in fees and charges for various departmental services.
	(xi) Renegotiation of lease agreements on government-owned hotels.
	(xii) Increases in depreciation allowances.
m. July-December 1992	Completion of the process for almost total elimination of statutory and discretionary exemptions on import duties.
n. August 1992	Ratification of new contract with the bauxite company, providing for an increase in tax payments from bauxite mining.
o. January 1, 1993	Reduction in excise duty on cigarettes from 50 percent to 35 percent.
p. March 5, 1993	Increase in ad valorem statutory excise duties (including road user fees for petrol and diesel) on petroleum products. Petrol raised from 95 percent to 140 percent (including road user charge); diesel raised from 90 percent to 120 percent (including road user charge); and kerosene raised from 85 percent to 100 percent.
q. April 1993	Imposition of 10 percent sales tax on rice.
r. April 1993	Fund FAD technical assistance mission to assess effectiveness of tax administration and, in particular, the shortfalls in the system of direct taxation.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
s. July 1993	<p data-bbox="870 517 1422 576">(i) Increase in sales tax from 15 percent to 17.5 percent.</p> <p data-bbox="870 580 1357 672">(ii) Increase in all excise duties (except petroleum) to unified rate of 30 percent.</p> <p data-bbox="870 676 1422 963">(iii) Increase in ad valorem statutory excise duties on petroleum products. Petrol raised from 140 percent to 145 percent (including road user charge); diesel raised from 120 percent to 125 percent (including road user charge); and kerosene raised from 100 percent to 105 percent.</p> <p data-bbox="870 968 1386 1125">(iv) Application of domestic sales taxes and excise duties to ex factory price of domestic manufactures and to c.i.f. price plus duties to imports.</p> <p data-bbox="870 1129 1419 1221">(v) Replacement of 10 percent sales tax on rice with import duty of 15 percent.</p> <p data-bbox="870 1225 1354 1351">(vi) Introduction of an embryonic value-added tax to provide rebates of payments of sales tax on inputs.</p> <p data-bbox="870 1355 1419 1576">(vii) Change in tax code to require that unincorporated businesses make advance income tax payments in form of 2 percent surcharge on their imports and that assessed income tax liability be paid within 90 days.</p> <p data-bbox="870 1581 1419 1770">(viii) Implementation of phase-out in estimating minimum chargeable income as 10 percent of turnover for companies in favor of direct income tax assessment on profits.</p>

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
t. January 1994	(i) Decrease in levy on diamond exports from 3 percent to 2.5 percent as a result of removal of 0.5 percent security charge. (ii) Reimposition of 2.5 percent levy on gold exports.
u. January 25, 1994	Increase in domestic and import sales tax from 17.5 percent to 20 percent.
v. January 26, 1994	Increase in pump price of petroleum products, except fuel oil, by Le 150/imperial gallon.
w. February 1994 and May - June 1994	Fund LEG technical assistance missions to draft new income and sales tax legislation. Previously, no legal authority existed to collect the sales tax.
x. July 1994	Amendment of income tax legislation with provisions to be effected on April 1, 1995 to: (i) Increase withholding tax on interest income from 10 percent to 15 percent. (ii) Aggregate rental income into personal income. (iii) Impose the tax on all cash and noncash income allowances, but at higher thresholds.
y. July 1994	(i) Increase in the external telecommunications tax from 5 percent to 10 percent.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
	(ii) Reduction in the import duty on (a) certain types of raw materials previously classified as intermediate goods from 20 percent to 5 percent and (b) dual purpose transport vehicles from 40 percent to 20 percent.
z. October 10, 1994	Resumption of minimum presumptive duties on alcohol and cigarettes.
aa. December 1, 1994	Increase in pump price of petroleum products by Le 275/imperial gallon on petrol, Le 150/imperial gallon on diesel, and Le 100/imperial gallon on kerosene and fuel oil. Price increases on petrol and diesel include Le 100/imperial gallon increase in the road user charge to Le 200/imperial gallon.
ab. February 1995	Approval of sales tax legislation.
ac. February 3, 1995	Approval of External Telecommunications Tax Decree.
ad. April 1, 1995	Elimination of 5 percent surtax on corporate profits, reducing the tax rate from 47.25 percent to 45 percent.
ae. May 1995	Removal of the 1 percent levy on cocoa, coffee, and ginger exports, which was the last remaining export duty on agricultural products.
2. <u>Expenditure</u>	
a. December 1989	Discontinuation of all extrabudgetary spending and reduction in subsidies.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
b. September 1990	Establishment of a Fiscal Monitoring Committee (FMC) to control expenditure commitments of each of the spending ministries on a monthly basis.
c. September 1991	Consolidation of the size of the cabinet from 22 to 15 ministries.
d. October 1991 - present	<p>(i) Reorganization of the Ministry of Finance, Development, and Economic Planning to strengthen technical capacity to implement structural reforms.</p> <p>(ii) Reinforcement of the Budget Division of the Ministry of Finance to serve as an effective Secretariat of the FMC.</p> <p>(iii) Strengthening of the Accountant General's Department through the recruitment of additional donor-funded senior staff.</p> <p>(iv) Strengthening of the Auditor General's Department through recruitment and training of additional staff.</p> <p>(v) Coordinating and monitoring all foreign aid under a single agency.</p> <p>(vi) Diagnostic study of Civil Service Reform with technical assistance from the UNDP's Special Unit for Technical Cooperation Among Developing Countries (Development Administration Division). World Bank study of Civil Service Staffing and Remuneration Scheme.</p>

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
e. January 1992 - present	Review of rice subsidy to security personnel with a view to its eventual integration into the regular civil service salary schedule.
f. March 1992	(i) Appointment of Treasury Solicitor to expedite enactment of fiscal legislation and to strengthen tax enforcement. (ii) Government Expenditure Review and Development Expenditure Plan with World Bank assistance.
g. July 1992	Increase in basic civil service salaries by 100 percent, with higher increases for personnel at managerial levels. Allowances raised by 75 percent.
h. October 1, 1992	Increase in monthly "risk allowance" for personnel in the armed forces from Le 1,000 per person to Le 10,000 per person.
i. October 1992	Limitation of severance payments for retrenched government workers to Le 40,000 per person.
j. October 1993	Approval of World Bank Structural Adjustment Credit, under which minimum levels of expenditure on economic and social services were accepted as condition for continued lending.
k. January 1994	Formation of a committee, chaired by the Deputy Head of State, to approve all new military outlays.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
1. September 1994	Formation of a committee to initiate settlement of parastatal tax arrears and government arrears to parastatals based on the findings of an external auditor's report.
B. <u>Monetary policy</u>	
1. <u>Reserve requirements</u>	
a. September 1990	Warehousing of Le 500 million of banks' holdings of ordinary treasury bills, raising effective reserve requirement to 64 percent.
b. January 1991	Warehousing of an additional Le 300 million of banks' holdings of ordinary treasury bills, and lowered cash reserves by 5 percent.
c. November 1991	Introduction of dual reserve requirement system and reduction of liquidity requirement on time and savings deposits to 30 percent.
d. October 1991	Dewarehousing the Le 800 million of banks' holdings of ordinary treasury bills.
e. August 1992	Reduction of liquid asset requirement from weighted average of 43 percent to average of 30 percent.
2. <u>Interest rates</u>	
a. April 1990	(1) Removal of ceiling on banks' prime lending rates and maximum spreads.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
	(ii) Discount rate increased for commercial banks to 55 percent from 16 percent.
b. November 1990	Abolishment of banking industry's fee structure.
c. August 1992	(i) Application of interest charge of 5 percentage points above the prevailing treasury bill rate on overdrawn positions of the commercial banks at the Bank of Sierra Leone. (ii) Application of rediscount penalty on the redemption of treasury bills before maturity.
d. November 9, 1992	Reduction of minimum rate on savings deposits reduced from 50 percent to 40 percent and minimum time deposit rates from a range of 52-57 percent to 42-47 percent.
e. January 11, 1993	Reduction of minimum rate on savings deposits reduced from 40 percent to 35 percent and minimum time deposit rates from a range of 42-47 percent to 37-42 percent.
f. August 1993	Elimination of minimum rate on savings deposits, which was the last remaining administered commercial bank loan or deposit rate.
3. <u>Treasury bills and bonds</u>	
a. January 1992	Introduction of tender system for ordinary treasury bills sales to commercial banks.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

<u>Measures taken</u>	<u>Changes and extent of changes</u>
b. August 1992	Unification of markets for bank and nonbank treasury bills.
c. August 1993	Introduction of one-year treasury bond, sold at fixed coupon rate of interest.
d. February 1994	Establishment of a clearing facility for official debt.
e. March 10, 1995	Introduction of an auction system for the sale of one-year treasury bearer bonds to commercial banks and the nonbank public.
C. <u>External sector</u>	
1. <u>Trade liberalization</u>	
a. December 1989	Elimination of all licensing requirements, except for annual exporter's license for gold and diamonds.
b. January 1990	Elimination of all import bans on a list of 26 items, with the exception of that on cigarettes.
c. April 1990	Elimination of the requirement of opening letters of credit in local banks for the importation of goods.
d. February 1992	Elimination of import ban on cigarettes.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
e. January 1994	Introduction of a new import duty schedule, with rates of 5, 20, and 40 percent except on petroleum products, which attract a rate of 10 percent, and rice and baby food, which attract a rate of 15 percent.
2. <u>Exchange rate and system</u>	
a. January 1990	Devaluation of the exchange rate from Le 65 per U.S. dollar to Le 120 per U.S. dollar.
b. April 1990	(i) Introduction of a market-determined exchange rate; commercial banks may buy and sell foreign exchange with customers and trade between themselves or with the Bank of Sierra Leone on a freely negotiable basis. (ii) Liberalization of exchange restrictions on payments and transfers for current international transactions, except for those related to the maintenance of external payments arrears.
c. January 1991	Liberalization of surrender requirement on diamond exporters, allowing them to purchase 80 percent of their diamonds in Sierra Leone in foreign currency, while the remaining 20 percent is to be exchanged for local currency at the Central Bank.
d. November 1991	(i) Authorization of foreign exchange bureaus.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
	(ii) Removal of all restrictions on the use of foreign currency accounts for current transactions, including reference to the Central Bank.
e. January 1992	Elimination of foreign currency surrender requirement on diamond exporters.
f. June 1992	Opening of first foreign exchange bureau and reduction in deposit required to establish a bureau from US\$25,000 to US\$5,000.
g. August 1992	Issuance of public notice raising the quantitative limits on foreign exchange for travel and other services.
h. July 15, 1994	Approval of the Exchange Control Order of 1994, which specifies operating procedures for foreign exchange bureaux and provides for prudential guidelines to be issued by the Bank of Sierra Leone.
3. <u>External debt</u>	
a. July 1995	Completion of commercial debt buy-back operation.
D. <u>Natural resources</u>	
a. January 1992	(i) Liberalization of surrender requirements on diamond exporters allowing them to purchase 100 percent of their diamonds in Sierra Leone with foreign currency and to export them without surrender requirements.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
b. January 1994	<p>(ii) Establishment of security force to enhance surveillance activities and curb smuggling.</p> <p>Change in mining policy on gold and diamonds.</p> <p>(i) Gold: royalty to be paid at rate of 2.5 percent of the value of gold exported--computed and payable in local currency.</p> <p>(ii) Diamonds: administrative charge to be paid at the rate of 2.5 percent of the value of diamonds exported, of which 1.5 percent is an income tax and the remainder an assessment fee--the total computed and payable in U.S. dollars.</p>
c. January 1994	<p>Streamlining of fishery licensing system by (1) abolishing distinction between domestic and foreign licenses based on boat tonnage; and (2) defining nationality of vessel based on country of ownership rather than locale of registration.</p>
d. March 4, 1994	<p>Approval of Mines and Minerals Decree, which provides framework for promoting mining exploration and investment by the private sector.</p>
e. January 9, 1995	<p>Approval of Fisheries Management and Development Decree, which is designed to improve the commercial viability of local fisheries and fish-related industries.</p>

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (continued)

Measures taken	Changes and extent of changes
<u>E. Petroleum price adjustments</u>	
	(Leones per imperial gallon)
a. February 15, 1990	(i) Petroleum from 110 to 250 (ii) Kerosene from 90 to 200 (iii) Diesel from 90 to 240
b. July 1, 1990	(i) Petroleum from 250 to 300 (ii) Kerosene from 200 to 250 (iii) Diesel from 240 to 290
c. August 15, 1990	(i) Petroleum from 300 to 500 (ii) Kerosene from 250 to 435 (iii) Diesel from 290 to 450
d. June 21, 1991	(i) Petroleum from 500 to 550 (ii) Kerosene from 435 to 450 (iii) Diesel from 450 to 500
e. October 11, 1991	(i) Petroleum from 550 to 900 (ii) Kerosene from 450 to 845 (iii) Diesel from 500 to 890
f. July 1, 1992 <u>1/</u>	(i) Petroleum from 900 to 1,000 (ii) Kerosene from 845 to 975 (iii) Diesel from 890 to 1,000
g. March 5, 1993 <u>2/</u>	(i) Petroleum from 1,000 to 1,150 (ii) Kerosene from 975 to 1,050 (iii) Diesel from 1,000 to 1,150
h. July 1, 1993 <u>3/</u>	(i) Petroleum from 1,150 to 1,200 (ii) Kerosene from 1,050 to 1,000 (iii) Diesel from 1,150 to 1,100

1/ Prices have been periodically adjusted as world oil prices changed, following the pricing formula agreed with the World Bank.

2/ Price increases were due to excise tax increases rather than adjustment under the World Bank pricing formula.

3/ Price increases were due to excise tax increases and adjustment of prices under the World Bank pricing formula.

Sierra Leone: Summary of Policy Actions Taken Between
December 1989 and November 1995 (concluded)

<u>Measures taken</u>	<u>Changes and extent of changes</u>
	<u>(Leones per imperial gallon)</u>
i. September 23, 1993 <u>1/</u>	(i) Petroleum from 1,200 to 1,225
j. January 26, 1994 <u>2/</u>	(i) Petroleum from 1,225 to 1,375 (ii) Kerosene from 1,050 to 1,200 (iii) Diesel from 1,100 to 1,250
k. December 1, 1994 <u>1/</u>	(i) Petroleum from 1,375 to 1,650 (ii) Diesel from 1,250 to 1,400 (iii) Fuel oil from 625 to 700
l. November 10, 1995 <u>1/</u>	(i) Petroleum from 1,650 to 1,950 (ii) Kerosene from 1,200 to 1,300 (iii) Diesel from 1,400 to 1,650 (iv) Fuel oil from 700 to 800
 F. <u>Public enterprise reform</u>	
a. July 1992	(i) Establishment of the Public Enterprise Reform and Divestiture Implementation Commission (PERDIC) to supervise studies and other requirements for reform and divestiture of public enterprises. (ii) Entrance of remaining enterprises in the public sector into performance contracts.

1/ Prices have been periodically adjusted as world oil prices changed, following the pricing formula agreed with the World Bank.

Sierra Leone - Statistical Issues

The statistical reporting system of Sierra Leone has improved considerably in recent years. The generation of monetary, balance of payments, external debt, and public finance statistics is sufficient for the purpose of program monitoring; this is in large measure due to the support provided under external assistance programs, including the Fund/UNDP technical assistance project. 1/ The authorities are cooperating fully in regularly providing program monitoring data to the Fund and responding to specific requests, either directly or through the office of the resident representative. Because of inadequate resources and the lack of well trained personnel, however, a number of weaknesses in data management persist. There are few statistical publications and no fully articulated publication policy.

1. National accounts

Historical national accounts data (annual only, July-June) are prepared by the Central Statistical Office (CSO) on the basis of information received from government departments, agencies, and public enterprises, as well as through its own occasional surveys. A major project is under way to improve the system of national income accounts and socioeconomic indicators with the support of the Fund/UNDP technical assistance project. 2/ Fund missions typically make their own estimates and projections of key national accounts concepts, which at times entails adjusting historical data on the basis of available information. 3/ Prior to 1991, national accounts data served reasonably well as broad indicators of movements in output; since then, however, the informational content has declined markedly. The sectoral breakdown by expenditure category is largely estimated and probably unreliable, particularly as regards the private saving/investment balance.

2. Prices

The consumer price index (CPI) for Freetown is prepared monthly by the CSO and published with a lag of approximately two to three weeks. The CPI covers only the capital city, but the CSO is developing a plan to extend the survey's reach to towns and selected rural areas once rebel hostilities

1/ The Fund/UNDP technical assistance project was started in January 1990 in anticipation of the need to produce statistics in the above-mentioned areas for monitoring a rights accumulation program, which subsequently began in April 1992.

2/ This project aims to review the CSO's current methods, introduce conceptual and statistical improvements where practical, computerize procedures where possible, and, finally, produce updated national income estimates.

3/ Typically, such adjustments are made to account for the illegal trade in diamonds or, since 1991, the impact of the rebel war.

cease. Estimates for the GDP deflator are constructed on the basis of the CPI, as is information on movements in government prices, prices of capital goods (which are largely imported), and prices of exports and imports.

In January 1995, the CSO began publishing a revised CPI, rectifying the technical problems related to the price of whiting (a locally consumed fish), which are described in the staff report for the 1994 Article IV consultation. ^{1/}

3. Public finance statistics

The budget reporting system was established with technical assistance provided under the Fund/UNDP technical assistance project. The European Union is also providing technical assistance to computerize the government payroll system. The staff receives on a monthly basis the appropriately disaggregated data on government fiscal operations. The data are forwarded to the staff with a lag of four to six weeks. Annual data covering the recurrent and development budget of the central government are reported regularly to STA for publication in the *Government Finance Statistics Yearbook*. However, no monthly data are reported to STA for publication in *International Financial Statistics*.

4. Monetary statistics

Key components of the central bank balance sheet are reported on a daily basis, while the main elements of the monetary survey can usually be prepared shortly after the end of the reference period. This provides an early warning system on key financial targets. The full monetary survey is prepared with a lag of about six weeks, including comprehensive coverage of commercial banks. From time to time, there have been difficulties in reconciling budget financing data from the Department of Finance and credit to government from the Central Bank, but such differences have remained tolerably small and have been eventually resolved.

Lags are longer, however, in the reporting of Sierra Leone's monetary data to STA, although they have been reduced from four months to two months. The need persists to disaggregate a large "other items net" for the central bank, but some improvement is expected since the Bank of Sierra Leone has recently re-instituted its "economic balance sheet" project, which stems from a STA money and banking statistics mission in May 1993.

5. Balance of payments statistics

Sierra Leone's external transactions are characterized by a large volume of activity in the informal sector, owing principally to the smuggling of diamonds. A considerable share of imports is financed by these

^{1/} See EBS/94/35, 3/1/94.

unrecorded exports. As a result, official balance of payments statistics tend to understate transactions. The CSO has recently begun addressing this problem through the use of third country (principally European Union members) import data.

Information on official grant and loan receipts is relatively good and is prepared by the staff on the basis of contact with the Sierra Leonean authorities and official agencies. On the other hand, data on private capital flows tend to be very poor. Some information on private banking flows can be derived from the monetary survey. Other private capital flows, and especially those linked to the diamond trade, are effectively captured only in errors and omissions. Data on the gross and net official reserves position of the BSL are provided monthly to STA and AFR with a short lag.

Because of the prevailing security situation in the country, the authorities have had many difficulties in the collection of data. As a result, balance of payments data have been so far reported to STA with some delay (only data for 1993 are available at this time).

Information on the public external debt is good. A comprehensive debt reporting system has been in operation for the past year, monitoring official external debt and related interest payments. Data on debt contracted on concessional terms are monitored closely by Fund staff on the basis of contacts with the authorities, as well as the various multilateral and bilateral agencies. Data on the present stock of private sector external debt are now satisfactory, following a verification exercise that was conducted in connection with the recently concluded commercial debt buy-back operation.

Sierra Leone: Core Statistical Indicators

(As of November 7, 1995)

	Exchange rates	International reserves	Reserve/ base money	Central Bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP
Date of latest observation	10/20/95	10/31/95*	10/31/95*	8/95	10/20/95*	10/20/95	9/95	8/95	1994	6/95	1993/94
Date received	11/2/95	11/2/95	11/2/95	10/95	11/2/95	11/2/95	10/10/95	10/95	6/95 Mission	7/29/95	6/95 Mission
Frequency of data ^{1/}	W	D	D	M	W	W	M	M	A	M	A
Frequency of reporting ^{2/}	W	W	W	M	W	W	M	M	V	M	V
Source of data ^{3/}	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ^{4/}	C	C	R	C	R	C	C	V	V	C	V
Confidentiality ^{5/}	C	C	C	C	C	C	C	C	C	C	C

*Provisional

^{1/} A-annually; M-monthly; W-weekly; D-daily.

^{2/} M-monthly; V-infrequently, typically during staff visits; W-weekly.

^{3/} A-direct reporting by central bank, ministry of finance, or other official agency.

^{4/} C-cable or facsimile; E-electronic data transfer; M-mail; R-Provided to resident representative; V-staff visits.

^{5/} C-restricted until officially published.