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To: Members of the Executive Board

From: The Secretary

Subject: Sierra Leone - Economic and Financial Policy Framework
Paper, 1994-96

Attached for consideration by the Executive Directors is the policy framework paper for Sierra Leone, which is proposed to be brought to the agenda for discussion on Wednesday, March 23, 1994.

Mr. Nowak (ext. 38969) or Mr. Cady (ext. 34728) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

SIERRA LEONE

Economic and Financial Policy Framework Paper, 1994-96

Prepared by the Sierra Leonean authorities in collaboration
with the staffs of the Fund and the World Bank

February 16, 1994

I. Introduction

1. Sierra Leone is a country of 4.2 million people, endowed with substantial mineral resources, ample cultivable land, and rich fisheries. This potential has not, however, been fully exploited. Living standards have declined since the early 1980s and over two thirds of Sierra Leone's people are estimated to live in absolute poverty. Infant mortality is one of the highest in the world, and life expectancy among the lowest.

2. In late 1989, Sierra Leone embarked upon an economic recovery program that sought to reverse almost two decades of economic mismanagement by restoring strict financial discipline and introducing structural reforms aimed at removing administrative controls on economic activity. The recovery program has been implemented under very difficult conditions. The influx of nearly 200,000 Liberian refugees (equivalent to 5 percent of Sierra Leone's population) in late 1990, and subsequent deep incursions by rebel forces into areas along the Liberian border, have imposed severe strains on the economy. An estimated 15 to 20 percent of the total population was displaced, alluvial diamond mining was curtailed, and rice, cocoa, and coffee production declined sharply. However, the Government has made major gains against the rebels and, although occasional skirmishes have continued, the Sierra Leone Army is now in firm control of virtually all strategic areas of the country.

3. Despite these difficulties, the Government that came to power in April 1992 firmly resolved to press ahead with the process of stabilizing and restructuring the economy. Considerable progress has been achieved under a Fund-endorsed rights accumulation program, which expires in February 1994, and under World Bank adjustment programs. The overall fiscal deficit was reduced from 12.0 percent of GDP in 1989/90 (July-June) to 6.7 percent of GDP in 1992/93. As a result, money supply growth has been sharply reduced, and inflation has declined from a peak of 119 percent in November 1991 (on

an end-of-period basis) to 15 percent at the end of 1993. ^{1/} Although nominal interest rates have declined with inflation, they have remained generally positive in real terms since mid-1992. The exchange rate has remained relatively stable, and the differential between the commercial bank and parallel market exchange rates has virtually disappeared.

4. On the structural front, all prices, with the exception of those for petroleum products, and bank interest rates have been deregulated, and the monopoly of the state marketing companies over trade in essential commodities has been abolished. ^{2/} As a result, the availability of basic products, including petroleum and rice, has improved considerably. The size of the civil service has been reduced by one third and pay relativities have been widened. The public enterprise sector has become more efficient, and now makes a contribution to the budget. In addition, all quantitative restrictions on external trade have been removed, the exchange system has been liberalized, and a market-determined exchange rate system has been introduced. During 1992-93, Sierra Leone increased its net international reserves, despite weak international market conditions for rutile and bauxite.

5. Notwithstanding the gains made in stabilizing the economy and implementing structural reforms, the pace of economic activity has remained sluggish, largely because of the impact of the rebel conflict on mining and agricultural activities. Real GDP contracted by nearly 1 percent in 1992; although economic growth is estimated to have recovered to 1.5 percent in 1993, this still represents a decline of over 1 percent in real per capita terms. Moreover, few inroads have been made in addressing Sierra Leone's pressing social problems.

II. Macroeconomic Objectives and Strategies, 1994-96

6. The broad objectives of the medium-term program for the period 1994-96 are to make further progress in stabilizing the economy and to create an economic environment conducive to sustainable labor-intensive growth and poverty reduction. Specifically, the program aims at raising real GDP growth to at least 5 percent by 1996, which would permit an increase in real per capita income of over 2 percent. In addition, further efforts are to be made to reduce inflationary pressures so that Sierra Leone may benefit from a stable and competitive exchange rate and from further cuts in nominal interest rates. The program therefore seeks to reduce the annual rate of

^{1/} The consumer price index (CPI) since January 1993 is being reported exclusive of whiting (a locally consumed fish) until certain technical problems are resolved in the construction and measurement of the price index. Inclusive of whiting, the CPI rose by 27 percent in 1993.

^{2/} Petroleum prices are now adjusted according to a formula designed to ensure the full pass-through of changes in international oil prices and the exchange rate.

inflation to below 7 percent by 1996. Improvements in the external position are also envisaged; the program aims at achieving a modest reduction in the external current account deficit over the medium term and a build-up of Sierra Leone's foreign exchange reserves.

7. To achieve these objectives, the Government will seek to reduce further the budget deficit and money supply growth, while maintaining a flexible exchange rate regime and a liberal exchange and trade system. At the same time, the Government will ensure that strong price incentives are provided to encourage the shift of parallel market activities to official channels and to mobilize the resources necessary for increased investment and sustained growth. Structural impediments to greater factor mobility and improved resource allocation will be removed, particularly in the mining and fisheries sectors, and implementation of civil service and public enterprise reforms will continue. External trade policies will be directed toward bringing about greater export diversification to help Sierra Leone better exploit its comparative advantage in international trade. The Government will build up a comfortable cushion of foreign exchange reserves so that adverse external shocks can be sustained without subjecting the exchange rate to undue pressure. Normalizing relations with external creditors, and attracting sufficient support from the international financial community, will be central to this effort and will help reduce Sierra Leone's debt-service burden to manageable levels.

A. Fiscal policy

8. The maintenance of strict fiscal discipline remains the key to success in stabilizing the economy, and further reductions in the budget deficit will therefore be a prime focus of fiscal policy during 1994-96. The overall budget deficit will be reduced from 6.7 percent of GDP in 1992/93 to 4.6 percent by 1996. This will be achieved primarily through revenue enhancement in the form of an expansion of the tax base and greater reliance on sales tax. The coverage of sales tax has been broadened in recent years, while the rate itself has been increased in successive stages from 10 percent in 1990 to its present level of 20 percent. A fully fledged value-added tax (VAT) system will be developed by building on the existing input credit system for imported inputs. The Government is seeking assistance from the Fund to establish the necessary administrative machinery and prepare a realistic timetable for implementation of the VAT. No discretionary tariff or excise duty exemptions will be granted. The Development of Industries Act was repealed in November 1993 to eliminate unnecessary and costly tax incentives. The mining agreements with the bauxite and rutile mining companies, which were renegotiated recently, are expected to yield higher tax and royalty revenues once international market conditions for these minerals improve. Steps will also be taken to more effectively bring the fisheries sector within the tax net (see below).

9. Customs and excise tax collection will be strengthened under a program to computerize operations and upgrade the training of inspectors, and procedures for customs inspection will be revamped. The excise tax has been

unified at 30 percent and is levied on all alcoholic drinks, manufactured tobacco, and passenger cars. The excise tax on petroleum products will continue to be set on an ad valorem basis, but in 1996 the pricing formula will be discontinued in favor of market determination of retail prices, subject to the findings of a review of distribution and marketing conditions. To strengthen compliance with tax regulations, a taxpayer identification and registration system will be introduced in 1995, while field audit and investigative procedures will be strengthened and an effective penalty scheme introduced to supplement the present tax clearance certification system. The Income Tax Act will be revised in 1994 with technical assistance from the Fund, and improvements in the administration of the system of investment allowances will also be made.

10. The overall level of expenditures will be contained to 20 percent of GDP over the policy framework period, and efforts will be directed toward restructuring expenditures in favor of basic social and economic services. Budgetary allocations for, and outlays on, these services will be increased by at least 5 percent annually in real terms beginning in 1994/95. Savings on defense expenditures in the postwar period and lower debt service payments will enable increased funding for the rehabilitation and expansion of Sierra Leone's economic infrastructure, particularly in the war-affected areas. However, because the Government's access to domestic resources will remain limited over the medium term, it is seeking international assistance to help cover the spending needed in these areas. Additional funding will also be required to cover the cost of demobilizing the army. The Government is committed to ensuring that the civil service wage bill (including the provision of subsidized rice to the armed forces) is kept basically in line with nominal GDP during the program period. Reductions in the size of the civil service will allow for substantive real increases in pay for senior and managerial staff.

11. The Fiscal Monitoring Committee has played an effective role in helping improve the monitoring and control of budgetary expenditures, and efforts to strengthen procedures in this area will continue. Under technical assistance programs, including the World Bank's Public Sector Management Support Project, expenditure planning, budgeting, monitoring, and control in five key departments is being strengthened through technical and logistical support, as are the Auditor General's and the Accountant General's Departments. The Government will revise public sector procurement procedures and revamp the structure of the Central Tender Board. The Budget Bureau and the Central Planning Unit will also be strengthened, and the recurrent and development budgets will be unified to facilitate expenditure planning and control. Annual reviews of public expenditures and three-year rolling public investment programs will be the vehicle for prioritizing development expenditures and coordinating donor assistance. Aid coordination will be centralized in the Department of Development and Economic Planning.

B. Public enterprise reform

12. The Government's policy for reforming public enterprises calls for the privatization of those public enterprises--or their functions--that can be managed more efficiently by the private sector. At the beginning of the reform program in 1989, there were 44 medium- and large-scale public enterprises (partially or fully owned by the Government) involved in the provision of utilities, services, manufacturing, or trading activities. The Government has already undertaken a number of measures to improve the efficiency of some public enterprises and to prepare the way for the privatization of others. These actions include: subjecting all public enterprises to prevailing taxes and duties, while allowing them to adjust their tariffs/prices freely in line with increases in costs, and entering into performance contracts with major utility companies; taking steps to close the Sierra Leone Produce Marketing Board and to initiate the liquidation process with respect to the Sierra Leone Petroleum Refining Company and the National Diamond Mining Company; renegotiating the management contract for the Sierra Leone Ports Authority with a foreign consulting firm; and initiating of the privatization of the National Insurance Company, the National Petroleum Company, and the Bennimix Food Company. The second phase of the reform program, which includes the privatization, liquidation, or restructuring of 13 additional public enterprises active in manufacturing and trading, is currently being implemented by the Public Enterprise Reform and Divestiture Commission (PERDIC), which was set up in 1992. ^{1/}

C. Monetary policy and financial sector reform

13. Monetary policy will continue to be directed toward reducing money supply growth to levels consistent with the Government's inflation objectives, and ensuring that sufficient bank credit is made available to fuel the recovery of private sector activity. The maintenance of strict fiscal discipline will be critical to achieving the targeted reductions in broad money growth. The Bank of Sierra Leone will continue to exercise monetary control through open market operations conducted in the form of weekly auctions of treasury bills. The effectiveness of these open market operations is being enhanced by the introduction of a wider range of debt instruments and the adoption of new marketing arrangements. In August 1993,

^{1/} The second phase of the program, which is supported by a Structural Adjustment Credit from the World Bank, includes: (i) divesting the Government's shares in the Precious Minerals Marketing Company, Paramount Hotel, Brookfields Hotel, Seaboard Trading Company, Wellington Distilleries, the Sierra Leone National Shipping Company, Sierra Leone Trading Corporation, Sierra Leone Bricks and Ceramics, and Sierra Fishing Company; (ii) liquidating the Forest Industries and the National Workshops; and (iii) restructuring the management of the Sierra Leone Lottery Corporation and the tendering of the lease for the Bintumani Hotel.

the Government successfully launched a one-year Treasury Bearer Bond, with a fixed coupon rate, which it intends to sell at auction, thereby allowing the term structure of interest rates to be market determined. A clearing facility supervised by the central bank for official debt will be established in 1994 in order to foster the development of a secondary interbank money market and to enable the Bank of Sierra Leone to carry out open market operations effectively. Reliance on open market operations as a means of effecting monetary control will reduce dependence on statutory liquid asset requirements, and these requirements will be reduced over time to levels necessary only to maintain prudential standards. In August 1993, the Bank of Sierra Leone removed the floor on minimum deposit rates offered by commercial banks, which was the last remaining administered commercial bank interest rate. It is expected that interest rates will remain positive in real terms as a result of the pursuit of tight credit policies, and this will help mobilize domestic savings and discourage capital flight.

14. The financial sector suffers from several inefficiencies, which contribute to the high cost of financial intermediation and limit the availability of financing for productive investments, in particular by small and medium-size firms. The financial sector is also handicapped by legislative inadequacies and a lax prudential regulatory framework. To address these problems, the Government has initiated a comprehensive review of the financial sector, with assistance from the World Bank. A preliminary review of the financial position of commercial banks in late 1993 resulted in the Bank of Sierra Leone issuing directives requiring corrective measures with a view to arresting the deterioration of the loan quality and exposure of banks. A follow-up diagnostic study of all commercial banks will aim to improve the operating efficiency of the banking system and identify the factors causing the high cost of financial intermediation. The review will provide a basis for improving the soundness of the financial sector and enhancing financial intermediation during the policy framework period.

15. The Government is in the process of amending the Bank of Sierra Leone Act and the Banking Act 1970, and will reorganize the Bank of Sierra Leone following a management audit. The revised Acts are expected to provide for a more independent and effective central bank, a strengthening of the bank supervision function, and clearer legislative guidelines for the financial sector as a whole, including revised prudential requirements and increased minimum capital requirements.

D. External sector policies

16. In April 1990, Sierra Leone substantially liberalized its exchange control regime, removed all quantitative restrictions on imports, and adopted a flexible, market-determined exchange system. Exchange control regulations were further liberalized in October 1992. Measures have also been introduced to deepen the foreign exchange market by encouraging the establishment of foreign exchange bureaux. The Bank of Sierra Leone will review the operations of the foreign exchange bureaux and develop supervision guidelines by December 1994. The Bank of Sierra Leone will

continue to allow the exchange rate to be determined in the commercial bank market, and will intervene in this market only to purchase the foreign exchange necessary to meet its international reserves targets. 1/ Sierra Leone maintains an exchange system that is largely free of restrictions on current international payments and transfers. Although some restrictions are maintained under the transitional arrangements of Article XIV of the Fund's Articles of Agreement in the form of quantitative limits on foreign exchange allocations for travel, health, and education, these are now being administered in a liberal fashion, and the prescribed limits are indicative only. In addition, certain other exchange measures, including bilateral payments agreements with two Fund members, are subject to approval under Article VIII. Sierra Leone will retain certain controls on outward capital movements, but the Bank of Sierra Leone is undertaking with Fund staff a review of the exchange system in order to assess the feasibility of removing all remaining restrictions on current payments and transfers. Depending on the outcome of this review, Sierra Leone will take the steps necessary to prepare for its acceptance of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement by end-March 1995.

17. In the context of the Government's overall growth framework, Sierra Leone will continue to pursue a strategy designed to promote export and import-substitution activities. To this end, licensing requirements for imports and exports (except gold and diamonds) have been removed, and public enterprise trading monopolies have been abolished. Distortions in the trade and indirect taxation systems have been removed by lowering the number of rates and reducing the dispersion of duty rates, and unifying the excise tax. 2/ To simplify the administration of the tariff system, the Customs Department is implementing the Harmonized System for classification of imports and production of computerized trade statistics. These measures are expected to result in a more equitable and efficient system of protection for domestic industries, and a more effective duty and tax collection system. The Development of Industries Act 1983 was repealed in November 1993, while incentives for private sector investment are being included in revised income tax and customs legislation. The Sierra Leone Export Development and Investment Corporation (SLEDIC) is being set up, which will promote investment across all sectors; a pamphlet is being prepared to

1/ Sierra Leone's external outlook, and therefore the stance of its exchange rate policy, is not expected to be affected by recent changes in the parity of the CFA franc.

2/ The number of duty rates for all imports, except rice and baby food, was recently reduced further from six to three, while the range of rates was narrowed from 0-65 percent to 5-40 percent. The lowest rate of 5 percent is applied to raw materials, spare parts, plant and machinery, and essential capital goods; the middle rate (20 percent), to intermediate and semi-manufactured goods and locally produced foodstuffs; and the highest rate, to final and luxury goods. A duty of 15 percent was imposed on imported rice and baby food in the 1993/94 budget.

explain Sierra Leone's "investment code," as embodied in relevant procedures, laws, and regulations. To promote exports of nontraditional goods, regulatory procedures will be simplified by May 1994 and a duty drawback system, based on the value of exports, will be established by December 1994.

III. Sustainable Development

A. Implementation capacity

18. Administrative capacity constraints have presented a major bottleneck in the implementation of economic reforms and the delivery of the basic functions of government. In response, the Government has initiated a comprehensive reform program, aimed at improving civil service efficiency and strengthening its capacity to provide essential public services. Under the program, the number of public sector employees was reduced by about 28,000, or more than one third, between July 1991 and December 1993, mainly through the removal of "ghost workers" from the payroll and the retrenchment of redundant daily wage workers. In addition, pay relativities of government employees have been widened substantially through structured salary increases. Nevertheless, a functional review and staffing needs assessment of major government departments has identified continued shortages of skilled managerial staff, and continued overstaffing of nonessential positions. The Government, therefore, remains committed to improving the incentives for recruiting and retaining skilled staff, subject to overall budgetary constraints, and to making further cuts in the number of civil servants.

19. The Government has taken steps to shift the responsibility for the provision of some services to the private sector. A semi-autonomous Roads Authority, funded by a fee levied on the sale of gasoline and diesel, has been established to manage periodic and routine road maintenance programs with only 10 percent of the staff of the Department of Works, by contracting work to the private sector. Provision of certain health care services (including sanitation), particularly in the Freetown area, has in the past several years been increasingly taken over by NGOs and private clinics and religious organizations. Elementary schools are also increasingly managed by local communities and other organizations through education grants. The Government is committed to contracting out additional functions to the private sector in those cases where the capacity exists and to limit its role to the provision of basic public services.

20. The lack of adequate administrative capacity is also evident in the judicial arm of the Government, which has experienced difficulties in meeting routine referrals. In particular, the drafting of both substantive and subsidiary legislation and public notices has lagged somewhat behind policy announcements, while the publication and dissemination of legislative instruments has been slow. The Government recognizes the importance of a well-functioning legal and regulatory framework and has initiated a reform

of the legal system, particularly laws governing the operation of the private sector, with assistance from the World Bank. The reform program will focus on the revival of the Law Reform Commission, liberalizing the laws governing the establishment, operation, and winding up of business enterprises (including bankruptcy), which will encompass business activities by noncitizens and foreign investors.

B. Agriculture and fisheries

21. The major constraints on agricultural growth in Sierra Leone have been declining soil fertility, inadequate infrastructure, and poor extension services. Solving these problems will require a significant infusion of resources to improve infrastructure and technical services, create a more competitive system of trade in farm inputs and agricultural commodities, and develop farmer-controlled rural credit institutions. The elimination of the Sierra Leone Produce Marketing Board's monopoly on coffee and cocoa trade in 1988/89 has already improved crop marketing and strengthened incentives for farmers. To improve longer-term agricultural productivity, the Government's strategy is to develop a unified extension service with strong links to adaptive agricultural research and education, and to rehabilitate and maintain feeder/trunk roads to ensure inexpensive transportation of agricultural produce to urban areas and of essential goods to farm areas. In addition, the Government will phase out the subsidy on fertilizers by 1996. The Government's oil palm, coffee, cocoa, rubber, and sugar estates will be divested by 1995. A rice marketing and policy study in 1994 will provide an essential baseline from which to monitor market developments and determine the appropriate level of tariff on imported rice.

22. The fisheries sector has considerable potential for growth in the medium term. Management of the sector has, however, suffered from the lack of a clear and transparent legal and regulatory framework, and it has generated only negligible fiscal revenue. The Government entered into a joint venture agreement with a private foreign company in November 1990 to prevent illegal fishing in Sierra Leone waters, protect artisanal fishing, and conserve marine resources. However, the revenue sharing and operational modalities of the joint venture did not provide an equitable return to the Government, despite an attempt in 1993 to reorganize its operations. The Government is therefore now developing, with external support, an appropriate framework for the management of the sector. It will include revision of the licensing system, fees, and royalties, and the phasing in by mid-1994 of a sustainable fisheries management regime supported by an appropriate judicial and legal framework and revised arrangements for fisheries surveillance. The Government intends to tender the contract for the fisheries surveillance function to the private sector by May 1994.

C. Mining

23. After showing strong growth under the economic recovery program, official diamond exports declined sharply in 1993, because of the impact of rebel activities in the major mining areas. The resumption of alluvial

mining by the private sector is a prerequisite for the revival of business confidence and economic recovery in general, and important steps have been taken under the economic recovery program to improve performance in the mining sector. Now that the security situation in the diamond mining areas has been normalized, the Government has begun resettling and rehabilitating the war-affected areas and has adopted an open and transparent mining policy, which involves the issuance of mining licenses without restriction. The role of the army in the mining areas will be limited to the provision of security for the local population. To encourage the export of diamonds through official channels, taxes and fees have been reduced to a total of 2.5 percent, diamonds may now be purchased entirely in foreign exchange, and export surrender requirements no longer apply. The Government recognizes the importance of encouraging the repatriation of proceeds from legal and illegal diamond exports, and believes that the most effective way of achieving this is through the pursuit of policies designed to establish a stable financial and political environment.

24. Sierra Leone is the world's largest producer of rutile, which represents the country's most important officially recorded export. A major investment program supported by the IFC and other creditors is currently under way, and a substantial expansion of production can be expected once the investment program is completed and there is a firming in international market conditions for rutile. A new bauxite agreement, which provides for increased tax payments and royalties, was concluded in 1992; this has facilitated the launch of a new investment program aimed at developing untapped bauxite deposits. More generally, a revised Mines and Minerals Act was enacted in early 1994; the legislation provides a framework for new investment, taxation, profit repatriation, and environmental standards.

D. Tourism

25. Tourism has traditionally been an important source of foreign exchange earnings and employment generation. Hotel revenue grew at an average rate of 17 percent a year between 1980 and 1991, but has fallen sharply since the start of rebel hostilities. Recently, however, hotel bookings appear to be recovering, especially for business travelers. The Government's strategy is to address the most critical constraints on the development of the tourism market: lack of experienced personnel, the absence of a comprehensive development plan, poor transport infrastructure, and inadequate funding. In addition, because of the unsatisfactory experience of government investment in hotels, the Government will divest its interests in some hotels and award management contracts for others in the context of the public enterprise reform program.

E. Infrastructure

26. Major improvements in physical infrastructure are needed to further stimulate the supply response that will be engendered by the economic recovery program. In turn, these improvements will require large investments in rehabilitation and a strengthening of institutional

mechanisms to maintain the newly rehabilitated facilities. To improve the road network, a seven-year rehabilitation program has been developed, at a total cost of over US\$100 million, and is being funded by the World Bank, the African Development Bank (AfDB), EC, Germany, and Japan. The road maintenance program is now managed by the Sierra Leone Road Authority, implemented by local contractors, and funded by collection of road users' charges on the sale of petrol and diesel. The rehabilitation of the war-affected areas and the resettlement of the displaced population will also require substantial resources. The Government has set up a coordinating committee to channel donor assistance to the priority areas.

27. While somewhat improved in the last two years as a result of donor support, Sierra Leone's power supply remains inadequate and irregular, and this has adversely affected economic activity. Priority will be given to measures to improve the supply of power in the western area through the rehabilitation of existing facilities, the addition of new generating capacity, and an improvement in managerial capabilities and institutional arrangements of the National Power Authority (NPA). Further adjustments in tariffs and billing and collection systems will be made to lift the NPA from its weak financial situation. The longer-term development objective is to provide electricity to more people in an efficient and cost-effective way. Most of Sierra Leone's water supply systems are badly run down. Owing to the lack of spare parts and escalating operating costs, only about 30 percent of the rural population has access to safe water supply. The Guma Valley Water Company, which is responsible for water supply in the Freetown area, will take measures to minimize leakages and improve metering and collection, focusing initially on higher-value properties. The Water Division in the Department of Energy and Power, which is responsible for water supply in all other areas, will be strengthened, and budgetary allocations for rehabilitation and development of rural water supply facilities will be significantly increased. User charges will be revised in accordance with cost-recovery principles.

F. Environment

28. Environmental and resource management in Sierra Leone is hampered by weak regulatory and enforcement capacity and a lack of satisfactory environmental data. The key environmental problems are: (i) land degradation from large-scale and alluvial mining and agricultural malpractices; (ii) deforestation, forest degradation, and the loss of biodiversity; and (iii) marine fishing in excess of maximum sustainable yield. The Government is formulating a National Environmental Action Plan with a view to strengthening the policy, institutional, legislative, and enforcement framework for environmental conservation and sound natural resource management, and is developing a list of programs to address pressing environmental concerns; detailed studies are already under way to assess land use changes and soil loss.

IV. Poverty Reduction and Human Resources Development

A. Poverty Reduction

29. The Government's strategy for poverty alleviation follows a two-pronged approach. First, the pursuit of policies to stabilize the economy and promote labor-intensive and broad-based economic growth will help facilitate the absorption of new entrants into the labor force, as well as retrenched public sector workers, and provide a basis for increases in the real incomes of the poor. The Government's efforts to reduce inflation will be of particular benefit to the most needy and to those on fixed incomes. Second, substantial increases will be made in budgetary allocations for the social sectors to improve access to basic health care and education and to provide special programs to protect vulnerable groups during implementation of the adjustment program. A detailed strategy for poverty reduction, including work to better identify and target the particularly vulnerable, is being prepared by the Government with donor assistance. Health and education strategies and programs will be reoriented in favor of rural areas and primary services. Policies designed to boost agricultural production will help increase rural employment and income and raise levels of nutrition. In view of the Government's limited access to domestic resources, intensified donor support and NGO participation will be essential in the effort to reduce poverty.

B. Health and education

30. Health and education standards in Sierra Leone are among the lowest in the world. Life expectancy is only 42 years at birth, daily caloric intake averages only 1,800, and malnutrition is widespread. About one infant in seven dies before reaching the age of one, and about one child in four dies before reaching age five. The maternal mortality rate is also high. The illiteracy rate for all adults is about 80 percent; the gross educational enrollment rate has fallen in the past decade to only 55 percent. The quality of education is poor owing to the high number of unqualified teachers, the lack of teaching materials, and outdated curricula. The provision of health and education services has also suffered from reduced budgetary allocations and has been compounded by an inefficient allocation of expenditures within the social sectors.

31. The Government's human resources development strategy will focus on improving the quality of education, with particular emphasis on basic education, substantially reducing the illiteracy rate (with special attention paid to the problem of female illiteracy), increasing the enrollment ratio in primary education, and making relatively low-cost preventive and basic curative health care available throughout the country. Strengthening planning and implementation capacity of the Health and Education Departments is a priority. The Government is supporting training and recruitment programs for these departments as a necessary first step toward revitalizing the health and education sectors. It is also developing sector-wide policy reforms through programs to support the delivery of a

cost-effective package of basic health interventions, including immunization programs, and a shift to the 6-3-3-4 (primary, junior and senior high school, and university) educational system.

V. Technical Support Needs

32. Before Sierra Leone embarked on its economic recovery program, the capacity to implement macroeconomic and structural reforms was weak, particularly in the areas of government expenditure control, budgeting, and accounting. In support of the recovery program, Sierra Leone has been receiving considerable coordinated technical assistance from a number of multilateral institutions, including the Bank (under its Public Sector Management Support Project), EC, the Fund, and UNDP, and from several donor agencies. The primary objective of this assistance has been to strengthen the Government's ability to formulate, implement, and monitor all elements of the economic program through the provision of short-and long-term experts, the training of local staff, and the supply of basic equipment and supplies. At present, the Ministry of Finance and the key line ministries are receiving assistance in the form of a budget advisor and experts to help improve tax collection and expenditure control, accounting, and procurement procedures. Modifications to the legal and regulatory framework governing income taxation and private sector business activity are also being undertaken with technical assistance. The Bank of Sierra Leone is being provided with a policy advisor and research director and is receiving help in implementing its restructuring program and in updating banking legislation. Certain of the public enterprises, and fisheries surveillance operations, are also benefitting from technical assistance programs. No other substantive additions to Sierra Leone technical assistance requirements are expected for the foreseeable future.

VI. Balance of Payments and External Financing Requirements

33. Sierra Leone's balance of payments prospects for 1994-96 are closely linked to developments in the international market for mineral exports. Prices for these commodities sagged in 1993, but some firming is expected in 1994 and beyond, and production should also be boosted by the completion of large investment projects for bauxite and rutile. Diamond exports are expected to rebound in 1994 as a result of the resumption of diamond-mining operations. In order to generate the necessary increase in fixed capital investment and stock replenishment, the program provides for a recovery of import levels from their unsustainably low levels of 1992-93. As a consequence, the current account deficit (excluding interest payments and official transfers) is expected to rise from US\$78 million in 1993 to US\$110 million in 1994.

34. The Government recognizes that if Sierra Leone is to enjoy access to new external financing on favorable terms and reduce its debt service burden, it must regularize relations with its external creditors.

Considerable efforts have already been undertaken to this end. Arrears to the African Development Bank, IFAD, the EIB, and the World Bank were cleared by 1992, and all overdue obligations to the Fund, which amount to some US\$120 million, will be paid during the first half of 1994. Arrears to all other multilateral institutions will also be cleared during the course of 1994. All arrears to official bilateral creditors were rescheduled under the terms of a Paris Club agreement concluded in November 1992, which provides debt relief for the period through February 1994; Sierra Leone will request a further debt rescheduling from its Paris Club creditors in the context of a program to be supported by SAF and ESAF arrangements. The Government intends to normalize its relations with commercial creditors in 1994 through either a rescheduling or a debt buy-back operation. To improve Sierra Leone's debt service capacity, the Government will not contract or guarantee any new loans on nonconcessional terms during the policy framework period.

35. On the basis of these undertakings, Sierra Leone's debt service obligations, including arrears payments, are expected to amount to US\$238 million in 1994. Taking into account a targeted increase in official and commercial bank foreign exchange reserves of US\$8 million, Sierra Leone's financing requirements for 1994 are projected at US\$356 million. Of these requirements, US\$204 million would be covered by balance of payments assistance from multilateral and bilateral sources, including approximately US\$134 million from the Fund under SAF and ESAF arrangements. A further US\$66 million is expected to be received in the form of project loans and grants and direct foreign investment, and there will also be debt relief under the 1992 Paris Club agreement. There would nevertheless remain a financing gap of US\$54 million for 1994, and gaps of broadly comparable magnitude are projected for 1995-96. It is anticipated that these gaps will be filled by additional balance of payments support to be sought at a Consultative Group meeting in March 1994 and by debt relief from official bilateral and commercial creditors.

Table 1. Sierra Leone: Key Indicators for Policy Framework Paper, 1990-96

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|--------|--------|--------|--------|------------|--------|
| | | Actual | | Est. | | Projection | |
| (Annual percentage change, unless otherwise indicated) | | | | | | | |
| Income and expenditure | | | | | | | |
| Real GDP | -0.1 | 0.7 | -0.8 | 1.5 | 4.2 | 4.5 | 5.0 |
| Real GDP per capita | -2.6 | -1.9 | -3.3 | -1.1 | 1.6 | 1.9 | 2.3 |
| GDP deflator | 84.0 | 87.5 | 65.0 | 19.0 | 14.0 | 9.1 | 7.3 |
| Nominal GDP | 83.8 | 88.8 | 63.7 | 20.8 | 18.8 | 14.0 | 12.7 |
| Consumer prices (end-period) | 98.3 | 115.3 | 34.8 | 15.0 | 10.0 | 8.0 | 6.5 |
| Consumer prices (annual average) | 110.9 | 102.7 | 65.5 | 19.2 | 14.2 | 9.1 | 7.3 |
| Money and credit | | | | | | | |
| Broad money | 74.0 | 76.2 | 33.2 | 22.3 | 8.5 | 9.0 | 8.0 |
| Velocity | 5.6 | 7.1 | 22.8 | -1.3 | 9.5 | 4.6 | 4.3 |
| Domestic credit 1/ | 43.2 | 49.1 | -9.8 | -1.0 | 10.5 | -0.9 | -2.2 |
| Government 1/ | 38.2 | 21.8 | -16.9 | -11.9 | -7.6 | -5.3 | -6.2 |
| Private sector 1/ | 5.0 | 27.3 | 7.2 | 10.8 | 18.1 | 4.4 | 4.0 |
| Reserve money | 66.5 | 63.4 | 18.9 | 3.8 | 5.3 | 7.0 | 6.0 |
| Interest rate 2/ | 46.0 | 61.0 | 40.0 | 19.3 | ... | ... | ... |
| External sector | | | | | | | |
| Exports 3/ | -3.2 | -0.3 | 3.3 | -21.1 | 15.3 | 22.8 | 15.6 |
| Imports 3/ | -15.2 | 2.3 | -2.3 | -4.3 | 25.0 | 13.5 | 8.1 |
| Terms of trade (- = deterioration) | -1.4 | 0.2 | -6.6 | 3.6 | ... | ... | ... |
| Real effective exchange rate (- = depreciation) | -37.3 | 0.3 | -8.3 | 10.7 | ... | ... | ... |
| (In percent of GDP) | | | | | | | |
| Consumption | 90.3 | 91.0 | 91.5 | 94.5 | 95.8 | 93.7 | 92.0 |
| Government | 10.1 | 9.4 | 9.4 | 10.7 | 11.1 | 11.0 | 11.0 |
| Private | 80.2 | 81.6 | 82.1 | 83.8 | 84.7 | 82.7 | 81.0 |
| Gross investment | 11.0 | 11.6 | 10.3 | 10.0 | 11.8 | 12.5 | 13.0 |
| Government | 3.8 | 4.5 | 4.8 | 4.6 | 5.0 | 5.7 | 6.0 |
| Private | 7.2 | 7.1 | 5.5 | 5.4 | 6.8 | 6.8 | 7.0 |
| Gross national saving | -1.8 | -0.2 | -2.5 | -2.5 | -2.9 | -1.6 | 0.9 |
| Gross domestic saving | 9.8 | 9.0 | 8.5 | 5.5 | 4.2 | 6.3 | 8.0 |
| Government | 0.4 | 2.4 | 3.1 | 2.5 | 2.9 | 3.8 | 4.1 |
| Private | 9.4 | 6.6 | 5.4 | 3.0 | 1.3 | 2.5 | 3.9 |
| Current account balance | | | | | | | |
| including official transfers | -12.8 | -11.8 | -12.8 | -12.5 | -14.7 | -14.1 | -12.1 |
| Current account balance | | | | | | | |
| excluding official transfers | -16.6 | -16.2 | -16.6 | -16.2 | -20.0 | -17.8 | -15.8 |
| Goods and nonfactor services (net) | -1.3 | -2.6 | -1.8 | -4.5 | -7.5 | -6.2 | -5.0 |
| Unrequited private transfers and factor services (net) | -15.3 | -13.6 | -14.8 | -11.7 | -12.5 | -11.6 | -10.8 |
| Overall balance of payments 4/ | -10.4 | -8.0 | -4.5 | -6.0 | -6.4 | -5.8 | -4.4 |
| Government revenue 5/ | 9.5 | 12.3 | 12.0 | 13.8 | 13.6 | 14.8 | 15.4 |
| Government total expenditure 5/ | 21.5 | 22.5 | 20.9 | 20.5 | 19.9 | 20.0 | 20.0 |
| Recurrent expenditure 5/ | 17.6 | 18.3 | 15.9 | 16.1 | 15.4 | 14.7 | 14.0 |
| Overall fiscal deficit | | | | | | | |
| (commitment basis) 5/ | -12.0 | -10.2 | -9.0 | -6.7 | -6.3 | -5.2 | -4.6 |
| Domestic financing 5/ | 4.1 | 2.6 | 0.1 | -1.1 | -0.8 | -0.7 | -0.6 |
| (In percent of merchandise exports) | | | | | | | |
| Debt service due 6/ | 69.1 | 57.6 | 59.3 | 69.6 | 70.7 | 48.2 | 36.4 |
| External interest due 6/ | 44.2 | 35.8 | 38.3 | 39.3 | 37.2 | 25.5 | 20.9 |
| Memorandum items: | (In millions of U.S. dollars, unless otherwise specified) | | | | | | |
| External current account balance | | | | | | | |
| excluding official transfers | -128.1 | -121.2 | -120.2 | -123.9 | -160.6 | -156.3 | -150.9 |
| Gross international reserves | | | | | | | |
| (months of imports) | 0.4 | 0.7 | 1.5 | 2.4 | 2.3 | 2.9 | 3.5 |

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

1/ Changes as a percentage of beginning period money stock.

2/ Minimum savings deposit rate, end of period.

3/ Percent change in U.S. dollar value.

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

5/ Fiscal year ending June until 1995; thereafter data are reported on a calendar year basis as Sierra Leone converts its public accounts to a calendar year basis beginning in 1995.

6/ Before debt relief.

Table 2. Sierra Leone: External Financing Requirements, 1992-96

(In millions of U.S. dollars)

| | Act. 1992 | Est. 1993 | Projected | | |
|--|--------------|--------------|-----------|--------|--------|
| | | | 1994 | 1995 | 1996 |
| Gross financing requirements (-1+2+3+4) | 276.7 | 173.3 | 356.4 | 211.9 | 199.5 |
| 1. Current account balance (excluding interest and official transfers) | -62.9 | -77.6 | -110.1 | -113.8 | -110.6 |
| Trade balance | -5.1 | -30.0 | -49.0 | -43.0 | -34.0 |
| Exports | 149.6 | 118.0 | 136.0 | 167.0 | 193.0 |
| Imports (c.i.f.) | -154.7 | -148.0 | -185.0 | -210.0 | -227.0 |
| Other items (net) | -57.8 | -47.6 | -61.1 | -70.8 | -76.6 |
| Nonfactor services (net) | -8.1 | -4.4 | -11.6 | -11.6 | -14.1 |
| Investment income (net) ^{1/} | -49.8 | -43.3 | -49.8 | -59.7 | -63.5 |
| Private transfers (net) | 0.1 | 0.1 | 0.3 | 0.5 | 1.0 |
| 2. Debt service obligations | 88.8 | 82.1 | 96.1 | 80.4 | 70.0 |
| Of which: interest | (57.3) | (46.3) | (50.5) | (42.5) | (40.4) |
| Of which: amortization | (31.3) | (35.8) | (45.6) | (37.9) | (29.6) |
| Bilateral | 44.2 | 43.2 | 52.1 | 37.0 | 26.7 |
| Of which: Paris Club creditors | (44.0) | (42.7) | (51.5) | (36.4) | (26.1) |
| Multilateral | 21.0 | 15.6 | 15.3 | 13.0 | 13.4 |
| Of which: World Bank Group | (4.8) | (3.3) | (3.8) | (4.2) | (4.4) |
| Of which: IMF | (11.8) | (8.9) | (6.2) | (4.8) | (4.9) |
| Fund charges | (8.5) | (5.6) | (2.9) | (1.5) | (1.7) |
| Repayments | (3.3) | (3.3) | (3.2) | (3.2) | (3.2) |
| Scheduled obligations on short-term and commercial debt | 23.5 | 23.3 | 25.2 | 26.7 | 26.7 |
| Interest on exceptional financing | -- | -- | 3.5 | 3.7 | 3.3 |
| 3. Reduction of arrears | 107.4 | 2.0 | 142.0 | -- | -- |
| Paris Club creditors | 90.9 | -- | -- | -- | -- |
| World Bank | 11.6 | -- | -- | -- | -- |
| IMF | 4.9 | 2.0 | 119.7 | -- | -- |
| Other multilateral creditors | -- | -- | 22.3 | -- | -- |
| 4. Increase in gross reserves ^{2/} | 17.7 | 11.6 | 8.2 | 17.7 | 18.9 |
| Identified disbursements (5+6+7+8) | 96.2 | 93.8 | 136.4 | 124.2 | 118.2 |
| 5. Balance of payments support | 42.8 | 37.1 | 69.9 | 36.5 | 5.0 |
| 6. Grants ^{3/} | 24.6 | 20.8 | 26.2 | 24.7 | 30.5 |
| 7. Project loans | 23.8 | 17.9 | 24.3 | 45.0 | 61.7 |
| 8. Direct foreign investment | 5.0 | 18.0 | 16.0 | 18.0 | 21.0 |
| Debt relief | 161.0 | 63.0 | 17.5 | -- | -- |
| Short-term capital movements (including errors and omissions) (+ = inflow) ^{4/} | 19.5 | 16.4 | 15.0 | 16.0 | 17.0 |
| Prospective SAF/ESAF | -- | -- | 133.8 | 14.1 | 14.1 |
| Remaining financing gap | -- | -- | 53.7 | 57.6 | 50.1 |

Sources: Data provided by the Sierra Leone authorities, and staff estimates and projections.

^{1/} Consists mostly of earnings retained offshore from bauxite and rutile exports.

^{2/} Reserves held by monetary authorities and commercial banks.

^{3/} Not including grants listed under balance of payments support.

^{4/} Includes repatriation of proceeds from unrecorded diamond exports.

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96

| Objective | Strategy | Key actions already taken | Measures to be taken | | | |
|----------------------------------|--|---|---|---|---|------------------------|
| | | | Measures | Timing of measures | | |
| I. Fiscal Policies | | | | | | |
| a. Fiscal Management | | | | | | |
| Achieve macroeconomic stability. | Reduce the overall budget deficit by enhancing revenue collection, expanding the tax base, and limiting expenditures. | Overall budget deficit reduced from 11.3 percent of GDP in 1989/90 to 9.0 percent of GDP in 1991/92 and to 6.7 percent of GDP in 1992/93. | Increase revenue effort and strictly limit expenditures to agreed levels. | Throughout the period. | | |
| | | Adopted wide range of revenue actions, including increases in petroleum taxes and introduction of sales tax and import duty on rice. | Simplify and improve corporation income tax, including provision for capital allowances and investment incentives. | May 1994. | | |
| | | Discretionary import and excise duty exemptions abolished. | Extend the sales tax to a value-added tax system. | June 1996. | | |
| | | Introduced measures to enhance revenues from Sierra Leone's natural resources in a transparent manner: (i) renegotiated the mining agreement with the Sierra Rutile Company; and (ii) put in place a fisheries surveillance system. | Strengthen tax administration, including introduction of a taxpayer identification and registration system. | April 1995. | | |
| | | Improved tax administration/ collection by introducing legislation in November 1992 to empower the Income Tax Commission to conduct field audits. | Enact updated income tax and sales tax legislation. | May 1994. | | |
| | | Enhance efficiency and consistency with budgetary resources of military expenditures. | Set up a central committee to review and approve new military contracts and renegotiate existing agreements. | Accounts of the armed forces to be audited | June 1994. | |
| | | Strengthen Government's role in the economy as provider of basic services, such as health, education, extension services and training, roads, water, and sanitation. | Improve the efficiency and effectiveness of public expenditures through improved allocation and management of public resources and capacity for delivery of services. | Fiscal Monitoring Committee established to control expenditures and has been functioning effectively. | Implement agreements reached on public expenditure allocations for 1993/94. | May 1994. |
| | | | | Central Tender Board reorganized to function as a technical body as provided in the Financial Orders. | Conduct annual review of public expenditure and investment programs in consultation with the World Bank, taking account of implementation capacity and availability of resources. | Throughout the period. |
| | | | | Strengthened the Auditor General's Department by recruiting additional qualified staff and improving logistics to exercise its constitutional responsibilities. | Unify the recurrent and development budgets for 1994/95. | May 1994. |
| | | | | Eliminated financial subsidies to public enterprises. | | |
| | Improve the implementation capacity of the public service by strengthening the planning and budgeting functions of the Government and through technical assistance and training. | | | | | |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|--|--|---|--|------------------------|
| | | | Measures | Timing of measures |
| | | | Submit the audited accounts of the Government for 1992/93 for approval by appropriate authorities. | December 1994. |
| | | | Complete review of the Government's pension scheme. | December 1994. |
| | | | Implement recommendations of pension scheme review. | |
| | | | Strengthen the Central Tender Board by providing technical assistance. | May 1994. |
| | | | Review government procurement guidelines and implement the recommendations of the review. | May 1994. |
| | | | Centralize the aid-coordination function in the Department of Development and Economic Planning. | May 1994. |
| Release resources for private sector investment. | Reduce domestic borrowing requirements. | Net repayments on government debt to the banking system in 1991/92 and 1992/93. Validated all domestic suppliers' credits and cross debt to public enterprises. | Further reduce domestic debt of Government. | Throughout the period. |
| b. <u>Public Enterprises</u> | | | | |
| Provide cost-effective services and maximize contribution to budget. | Disengage from activities that, owing to their commercial nature, could better be performed by the private sector. | Removed all price controls on services provided by public enterprises, effective April 1990. Abolished public enterprises' monopolies to market, import, or export. | Continue with the privatization/liquidation of the remaining public enterprises. | Throughout the period. |
| | Commercialize the operations of enterprises remaining in the public sector and set up and enforce regulatory framework for public enterprises. | Removed import duty exempt status of all public enterprises. Established the Public Enterprise Reform and Divestiture Commission (PERDIC), charged with implementing reform of public enterprises. | Establish procedures for on-lending donor assistance to, and repayment of Government-guaranteed debt by, public enterprises. | June 1994. |
| | | | Complete settlement of cross-debt between the Government and public enterprises and among public enterprises. | December 1994. |
| | | | | |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | | |
|---|---|---|---|---|------------------------|
| | | | Measures | Timing of measures | |
| II. Monetary Policy and Financial Sector Reform | | Initiated the liquidation of the National Diamond Mining Company and the Sierra Leone Petroleum Refining Company, and the divestiture of the Government's share in the National Petroleum Company and the National Insurance Company. | | | |
| | Ensure that monetary growth is consistent with inflation objectives. | Control reserve money through targeting of net domestic assets. | Introduced treasury bill auction as vehicle for open market operations. | Establish targets for net domestic assets of Bank of Sierra Leone. | Throughout the period. |
| | | | | Establish a clearing facility for official debt. | June 1994. |
| | Promote financial intermediation and improve resource allocation within the banking system. | Deregulate interest rates and expand menu of savings instruments. | Lending and saving rates decontrolled. | Auction one-year treasury bearer bond at market-related rates. Introduce additional savings instruments. | 1994. |
| | | Maintain positive real interest rates. | Unified bank and nonbank markets for treasury bills. | Publish survey of all bank charges and interest rates. | June 1994. |
| | | | Introduced one-year treasury bearer bond. | | |
| | Improve the viability and stability of the financial system. | Improve banking regulation and supervision. | | Complete a management audit of the Bank of Sierra Leone by an international accounting firm, according to international accounting standards. | May 1994. |
| | Improve the availability of term financing for productive investment. | Restructure the central bank. | | | |
| | | Revise the regulatory framework. | | Amend the Banking and the Bank of Sierra Leone Acts to allow for improved banking supervision, strengthened prudential requirements, increased minimum capital requirements, appropriate guidelines for classifying loans, and issuing new tradeable instruments. | December 1994. |
| | Restructure the commercial banks. | Holding actions to prevent further deterioration of loan portfolio of commercial banks and their exposure were issued by the central bank in November 1993. | Undertake diagnostic studies of commercial banks. | April 1994. | |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|--|--|---|---|------------------------|
| | | | Measures | Timing of measures |
| | | | Complete implementation of recommendations of the diagnostic studies, including restructuring of banks. | March 1995. |
| III. External Sector Policies | | | | |
| a. Exchange system | | | | |
| Maintain a fully functioning flexible exchange system. | Pursue sound financial policies to stabilize the exchange rate and build up a comfortable cushion of international reserves. | Floating exchange rate system introduced in April 1990. | Central bank to intervene in foreign exchange market only to the extent necessary to meet its reserve targets. | Throughout the period. |
| | Reduce the importance of parallel market. | Permitted establishment of foreign exchange bureaux. | Encourage further expansion of foreign exchange bureaux, review their operations, and develop supervision guidelines. | December 1994. |
| | | Liberalized exchange system. | Remove all remaining restrictions on current payments and transfers. | March 1995. |
| | | | | |
| b. Trade policy | | | | |
| Expand export base and encourage import-substitution activities. | Maintain a liberalized trade system free of quantitative restrictions. | All quantitative restrictions on exports and imports removed. | Maintain trade system free of quantitative restrictions. | Throughout the period. |
| | | Public enterprises' monopolies to import and export essential commodities were removed. | Review and simplify regulatory procedures for exporting. | May 1994. |
| | | Reduced dispersion and average level of tariffs. | Set up a duty drawback system for nontraditional exports based on the value of exports. | December 1994. |
| | | | Complete computerization project and adopt a program to generate reliable trade statistics. | December 1994. |
| | | | Implement the harmonized system of tariffs. | December 1994. |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (*continued*)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|--|--|--|---|------------------------|
| | | | Measures | Timing of measures |
| c. External debt management | | | | |
| Re-establish orderly relations with creditors, reduce the debt service burden, and expand access to new credits. | Seek rescheduling of official debt. | Paris Club accord, November 1992. | Seek new Paris Club agreement. | 1994. |
| | Seek commercial debt buy-back. | Arrears cleared to the World Bank, ADB, IFAD, and EIB. | Clear remaining arrears to the multilateral institutions, including Fund. | 1994. |
| | | Initiated, with technical assistance from the World Bank, preparation of debt buy-back operation. | Effect buy-back/rescheduling of commercial debt. | December 1994. |
| | | | No new external borrowing on nonconcessional terms. | Throughout the period. |
| IV. Civil Service Reform | | | | |
| Reform the civil service to restore efficiency and capacity for the delivery of services and to reduce the burden on budget. | Restructure civil service employment through a reduction in the number of employees and effect salary adjustments to enhance the service's ability to attract, retain, and motivate key personnel, training programs, and institutional reforms. | Civil service reduced by one third between mid-1991 and end-1993. | Continue with the rationalization of the civil service, including reductions in staff. | Throughout the period. |
| | | Established ceilings on the number of daily workers per department. | Continue improving pay relativities in the service. | Throughout the period. |
| | | Completed job inspection/functional review of key departments. | Implement the results of the ongoing salary/allowance review, within budget parameters. | June 1994. |
| | | Completed the census of schools and teachers and eliminated "ghost teachers" identified by the census. | Implement the results of job inspection/functional review of the Department of Works. | May 1994. |
| | | Pay differentials widened in favor of managerial staff. | Implement the results of job inspection/functional review of the Departments of Finance, Health, and Education. | December 1994. |
| | | | Complete job inspection/functional review for the Departments of Agriculture and Forestry, Energy, Labor, and Power, Trade and Indus- | 1994. |
| | | | | |
| | | | | |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|---|--|--|---|------------------------|
| | | | Measures | Timing of measures |
| V. Legal and Regulatory Framework | | | try, Transport and Communications, and Land, Housing, and Environment. | |
| Ease/remove regulatory constraints to private sector investment, including business creation and diversification. | Review, revise, and modernize laws governing private sector activity. | Repealed Development of Industries Act in November 1993. | Complete revision of the Fisheries Act and supporting regulations. | April 1994. |
| | | | Review and revise laws relating to the establishment, governance, and winding up of business enterprises (including bankruptcy), and laws governing business activities by noncitizens. | December 1994. |
| VI. Agriculture, Fisheries, and Food Policies | | | | |
| Improve incentives for agricultural exports. | Disengage public enterprises from production and marketing of agricultural products. | Produce Marketing Board dismantled. | Divest Government-owned plantations. | June 1995. |
| | Liberalize fully marketing and export of cash crops. | Liberalized marketing and exporting of cash crops. | Set up a standardization body for export commodities in consultation with all participants in the industry. | September 1994. |
| Encourage production of domestic food crops. | Increase domestic rice production. | Imposed import duty on rice. | | |
| | Rehabilitate infrastructure, including feeder roads, to facilitate marketing of produce. | | Implement the feeder roads rehabilitation program. | Throughout the period. |
| | Remove fertilizer subsidy. | | Phase out fertilizer subsidy. | 1994-96. |
| | Improve research and extension services. | | Increase fiscal allocation for extension services. | Throughout the period. |
| | | | Phase out input supply function of the Department of Agriculture and Forestry and limit its role to the provision of extension services, research, and acceptable regulatory functions. | Throughout the period. |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|--|---|---|---|------------------------|
| | | | Measures | Timing of measures |
| Improve availability of fish for local market and maximize revenue from foreign operators, while maintaining sustainable yields. | Upgrade the policy framework for the fisheries sector. | Implemented an arrangement with a private firm to monitor and conduct surveillance of marine fishing in 1991. | Revise the fisheries monitoring, control, and surveillance policy and upgrade the fisheries legal framework. | May 1994. |
| | | | Contract the fisheries monitoring, control, and surveillance function to the private sector following an international competitive bidding process. | May 1994. |
| VII. Mining | | | | |
| Encourage foreign investment through an improved investment climate | Improve production incentives through streamlined and transparent licensing and tax system. | Renegotiated agreements with rutile and bauxite companies. | Enact the revised Mining Law. | January 1994. |
| Encourage artisanal mining production and exports through official channels. | Create an environment conducive to production and exports by private investors. | Allowed 100 percent retention of export proceeds for diamond exporters and set the diamond export tax at 1.5% of value effective January 1992. | Formulate mining regulations based on the revised Mining Law. | April 1994. |
| | | | Remove restrictions on the number of licenses for dealers and exporters and their agents, and reduce the export license fee. | February 1994. |
| | | | Simplify export procedures for alluvial gold and diamonds. | March 1994. |
| | | | Limit the role of the military in the mining areas to that of the provision of security. | Throughout the period. |
| | | | Undertake a geological survey of mineral resources, and establish an information system for the resource base. | 1995. |
| VIII. Power Sector | | | | |
| Improve the operational efficiency of electricity generation and distribution to | Commercialize the operation of the National Power Authority (NPA). | Power supply improved markedly through rehabilitation of power generators and introduction of external management team, which resulted in improved finances of the power authority through better | Complete the master plan for the power sector. | 1994. |
| | | | Integrate the supervision of Bumbuna hydroelectric project into the NPA. | 1994. |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (*continued*)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|---|---|--|--|--|
| | | | Measures | Timing of measures |
| provide adequate and reliable supply at least cost. | Prepare a master plan to define the long-term investment requirements in the power sector in order to prioritize investment projects and avoid wasteful investments. | billing, more aggressive collection, and liberalized pricing policy. | Run the NPA on commercial principles under a private management contract. Carry out an Energy Sector Review. | Throughout the period. March 1995. |
| IX. <u>Petroleum Sector</u> | | | | |
| Ensure adequate supply of petroleum products at market-determined prices. | Liberalize marketing, distribution, and pricing of petroleum products. | Adopted petroleum pricing formula to reflect changes in world market prices and the exchange rate. Pump prices for petroleum products were raised more than tenfold since 1991 and have been maintained at about \$2.2/imp. gallon for petrol. Petroleum Unit established to coordinate and monitor the procurement and supply of petroleum products in the country. | Update the pricing formula. Review the pricing formula and market conditions with a view to dismantling the formula and moving to a market-determined price, inclusive of an ad valorem excise tax. Maintain the Petroleum Unit. | 1994 and 1995. July 1996. Throughout the period. |
| X. <u>Water Supply</u> | | | | |
| Reduce water contamination and improve access to safe water supply in both urban and rural areas. | Improve the Guma Valley Water Company's (GVWC) operations and attract donor funding for the rehabilitation and expansion of the water supply network. Rehabilitate dormant water companies in major towns. | Signed performance contract with the GVWC in April 1993, and allowed the company to adjust tariffs periodically to cover its operating costs. Increased budgetary provision for expansion of rural water supply. | Complete the water sector master plan to determine the long-term investment requirements for the sector for donor financing. Adjust tariffs concomitantly with substantial strengthening of metering, billing, and collection systems. | April 1994. Throughout the period. |
| XI. <u>Transport</u> | | | | |
| Revitalize road transport system in order to reduce transport cost. | Provide adequate funding for road maintenance Construct/rehabilitate major trunk and feeder roads. | Established a semi-autonomous Road Authority responsible for road maintenance. | Develop a local private contracting capacity. Maintain road user charges at 1993/94 level in real terms and expand coverage to all consumers. | Throughout the period. Throughout the period. |
| XII. <u>Tourism</u> | | | | |
| Promote tourism activities as a source of foreign exchange earnings, employment | Provide stable economic, political, and civil environment. | Created the National Tourist Board and Development of Tourism Act in 1990. | Complete privatization of Government-owned hotels. Improve the operations of the Lungi Airport, | Throughout the period. September 1994. |

SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (continued)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|--|--|---|---|------------------------|
| | | | Measures | Timing of measures |
| creation, and government revenue. | Improve the infrastructure and operations of the airport, and reduce access costs. | | including streamlining arrival and departure procedures. | |
| XIII. <u>Poverty Reduction</u> | | | | |
| Alleviate widespread poverty and minimize the welfare cost of the structural adjustment program on socially vulnerable groups. | Promote labor-intensive economic growth. | Increased substantially the budgetary allocation for the social sectors. | Increase budgetary allocations for the social sectors. | Throughout the period. |
| | Increase substantially budgetary expenditures for the social sectors. | Set up a special fund in the context of the budget to finance socially oriented programs. | Provide adequate Government funding for targeted programs implemented by NGOs and coordinated by the SAPA Unit. | Throughout the period. |
| | Develop and implement targeted programs to address poverty. | Set up a Social Action and Poverty Alleviation (SAPA) Unit in the Department of Development and Planning to implement the social action programs and coordinate the activities of NGOs operating in Sierra Leone. | Develop Government's strategy for poverty reduction for consideration at the Consultative Group meeting. | March 1994. |
| | Encourage donor funding of NGO programs. | | Hold a donors' meeting on poverty-reduction program. | 1995. |
| | | | | |
| XIV. <u>Health and Population</u> | | | | |
| Reduce premature mortality and excessive morbidity. | Improve budgetary allocation for the health and population sector. | Prepared National Health Policy leading to an action plan. | Increase budgetary allocations by at least 5 percent a year in real terms from 1993/94 level. | Throughout the period. |
| | Reallocate resources with focus on district-based health services, emphasizing preventive and simple curative health care. | Held a nation-wide workshop to develop the health sector strategy in November 1993. | Present national Health Action Plan to donors. | May 1994. |
| | Improve the quality of training and supervision for peripheral health staff, health managers, and nurses. | Reduced substantially the size of non-essential staff to free up resources for the provision of health services and supplies. | Adopt and implement the National Health Sector strategy. | July 1994. |
| | | | Initiate the rehabilitation program for health centers providing basic health care. | 1994. |
| | | | Establish and implement a program to ensure efficient provision of essential drugs. | 1994. |
| | Strengthen the cost-recovery systems. | | Delay the construction of the Jui Teaching Hospital. | 1995. |
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SIERRA LEONE: SUMMARY AND TIME FRAME FOR IMPLEMENTATION OF
MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96 (concluded)

| Objective | Strategy | Key actions already taken | Measures to be taken | |
|---|---|---|--|------------------------|
| | | | Measures | Timing of measures |
| Reduce the population growth rate. | Reduce fertility rates by supporting family planning activities and disseminating information. | Adopted of a National Population Program in 1989. | Reactivate the national population policy. | 1994. |
| XV. <u>Education</u> | | | | |
| Reduce the illiteracy rate, particularly among the rural poor and females. | Increase the budgetary allocation for the education sector. | Increased substantially the budgetary allocation for the education sector since 1989/90. | Increase budgetary allocations by at least 5 percent a year in real terms from 1993/94 level. | Throughout the period. |
| Increase access to basic education, raise quality of teaching, and reduce the rate of drop outs. | Reallocate budgetary resources in favor of basic (primary and junior secondary) education and teachers' training. | Redistributed the budgetary allocation for the sector in favor of primary education in 1993/94, while curtailing the allocations for tertiary education. | Present education sector's Development Strategy and Action Plan to donors. | May 1994. |
| | Reduce the user cost of basic education. | Conducted an education sector census in February 1993 to identify resource requirements for the sector and eliminate ghost teachers. | Implement the 6-3-3-4 (primary, junior, senior, and university) school system. | Throughout the period. |
| | | | Complete a comprehensive audit of the accounts of the University of Sierra Leone covering 1982-92. | June 1994. |
| | | | Implement the findings of the census of the tertiary education sector. | 1994. |
| | | | Consolidate the tertiary education system. | 1995-96. |
| XVI. <u>Environment</u> | | | | |
| Ensure the conservation of natural resources and protection of the environment, especially with regard to deforestation, land degradation, and water contamination. | Establish effective Government leadership to undertake sound management of natural resources and identify and monitor programs. | Drawing on the World Bank environment report, the Department of Land, Housing, and Environment is developing a National Environmental Action Plan and is scheduling regional discussions on its findings and proposals. | Provide adequate government institutional and staff support. | June 1994. |
| | Establish capacity within the Government to carry out environmental management functions. | | Complete the National Environmental Action Plan for presentation at the donors' meeting. | March 1994. |
| | Evaluate options for minimizing the environmental impact of sectoral activities, including mining (both large-scale and artisanal). | | Introduce measures/incentives in artisanal mining to conserve top soils and monitor large-scale mining programs. | Throughout the period. |
| | | | Require environmental reviews of all government projects and, as appropriate, undertake environmental assessments. | Throughout the period. |