

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/86/243
Supplement 3

CONFIDENTIAL

November 18, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Sierra Leone - Structural Adjustment Arrangement

Attached for the records of the Executive Directors is the text of the structural adjustment arrangement for Sierra Leone agreed at Executive Board Meeting 86/182, November 14, 1986.

Att: (1)

Sierra Leone - Structural Adjustment Facility:
Three-Year and First Annual Arrangement

Attached hereto is a letter with an annexed policy framework paper and a letter with an annexed memorandum of economic policies dated October 15, 1986 from the Minister of Finance and the Acting Minister of National Development and Economic Planning of Sierra Leone requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth

1. the objectives and policies of the program to be supported by the three-year arrangement, and
2. the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the regulations for the administration of the structural adjustment facility:

a. For a period of three years from November 14, 1986, Sierra Leone will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 27.213 million.

b. The first loan, in an amount equivalent to SDR 11.58 million, is available for disbursement at the request of Sierra Leone.

c. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Sierra Leone. The amount of the second loan will be equivalent to SDR 7.8165 million, and the amount of the third loan will be equivalent to SDR 7.8165 million.

d. Before approving the second 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 first annual arrangement, taking into account primarily the following:

(i) the indicators relating to total domestic bank credit, net claims on Government by the banking system, cash reduction in external arrears, and the contracting or guaranteeing of new medium- and short-term public debt by the Government or the Bank of Sierra Leone described in Table 12 of EBS/86/243,

(ii) the indicators described in Table 12 of EBS/86/243,

(iii) imposition or intensification of restrictions on
payments and transfers for current international
transactions,

(iv) introduction or modification of multiple currency
practices,

(v) conclusion of bilateral payments agreements which are
inconsistent with Article VIII,

(vi) imposition or intensification of import restrictions for
balance of payments reasons.

e. In accordance with paragraph 5 of the attached letter trans-
mitting the memorandum of economic policies, Sierra Leone will
provide the Fund with such information as the Fund requests in
connection with the progress of Sierra Leone in implementing
the policies and reaching the objectives supported by the
first annual arrangement.

f. In accordance with paragraph 6 of the attached letter
transmitting the memorandum of economic policies, 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
consultation. 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

October 15. 1986

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

On behalf of the Government of Sierra Leone, we are pleased to transmit herewith a policy framework paper, prepared in collaboration with the staff of the Fund and the World Bank, setting forth the Government's basic economic objectives for the next three years and the macroeconomic and structural adjustment policies designed to achieve them. These policies are an integral part, and hence fully consistent with, our financial program for 1986/87 in support of which we have requested a one-year stand-by arrangement from the Fund, and with our adjustment program under our prospective Structural Adjustment Loan from the World Bank.

We are forwarding today the same letter and attached paper to the President of the World Bank.

Sincerely yours,

/s/ .
Dr. Shamsu Mustapha
Acting Minister of National
Development and Economic Planning

/s/
Dr. Sheka Kanu
Minister of Finance

SIERRA LEONE

Economic and Financial Policy Framework
1986/87-1988/89

October 15, 1986

I. Background

1. Sierra Leone's population of 3.7 million is growing at about 2.7 percent per year. Its per capita income is about \$300 and two thirds of the population live below the absolute poverty line. ^{1/} Agriculture, although it employs 65 percent of the labor force, contributes only 35 percent of the GNP, largely because of the dominance of subsistence farming. Domestic production meets only about 70 percent of the domestic demand for rice, the main staple. Cocoa, coffee, and palm kernels are the main export crops. The importance of mining, especially diamonds, which has been a key sector, has diminished in recent years. The manufacturing sector is small and largely for import substitution. The economic and social infrastructure is inadequate, and the development of human resources has been limited: life expectancy is only 38 years, infant mortality is 200 per 1,000 live births, and the literacy rate is 15 percent, among the poorest levels in the world. Similarly, the primary school enrollment ratio of 41 percent is well below the average even for the low-income sub-Saharan countries. There is serious shortage of skilled manpower at the middle and lower levels of public administration.

2. Despite its underdeveloped economic and social infrastructure and limited human resource base, Sierra Leone achieved a steady economic growth rate of 5 percent a year during its first decade of independence (1962-72), primarily because of its mineral resources (especially diamonds) and relatively favorable agricultural potential. During 1972-75, despite the oil price shock in 1973, the economy still managed to grow at over 3 percent a year. GDP growth slowed to under 2 percent a year during 1975-80, however, mainly because of the depletion of alluvial diamond deposits and the closure in 1975 of the only iron ore mine, then the country's second largest source of export earnings.

3. The situation worsened during 1980-83: agricultural output fell and mineral output fell further; the terms of trade declined sharply; and the parallel market in foreign exchange thrived, diverting most trade and foreign exchange away from the official channels; at the same

^{1/} This per capita income estimate in dollar terms does not reflect the drastic decline in the value of the leone in recent months (see paragraph 14).

time, the debt service obligations of the Government increased sharply because of imprudent borrowing in the late 1970s. GDP growth stagnated, per capita income declined and the economic crisis deepened.

4. Sierra Leone's economic crisis of the early 1980s can be attributed to three causes. First was a series of external shocks that lowered the purchasing power of Sierra Leone's exports, among other effects. The unfavorable events were: the first oil price hike in 1973; the decline in the price of exports in the late 1970s and early 1980s; and the second oil price hike in 1979. Second was the gradual depletion of Sierra Leone's resource base for its important mineral export commodities, alluvial diamonds and iron ore. Third, the Government's policy responses to the external shocks were often inadequate and poorly conceived. For example, it did not adjust the exchange rate in a timely and sufficient manner, and it continued to keep agricultural producer prices and the prices of petroleum products low and incurred huge budget deficits. In 1979, when the terms of trade drastically turned against Sierra Leone, instead of managing demand, the Government, as a host of the OAU summit conference of 1980, increased its expenditure program sharply. Domestic inflation soared, and the spread between the official and parallel market exchange rate widened sharply. With the leone grossly overvalued in the official market, most trade and foreign exchange was attracted away from that market.

5. Since 1983, the situation has continued to deteriorate, despite some measures by the Government. The total government expenditures in nominal terms increased four fold between FY1983 and FY1986, largely because of huge increases in foreign exchange-related subsidies (such as for oil). An overstaffed and inefficient civil service, as well as the budgetary cost of poorly managed state enterprises, has continued to aggravate the fiscal problem. At the same time, the Government continued to rely to a large extent on external borrowing, much of it at highly nonconcessionary terms, and on the accumulation of arrears in external payments to sustain domestic absorption. Although in the past three years the Sierra Leone Government has initiated a number of measures aimed at halting the decline in the economic and financial situation, these measures have been sporadic and limited. For example, in early 1985, the Government initiated a discrete and inadequate devaluation of the leone. Similarly the 1985 increases in energy and food prices proved inadequate, and the budget deficit widened further. The economic situation has generally continued to worsen.

II. Medium-Term Structural Adjustment Program

Objectives

6. Against the background just described, the new Government considers that bold, appropriate, and sustained economic and financial policies are urgently necessary to redress the various imbalances, reverse the economic decline and restore the economy to positive growth. It intends

to pursue a structural adjustment effort within a broad policy framework, developed in close consultation with the staffs of the Fund and the World Bank; the medium-term program addressed here covers the three years 1986/87-1988/89. The Government expects that a large part of the growth in the medium term will come from the agricultural sector, which will benefit from reforms in pricing policies. Likewise, it anticipates that as a result of appropriate policy reforms the overall performance of the mining sector will improve through increased mining of gold, rutile, bauxite, and possibly kimberlite diamonds. Other measures during the program period will be designed to facilitate the resumption of concessional capital inflows, including debt relief.

7. Overall, the medium-term program aims at the following objectives: (a) an average annual real growth rate of GDP of some 3 percent, a level that will modestly improve real per capita incomes; (b) a substantial reduction in the rate of inflation from an estimated 90 percent in 1986/87 to some 10 percent in 1988/89; ^{1/} and (c) a reduction in the external current account deficit from an estimated 2.0 percent of GDP in 1986/87 to about 1.0 percent in 1988/89.

8. The medium-term adjustment program will include actions both to stabilize the economy and to achieve and sustain growth. The actions being initiated at the start of the program are: (a) exchange rate adjustment; (b) import liberalization; (c) correction of price distortions; (d) reduction of the budget deficit; and (e) containment of monetary growth. These actions will lay the foundation for economic recovery and growth, which will also be the goal of the structural adjustment program supported by the Bank.

9. The medium-term adjustment program will: (a) stimulate further agricultural and industrial output by strengthening the initial reforms, and will be accomplished by maintaining an appropriate exchange rate, ensuring continued adequate agricultural producer prices, maintaining price liberalization and rationalizing tariff policy; (b) improve public sector efficiency by rationalizing and overhauling public enterprises and reforming the Government's budgeting system and the expenditure program; and (c) rehabilitate the transport and communications infrastructure (roads, electricity, and so on) so as to bring it up to a satisfactory standard. In sum, the objective of the Government's medium-term adjustment program is to put the economy back onto a path of growth and development and to regain a viable external payments position, in the context of a liberal trade and exchange system.

10. In sum, the Government's medium-term adjustment program will be growth-oriented. Agriculture will be the principal source of growth,

^{1/} This reduction will be attained through the tightened fiscal and monetary policies as described in paragraph 23 and 27. In addition, the high rate of inflation in 1986/87 reflects the substantial (six-fold) depreciation of the Leone. The exchange rate is now expected to stabilize.

but increased output from mining, especially of gold, rutile and bauxite, and from fishing will also greatly help. The medium-term adjustment program will also help the economy regain a viable external payments position. In the short run, the recorded exports will grow because a market-determined exchange rate policy will drastically curb the parallel market. In the medium term, the increased prices will boost most exports, especially coffee, cocoa, fish, and gold.

11. A summary of the timeframe for the Government's adjustment program is provided in the attached table. As can be noted, the bulk of the substantive policy actions are being implemented in the first year of the program. Some elements of the program, however, will take a longer time to complete. For example, the reform and rationalization of public enterprises should take several years. Extensive institution-building efforts--from better budgeting and investment planning to civil service reform in general--are expected to extend beyond the three-year program period.

12. Since implementation of the critical policy measures is front-loaded, an important objective of the Government's program in the period ahead is to ensure regular reviews of the implementation of the reforms. Based on these reviews, additional measures, as necessary, will be designed and implemented.

13. It is expected that the Government's program will receive support from the international community, including the Fund, the World Bank, and bilateral donors. Fund-supported adjustment programs would be accompanied by use of Fund resources, including the the Structural Adjustment Facility, to serve as catalysts in mobilizing external resources. The World Bank is considering supporting the growth-oriented adjustment program with SAL, and related technical assistance. The Bank supported structural adjustment program will include rehabilitation of some public enterprises. In addition, the Bank expects to continue to assist Sierra Leone in rehabilitating and expanding the economic and social infrastructure (such as roads, power supply, and education and health services) needed to support the adjustment effort and to accelerate agricultural growth. A number of bilateral aid donors have also expressed intentions to expand and better coordinate their financial support through regular bilateral aid programs and exceptional financing (such as debt rescheduling). A donors' round Table Conference has been tentatively planned for the first quarter of 1987.

Actions already initiated

14. Within the broad framework outlined above, in the first year of the program (1986/87), the Government is implementing a number of strong adjustment measures. It has introduced a flexible, market-determined exchange rate system, under which the exchange rate depreciated sharply from Le 5 = US\$1 in June 1986 to Le 30 = US\$1 by the end of September

1986. ^{1/} To complement the new exchange rate system, the trade system is being liberalized, as the previously restrictive import licensing system has been replaced with a system of open general licenses. All trade transactions are now valued at the market-determined exchange rate for import duty purposes. The retail prices of basic consumer goods are being decontrolled. The subsidies on petroleum products have been removed through a full pass-through of the import costs at the market-determined exchange rate. The retail price of rice is being fully decontrolled in the context of arrangements for the private importation of rice. Substantial increases in the producer prices of the major export crops--coffee, cocoa, and palm kernels--to levels comparable to those in neighboring countries have been effected. Fiscal and monetary policies have been considerably tightened. Interest rates have been decontrolled.

Further actions

15. The structural adjustment program includes implementation of a revised three-year public investment program covering the period 1986/87-1988/89. The overall investment strategy is to restore the economy's productive capacity through the rehabilitation of the basic infrastructure and the development of efficient input delivery and extension service systems in the agricultural sector. Accordingly, more than 50 percent of the investment resources are earmarked for projects in agriculture and supporting infrastructure. Hitherto, a major problem had been the dispersion of a small development budget over too many projects, with the result that many of these projects could not be completed. To overcome this problem, the Ministry of Planning and National Development has, in consultation with the World Bank, selected a small number of high priority projects to be included in a core program, which will have priority funding under the budget. The core program will account for at least 80 percent of the development budgets. For 1986/87, the core program has been finalized in consultation with the SAL appraisal mission. In the future, the Ministry of Planning and National Development will have a stronger role in planning and coordinating the public investment program and the criteria for selecting core projects will be determined by a Project Review Committee, to be formed by the Ministry by December 1986. In addition, the number of noncore projects underway will be sharply reduced. The largest share in the core program would be for agriculture (40 percent of expenditures), followed by power (19 percent), and transport and communications (18 percent).

16. Agriculture, which historically has been the mainstay of the economy, will have to be the principal source of future growth in output and employment. To this end, the Government's agricultural policy is predicated on competitive and realistic producer pricing for all major

^{1/} Under the exchange system, the leone no longer bears a fixed relationship to any other currency but has a varying rate that reflects the supply and demand of foreign exchange in the economy.

agricultural export crops as well as for rice. In line with this approach, the Government has recently increased agricultural producer prices for commodities now solely exported by the SLPMB. The new prices are nearly 60 percent of the f.o.b. export prices on average at the recent market-determined exchange rate under the floating system. Sierra Leone's producer prices are now competitive with those in neighboring countries. The Government intends to increase the ratio of producer prices to export prices during the program period to provide stronger incentives to farmers.

17. The Government's agricultural policy also involves increasing privatization of marketing and the supply of farm inputs, and the development of supporting institutions and infrastructure (e.g., research, extension services, and roads). These efforts should boost the production of coffee, cocoa, and rice. The Government has already started to encourage private sector participation in rice importing, with a view to fully phasing out the role of the SLPMB in that operation by the end of December 1986, except that it will hold strategic stocks of 20,000 tons. The rice price will be market-determined and SLPMB's purchase of rice from the domestic market, which has been negligible in the past, will also be phased out. And any grant rice received (including all PL 480 rice from the United States), as well as sales from the strategic stock, will be at the prevailing free market price for rice. The Bank and the Government have agreed on a study that will evaluate the efficiency of the SLPMB and recommend the best approach to marketing export crops. Meanwhile, the Government will consider opening up the export market to the private sector.

18. In addition, the Government will, by the end of 1986, review existing arrangements in the fishing sector with the assistance of the Bank and its affiliates. The purpose is to determine how better to exploit this important resources for national development.

19. In the industrial (including manufacturing) sector, the Government plans to place greater reliance on market mechanisms to allocate resources. It will do so by ending administrative intervention and reducing the protection given to largely inefficient domestic industries through the fiscal and exchange rate systems. To this end, during the program period, the Government will continue to implement policies of price decontrol, abolition of exemptions from taxes, and a liberalized import licensing regime. The Government plans to review the Industrial Development Act of 1980 with a view to minimizing administrative intervention, while at the same time providing a stable policy environment that will encourage competitive pricing in industries and provide increased support for small-scale enterprises.

20. A critical issue in the mining sector is to arrest the decline in overall performance and in the contribution of this sector to growth and the generation of foreign exchange. The Government will continue to promote increased incentives to diamond mining and export by maintaining a floating exchange arrangement in the economy. The proposed Kimberlite

diamond mining project will be reviewed, with a view to attracting appropriate foreign investors.

21. Sierra Leone's economic recovery will depend to an important extent upon the rehabilitation of its energy sector. The most urgent short-term needs are to: improve the supply of electricity and petroleum products; strengthen the responsible institutions; and better manage energy demand, mainly through economic pricing. Significant price increases for petroleum products were announced on June 27, 1986, and again on September 16, 1986. The cumulative increases, ranging from a total of 257 percent (diesel) to 475 percent (kerosene), have now eliminated subsidies on petroleum products. The system for procuring crude oil needs to be reorganized as early as possible by, inter alia, putting procurement on an internationally competitive basis. Work has already begun on resolving the problem of the refinery's accumulated debt and its future role.

22. In the electricity sub-sector, the Government will, in collaboration with the World Bank, detail a program for rehabilitating facilities that are badly run down and in need of spare parts, and for improving the National Power Authority's (NPA) effectiveness, including by modifying its basic charter to give it greater management autonomy. Meanwhile, electricity tariffs have been increased by 300 percent, effective October 1, 1986. The NPA will develop a master plan for the least-cost development of the power Sierra Leone will require in the future, to include a review of the design and timing of the proposed Bumbuna hydro-electric scheme and a number of identified small hydro projects.

23. Fiscal policies will be directed toward lessening the scope of the public sector and the impact of the budget on the economy. Here the emphasis is on reducing the overall budget deficit (on a commitment basis and after debt relief) from a programmed 7.5 percent of GDP in 1986/87 to about 3 percent of GDP in 1988/89. With regard to tax policy, the Government aims to widen and strengthen the tax base and to enhance the elasticity and efficiency of the tax system. In the current fiscal year, the Government, with technical assistance from the Fund, will initiate in October/November 1986 a review of the tax system to identify new sources of revenue and revenue instruments, review modifications to the present tax and tariff structures in light of the new exchange system and economic liberalization program, consider appropriate methods for taxing the mineral sector, and review tax administration procedures. It is expected that the results of this review will be ready by mid-November, in time for implementation in the context of a revised budget for FY 1987, scheduled for completion by the end of December 1986.

24. Expenditure policies will aim at strictly limiting the growth of government spending. The system of monitoring expenditures on a quarterly basis and the control mechanisms reintroduced recently are to be strengthened. The Government recognizes that its efforts to reduce expenditures must take into account the serious imbalances in current expenditures (such as rapidly increasing expenditures on wages and

salaries with decreasing allocations for operation and maintenance) and the unproductive investments of recent years, both of which have contributed to a decline in the productivity of public expenditures. To improve both the Government's financial position and the productivity of its work force, these trends are to be reversed and more emphasis put on vital supplies and other nonpersonnel recurrent costs. The Government has decided that, as a first priority, total daily wage labor will be reduced by 30 percent by June 30, 1988. Simultaneously, it will raise budgetary allocations for operation and maintenance, as recommended by the Bank. These efforts will improve resource utilization in the economy and increase the returns on public investment. As noted earlier, development expenditures will be focused on the core program.

25. The Government is deeply concerned that the worsening financial situation of public enterprises has led to a decline in the quality of their services and an increased burden on the budget through subsidies and lost revenues and dividends. Consequently, a comprehensive reform of this sector will be initiated in 1986/87. The objectives of the reform are: (a) to rationalize the role of the Government in the public enterprise sector through divestiture, ^{1/} restructuring, and/or closure, so that enterprises which are essential to the provision of public services will be retained; and (b) to restore the operational efficiency of enterprises in the public sector through greatly improved financial planning and management, monitoring and control, institutional reform, accountability, appropriate pricing and other measures. A rehabilitation program in a small number of public enterprises is being undertaken in collaboration with the World Bank.

26. In addition to the continued implementation of policies to improve the performance of the public enterprise sector, by June 30, 1987 the Government will, as announced in the budget speech for 1986/87, establish a Public Enterprises Commission (PEC) as a Cabinet subcommittee. Its functions will be to establish general policy guidelines for the sector with regard to the creation and divestiture of enterprises, liquidation, pricing, and employment policies, along the lines being discussed by the Government and the Bank in the context of the proposed SAL. Also, as indicated in the budget speech for 1986/87, this Commission will be supported by a technical secretariat known as the Public Enterprises Monitoring Unit (PEMU), already established in August 1986 by the Cabinet. There is also a vital need to reduce inter-enterprise arrears. For this purpose, the Government is undertaking a study of the arrears, and is to establish a schedule for offsetting them and eliminating any remaining balances.

27. The tightening of fiscal policies and the new exchange system will be complemented by stringent monetary policies aimed at reducing inflationary pressures, while making adequate allowances for productive credit. Accordingly, total bank credit will be targeted to increase at rates that

^{1/} Seven of the twenty-six public enterprises have already been identified for divestiture.

permit a substantial deceleration in the growth of the liabilities to the banking system. However, to facilitate the Government's objective of rehabilitating and expanding the role of the private sector, adequate provision will be made for the private sector's genuine needs for credit for productive activities, with special emphasis on crop financing. To assist the smallholder agricultural sector, measures are being taken to ensure that the scope and efficiency of rural banks are improved. In this connection, the Government plans to extend the network of the rural banks to all agricultural project areas by 1988/89. As a first step, two new rural banks are being launched this fiscal year, as called for in the budget speech for 1986/87.

28. The Government will also undertake a comprehensive review of the financial sector. Following that review, it will suggest measures to promote efficient financial intermediation, in view of the low savings rates and decline in recent years of the proportion of investment financed from domestic resources. The review is to be initiated by the second half of 1986/87, with the assistance of the Fund, and is to be implemented in subsequent years of the program. In the interim, the Government will restructure and recapitalize the National Development Bank, under new management already appointed.

29. External sector policies will continue to be implemented under the freely floating exchange rate system. The policies underpinning the new system--the abolition of all retention facilities, the lifting of restrictions on current account transactions and on inward capital remittances and the liberalization of the import licensing regime--will be maintained. Ad hoc and administrative manipulation of the operation of the exchange system will be eschewed completely, as these will undermine confidence and give rise to all of the problems of the previous exchange arrangements.

30. In view of Sierra Leone's current large debt service burden (68 percent of exports, 1/ including obligations to the Fund and before debt relief), debt management policies will aim at reducing the external debt service burden in the medium term by avoiding further commercial borrowing.

31. External payments arrears, which rose sharply in the last few years, reaching about SDR 312 million by the end of June 1986, or about twice the level of annual exports, will be partly paid and partly rescheduled. At present the Government's plans call for debt rescheduling under the Paris Club and for rescheduling soon thereafter other eligible debt on terms comparable to those obtained from the Paris Club. In the context of the proposed stand-by arrangement, the Fund staff is working with the Sierra Leone authorities on various plans for liquidating arrears, including cash payments. The authorities recognize that successful resolution of the

1/ Estimated for the fiscal year 1985/86

arrears problem is essential to restoring confidence in the economy, eliminating the excessive finance charges on imports, re-establishing normal trade credits and increasing private capital inflows.

III. The Social Impact of the Program

32. A significant impact of the Government's adjustment program will be a relative improvement in the income of a large part of the rural population as compared to that in urban areas. The rise in the prices of agricultural products, the elimination of retail subsidies, the decontrol of prices and liberalization of marketing--coupled with the impact of the floating of the leone on export crop prices--will result in higher farm incomes. Given its relatively low consumption of imported goods, the rural population will be relatively less affected by the increases in the prices of imports occasioned by the leone's float than will the urban population. At the other end of the spectrum, those who now exploit the scarcity and distortions in the market will lose, as the adjustment program will reduce the rents they currently enjoy. Nevertheless some traders will, in the long run, benefit from the increased growth fostered by the adjustment.

33. Urban dwellers in general will be adversely affected by the greatly increased costs of electricity and transportation, as the prices of imports rise and the subsidies for petroleum products are ended. The majority, however, have already felt most of the impact of recent measures, since they have been paying scarcity prices far above the hitherto controlled official ones. Moreover, the supply of electricity, petroleum products and other goods had become so limited and erratic that only the higher income groups who could afford to purchase their own electric generators and pay black market prices for petroleum products and other goods could regularly enjoy them. Workers released from the public sector will be hard pressed initially, but the growth of agriculture and manufacturing and the revival of the mining sector are expected to lead to increased employment opportunities and offset the hardships.

IV. External Financing Requirements

34. Present indications are that foreign aid disbursements will increase significantly as a result of the continued implementation of a strong and comprehensive adjustment program. A one-year Fund-supported adjustment program has been requested along with the request for use of Fund resources under the SAF. As already mentioned, the World Bank is considering a possible IDA credit for a structural adjustment program and expects to work with the Government to develop supporting agricultural and related infrastructure projects for external financing. Regarding other donors, the Government, in collaboration with the UNDP and the World Bank, intends to convene a donors' Round Table Conference in the first quarter of 1987 to review the scope for increased donor commitments. The Government plans to request a shift, to the extent possible, in the composition of aid in favor of balance of payment support, such as commodity and

program aid that can be used directly to finance imports of investment goods and services not linked to specific projects. An increase in such aid flows should assist Sierra Leone to accommodate the additional imports which are essential for the restoration of the economy to strong sustained growth.

35. The external financing requirement (before taking into account the proposed debt relief, the use of Fund resources, the SAF loan, and the World Bank's SAL resources) will average about SDR 55 million a year during 1986/87-1988/89, including projected obligations to the Fund. ^{1/} To this amount must be added necessary reserve buildup and the reductions in arrears during the period. Additional resources flows from the Bank and Fund will cover some of these financing requirements. The remaining gap in the balance of payments could be filled either by quick-disbursing bilateral external aid and/or by more generous debt relief. The prospects for such financing seem good.

36. The financing requirement is highest in 1986/87, the first year of the program--it is presently estimated at around SDR 90 million, which includes obligations to the Fund estimated at SDR 18.1 million. Possible resources include: purchases under the stand-by arrangement, amounting to SDR 15.6 million; drawings under the SAF of SDR 11.6 million, and the first tranche of the World Bank's proposed SAL, for about SDR 12-14 million; and debt relief which, it is hoped will be SDR 35-40 million. The balance of resources, SDR 15-20 million, will be sought from other official donors under the prospective donors' Round Table Conference. Although these additional resources reflect a 30-35 percent increase over the average annual level of disbursements of the last five years, the initial contacts with some donors indicate the increase will be possible. During the last few years, several donors had suspended disbursements and will now resume or increase aid in support of the adjustment program. The support from other donors could also be used to buildup the present unsustainably low level of reserves (about 0.7 months' imports, a large part of which is encumbered) to about 1.2 months' imports.

37. In 1987/88 and 1988/89, Sierra Leone will continue to need Fund resources under both the stand-by arrangements and the SAF. The World Bank is expected to disburse the second tranche of the proposed SAL in 1987/88 and will consider in FY 1988/89 an increased lending program in the agricultural and other productive sectors, as well as a program of related infrastructural development. With these resources and further support from other donors, including debt relief, Sierra Leone should be able to continue to achieve reasonably strong growth and effect further reductions in arrears each year, as well as, to buildup gross reserves

^{1/} The external financing requirement represents the overall balance of payments gap after considering current account and capital account balances. The capital accounts include, inter alia, the anticipated capital inflows from existing aid pipeline, and normal level of new commitments of project aid, and net private capital transfers and transactions.

further in 1987/88 and 1988/89. In this context, it might be noted that Sierra Leone, compared with many neighboring countries, is relatively well-endowed with natural resources, particularly in agriculture, fisheries, and minerals. Consequently, it is expected that, on the basis of the policies outlined above, Sierra Leone should be able to attain its medium-term objectives.

Sierra Leone: Summary and Time Frame for Implementation of Structural Adjustment Policies, 1986/87-1988/89

Areas	Objectives and Targets	Measures	Phasing of Implementation
1. <u>Agricultural policy reform</u>			
a. Agricultural producer prices	Expand and diversify domestic production and exports.	<p>* Continue competitive producer pricing for major export crops. Establish principles and procedures for fixing cash crop prices.</p> <p>* Announce cocoa price each year in October and coffee price in December, both to be agreed with the Fund and the World Bank.</p> <p>* Carry out study of marketing to evaluate efficiency of Sierra Leone Produce Marketing Board and recommend best approach to marketing of export crops.</p> <p>* Develop action plan for improving marketing arrangements based on results of study.</p> <p>* Initiate action plan.</p>	<p>In addition to increases already announced for 1986/87, further adjustments as and when necessary. Continuous monitoring process.</p> <p>During the program period.</p> <p>In 1987/88.</p> <p>In 1987/88.</p> <p>By 1988/89.</p>
b. Cereals policy (rice)	Promote food security and reduce reliance on rice imports.	<p>* Continue incentive producer pricing. Adopt policy that rice price will be market-determined. Decontrol retail price of rice and eliminate retail price subsidies.</p> <p>* Complete privatization of rice imports.</p>	<p>In addition to the increase already announced for 1986/87, further adjustments as and when necessary to producer prices; retail price of rice to be decontrolled by end-December 1986; privatization process started and to continue, with a view to completion by end-December 1986.</p>
c. Institutional developments.	Strengthen the institutional framework.	<p>* Complete reorganization of Ministry of Agriculture.</p> <p>* Formulate action program to strengthen institutions.</p>	<p>In consultation with the World Bank; also reduce excess manpower in the Ministry of Agriculture by 35 percent in 1986/1987.</p> <p>During 1987/88.</p>
2. <u>Industrial and mining policy reform</u>			
a. Industrial and manufacturing sectors	Improve the economic and financial environment for industry and manufacturing so as to enhance resource allocation and promote exports.	<p>Remove administration intervention. Continue liberal import licensing and allow prices of imported goods to be determined by tariffs alone.</p> <p>Study tariff structure and take actions to rationalize structure to meet goals of increased revenue and administration and uniform incentives.</p> <p>* Review Industrial Development Act and put in place revised policy to give less incentives to imported capital equipment and intermediate products and move to industries which over time should become competitive with imports.</p>	<p>Policies already initiated, and will continue throughout program period.</p> <p>In 1987/88.</p> <p>Industrial Development Act review to be initiated by March 1987; put revised policy in place no later than 1987/88.</p>

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Sierra Leone: Summary and Time Frame for Implementation of Structural Adjustment Policies, 1986/87-1988/89

Areas	Objectives and Targets	Measures	Phasing of Implementation
b. Mining sector (diamonds)	Encourage production and increased competition.	Government Gold and Diamond Office (GGDO) restructured; management of National Diamond Mining Company (NDMC) through Precious Minerals Mining Company (PNMC), replaced; accelerate work on Kimberlite project.	GGDO replacement by auction and NDMC restructuring already done; World Bank to be contacted by December 1986 for assistance with Kimberlite project during 1986/87.
c. Other minerals	Increase their contribution to the economy.	Maintain free-floating exchange system.	Throughout the program period.
3. <u>Energy policy</u>	Improve supply of electricity and petroleum products. Strengthen institutions and management of demand for energy.	<p>* Rehabilitate existing power-generating plants and distribution facilities, and import spare parts for maintenance.</p> <p>* Revise pricing policies and structure to reflect economic costs and avoid distortions from cross subsidies.</p> <p>* Review National Power Authority Act, strengthen NPA's finances and management and autonomy.</p> <p>* Reorganize system for procuring crude oil and shipping.</p> <p>* Formulate least-cost power development strategy, and review design and sequence of Bumbuna scheme.</p>	<p>Beginning in 1986/87, throughout program period.</p> <p>In addition to full pass-through prices implemented in July and September, government now implementing flexible, quarterly pricing policies; increase electricity tariffs.</p> <p>Beginning in 1986/87, through 1987/88.</p> <p>Change already made in system will be reviewed by March 1987, and any further modifications initiated after that.</p> <p>Beginning in 1986/87, throughout program period.</p>
h. Retail prices	Enhance resource allocation and demand management.	Maintain liberal price regime.	Throughout the program period.
4. <u>Fiscal policies</u>			
a. Budget deficit	Reduce impact of the budget on the economy.	Progressive reduction in overall deficit (commitment basis).	Annually, throughout the program period; for 1986/87 implement revised budget by January 1987.
b. Tax reform.	Align tax system (with particular emphasis to international trade taxes) to the new exchange system.	Using technical assistance from the Fund, review tax system.	Tax study to be completed by mid-November 1986, for consideration in the context of the revised budget by January 1987.
c. Expenditure control	To foster adherence to the budgetary targets.	Continue quarterly expenditure monitoring and control system.	Throughout the program period.

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Sierra Leone: Summary and Time Frame for Implementation of Structural Adjustment Policies, 1986/87-1988/89

Areas	Objectives and Targets	Measures	Phasing of Implementation
d. Public expenditure policy reform	Improve development planning and budgeting, increase efficiency of government expenditure by restoring balance between personnel and non-personnel expenditure.	<p>* Establish inter-ministerial committee responsible for approving projects in a rolling three-year investment program.</p> <p>* Present development and recurrent budgets to Parliament at same time.</p> <p>* Reduce total number of projects in development program; formulate Core Investment Program of high priority projects requiring no more than 60 percent of total development budget.</p> <p>* Contain expenditure in daily wage later by deleting fictitious workers from daily wage list, retiring workers over 50 years old and laying off redundant workers.</p> <p>* Increase budget allocations to non-personnel expenditures in line with World Bank recommendations.</p>	<p>December 1986.</p> <p>Submit bill to Parliament by March 15, 1987 requiring both budgets be submitted to Parliament jointly.</p> <p>Initial core program will be drawn up by March 15, 1987.</p> <p>Establish task force to assess minimum daily wage labor requirements of Ministries of Works, Agriculture and Health and have its recommendations take effect by December 31, 1986.</p> <p>Establish annual and quarterly ceilings on outlays for wages in above three ministries.</p>
e. Domestic arrears	Reduce domestic arrears, including arrears between the government and public enterprises.	Compile data on domestic arrears; make adequate budgetary provisions during program period for reducing arrears.	Throughout the program period.
5. <u>Public enterprises</u>			
a. Enterprise reform and policy	Rationalize role of the government in the sector, restore operational efficiency and viability of relevant enterprises.	<p>* In collaboration with the World Bank, embark on divestiture, restructuring/closure.</p> <p>* Permit public enterprises to pass on effects of exchange rate adjustments.</p> <p>* Provide appropriate capitalization for selected enterprises (recommended in World Bank review).</p> <p>* Modernize Companies Act.</p> <p>* Harmonize and update corporate statutes and articles of association.</p> <p>* Prepare policy guidelines on key areas of public enterprises.</p> <p>* Establish a Public Enterprise Commission (PEC) as a cabinet sub-committee, and a Public Enterprise Monitoring Unit (PEMU) to develop an implement a system for monitoring and evaluating performance of public enterprises.</p> <p>* Take steps to improve management and operations of key public enterprises (National Power Authority, Road Transport Telecommunications and Guma Valley Water).</p>	<p>Government divest itself of seven enterprises recommended by World Bank Report by October 31, 1987. Complete liquidation of National Trading Company and initiate liquidation of Marampa Iron Ore Mines (unless further analysis establishes its economic viability) by end-1986.</p> <p>Carry out review of Sierra Leone Produce Marketing Board by October 31, 1987.</p> <p>Agree on price increases and actions to pass-through exchange rate changes to date by end-1986.</p> <p>Government employ by end-1986 consultants to study financial restructuring.</p> <p>Review, revise and submit to Parliament by March 15, 1987.</p> <p>Review and revise by end-October, 1987.</p> <p>Approve guidelines on staff and procurement by March 15, 1987.</p> <p>Create PEMU by March 15, 1987 and PEC by June 30, 1987.</p> <p>Throughout the program period. Agree by end-1986 on staff reductions in three enterprises.</p>

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Sierra Leone: Summary and Time Frame for Implementation of Structural Adjustment Policies, 1986/87-1988/89

Areas	Objectives and Targets	Measures	Phasing of Implementation
b. Inter-Enterprise arrears	Enhance enterprise financial planning.	* Delineate a schedule and timeframe for eliminating inter-enterprise arrears.	Arrears schedule to be delineated by March 1987; elimination progressively throughout the program period.
6. <u>Monetary and credit policies</u>	Foster monetary restraint and alleviate inflationary pressures.	Adopt tightened stance on credit policies, while making adequate allowance for productive credit.	Throughout the program period.
a. Credit policies			
b. Interest rates	Complement adjustment policies, enhance savings and resource allocation.	Implement flexible interest rate policies in the context of a tender system for Treasury bills.	Throughout the program period; Treasury bill tender system started in September 1986; preceded and accompanied by increases in interest in August and September 1986.
c. Institutional reforms	Strengthen institutional framework for monetary and credit policies.	Broaden rural banking scope for small-holder agriculture and strengthen the National Development Bank (NDB).	Throughout the program period; establishment of the first rural banks have started with the 1986/87 budget; The NDB is setting up a new management, and restructuring and recapitalization of the NDB will be started, preferably by June 1987.
7. <u>External Policies</u>			
a. Exchange rate	Enhance resource mobilization and allocation.	Continued implementation of the freely floating exchange rate system introduced in June 1986.	Throughout the program period.
b. Exchange and trade system	Promote liberal system of trade and payments.	Continued implementation of liberal foreign exchange and trade system, including the maintenance of a liberalized import licencing regime.	Throughout the program period.
c. External debt management	Contain debt service burden, restore orderly relations with creditors and increase trade credits and private capital inflows.	Impose appropriate limits on the contracting of nonconcessional external borrowing; conclude required rescheduling agreements and reduce external arrears, in a manner agreed with the Fund.	Throughout the program period.

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