

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/25

March 24, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Sierra Leone—Report on Noncomplying Disbursement and Recommendation for a Waiver of Nonobservance of a Performance Criterion under the Extended Credit Facility Arrangement**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **To be announced**

Proposed Decision: Page 4

Questions: Ms. Ongley, AFR (ext. 38414)





# OFFICE MEMORANDUM

To: Member of the Executive Board

March 24, 2020

From: The Managing Director

Subject: **Sierra Leone—Report on Noncomplying Disbursement and Recommendation for a Waiver of Nonobservance of a Performance Criterion under the Extended Credit Facility Arrangement**

## I. INTRODUCTION

1. **The Executive Board completed the first review of Sierra Leone’s performance under the Extended Credit Facility (ECF) on June 28, 2019 (EBS/19/54).** The Executive Board originally approved the arrangement on November 30, 2018 (EBS/18/99) for SDR 124.44 million (60 percent of quota). Following completion of the first review, which was subject to observance of the end-December 2018 performance criterion (PC) on net credit to Government (NCG), Sierra Leone received a disbursement of SDR 15.555 million.
2. **Data subsequently provided by the authorities indicate that Sierra Leone did not meet the NCG PC for end-December 2018.** In discussions with staff following the November 2019 Article IV/second ECF review mission and in the Minister of Finance’s correspondence with me, the authorities advised that corrections to previously reported data resulted in misreporting Sierra Leone’s observance of the end-December NCG PC. Thus, the disbursement associated with the first review was non-complying under the Poverty Reduction and Growth Trust Instrument’s misreporting framework (the “PRGT Misreporting Guidelines”).
3. **This memorandum explains the circumstances that led to the misreporting and provides information on corrective actions taken by the authorities.**

## II. MISREPORTING AND NON-COMPLYING DISBURSEMENT

4. **The authorities alerted staff that they inadvertently omitted the issuance of securities to the non-bank sector in their statistics and needed to correct them.** Resolving the large stock of arrears they inherited is a priority for the Government and under the current ECF arrangement.<sup>1</sup> The Government moved quickly to regularize some of these obligations when coming into office, issuing securities to the non-banking system. The new nature of these issuances and the division of monitoring of bank and non-bank financing between the Bank of Sierra Leone (BSL) and Ministry of Finance (MoF) led to a gap in the recording and monitoring of these securities. The Government initiated a reconciliation exercise to ensure the correct recording of bank and non-bank financing data.

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<sup>1</sup> A comprehensive stocktaking exercise completed by the Government in September 2019 (a structural benchmark for the second review under the ECF arrangement, found the outstanding stock of legacy arrears to be equivalent to 8¼ percent of GDP.

5. **This reconciliation exercise revealed necessary corrections to reported NCG and related program adjustors** (Table 1).<sup>2</sup> The updated data reveals that the end-December 2018 NCG PC was breached by Le 126 billion, whereas data provided at the time of the first review that suggested that the Government had met the end-December 2018 target by a margin of Le 571 billion. This change reflects three issues: (i) a small correction to actual end-December NCG; (ii) correcting staff's presentation of the NCG adjustors, to separately report the adjustors for unpaid checks and securities issued to the non-bank private sector; and (iii) the issuance of net securities issued to the non-bank private sector during June-December 2018, which implies a downward NCG adjustor (Le 476 billion).

**Table 1. Impact of Data Updates on the Net Credit to Government Performance Criterion**  
(Leone billions)

	As Reported at 1st Review <sup>1</sup>				Corrected Presentation <sup>1</sup>				Current Data			
	Prog.	Adj.	Act.	Met by	Prog.	Adj.	Act.	Met by	Prog.	Adj.	Act.	Missed by
Net domestic bank credit to the central government (ceiling)	823	1,104	533	571	823	1,104	533	571	823	431	557	(126)
Unadjusted target (ceiling)		823				823				823		
Adjustment for the shortfall in external budget support		175				175				175		
Adjustment for the excess (shortfall) in unpaid checks		106				(57)				(91)		
Adjustment for the excess (shortfall) in Leone net issuance of government securities to the non-bank private sector						164				(476)		

Sources: Sierra Leonean authorities and IMF staff calculations.

1/ Data provided by the authorities regarding the adjustors for unpaid checks and securities issued to the private sector at the time of the first review was inadvertently presented on a net basis. This did not impact the assessment of the NCG PC.

6. **Consequently, misreporting has occurred and the disbursement following the first review under the ECF arrangement was non-complying.** This disbursement of SDR 15.555 million would have required a request for a waiver of non-observance of the NCG PC, and the Executive Board granting it, to complete the first review. Such a waiver was neither requested nor granted. In accordance with the PRGT Misreporting Guidelines, I wrote to the Minister of Finance on March 12, 2020, informing him of this matter and seeking his views before making a recommendation to the Executive Board (Annex I).

### III. AUTHORITIES' RESPONSE AND PROGRAM IMPLICATIONS

7. **Throughout the process to reconcile and update the numbers, the authorities' worked closely and proactively with IMF staff.** The reconciliation included several iterations, with the authorities collecting information on holdings of these securities and eliminating double counting by tracing the holding of these securities since issuance, including their subsequent sale to the banking sector. The authorities consulted regularly with staff, particularly the local office.

<sup>2</sup> The technical memorandum of understanding associated with the program request defined NCG and its adjustors (paragraphs 5 and 6). This included both a downward (upward) adjustment in the NCG target when there is a net issuance (repayment) of securities to the non-bank sector and when there is an increase (decline) in the cumulative net flow of unpaid checks (i.e., net arrears accumulation (repayment)).

8. **The authorities have also taken measures to avoid re-occurrence of misreporting.**

In his letter to me of [March 16, 2020], the Minister of Finance confirmed the source of misreporting and detailed the steps they have taken and are continuing to take (Annex II).

- The authorities established a joint MoF-BSL process to monitor holdings of securities originally issued to the non-banking sector. With the backward-looking reconciliation of data completed, they are now regularly requesting holdings of these securities from both the bank and non-bank sector, allowing for improved reporting and monitoring going forward.
- In early March, the authorities also requested IMF technical assistance to further strengthen the recording and reporting of domestic budget financing, specifically in relation to the securitization and amortization of domestic arrears (Annex III). They consider this to be a high priority in the context of their forthcoming arrears clearance strategy.
- The authorities have refrained from issuing further securities related to arrears clearance until their clearance strategy is finalized.
- Looking ahead, the authorities' Memorandum of Economic and Financial Policies reflects understandings on the reporting and recording of securities issued to regularize arrears in the context of the Fund-supported program.

9. **In addition to these actions, the program implications of this misreporting appear limited.** As the securities were issued as an arrears refinancing transaction, the breach of NCG does not reflect additional financing of unprogrammed budget activity. While it therefore has a limited impact on performance under the program, the margin by which NCG was missed (just below 0.4 percent of GDP) is not "so small as to be trivial" to qualify clearly as *de minimis*, including because the program aims to clear arrears in the context of a comprehensive strategy.<sup>3</sup> Going forward, a proposed program adjustor will allow for the regularization of legacy arrears under the authorities' forthcoming arrears clearance strategy.

#### IV. RECOMMENDATIONS

10. **Under the Misreporting Framework, I am required to report and make a recommendation to the Executive Board on a course of action.** In circumstances where a member has received a non-complying disbursement, the Board may decide either to call on the member to make an early repayment or grant a waiver for the nonobservance. A waiver is normally granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if, subsequent to the disbursement(s), the member had adopted corrective measures.

11. **Based on the corrective actions taken by Sierra Leone as described above, I recommend that the Executive Board grant a waiver for the non-observance of the performance criterion of net credit to the government.**

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<sup>3</sup> "Making the Misreporting Policies Less Onerous in De Minimis Cases," EBS/06/86 and Appendix I to the PRGT instrument, as amended by Decision No. 13849 (06/108), December 20, 2006.

## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Fund notes the report of the Managing Director set forth in EBS/20/25 (3/24/2020) on the noncomplying disbursements made to Sierra Leone on July 8, 2019 following the completion of the first review under the Extended Credit Facility (ECF) arrangement for Sierra Leone (EBS/18/99, 11/19/2018), and decides to waive Sierra Leone's nonobservance of the end-December 2018 performance criterion establishing a ceiling on the net domestic bank credit to the central government, as specified in paragraph 4A(a)(i) of the ECF arrangement for Sierra Leone, that gave rise to the non-complying disbursement, on the condition that the information provided by Sierra Leone as the basis for this decision is accurate.



## ANNEX I

KRISTALINA GEORGIEVA  
Managing Director

March 12, 2020

Honorable Jacob J. Saffa  
Minister of Finance  
Ministry of Finance  
Freetown  
Sierra Leone

Dear Minister Saffa:

IMF staff has brought to my attention a possible case of misreporting under Sierra Leone's current Extended Credit Facility (ECF) arrangement.

Updated information provided to the IMF related to the end-December 2018 performance criterion (PC) on net credit to the government (NCG) and associated adjustors now suggest that this PC was missed by Le 126 billion (or just below 0.4 percent of 2018 GDP). Based on data provided at the time of the first review, it was reported to the Executive Board that the Government met the PC by a large margin (Le 571 billion). This change reflects two main sources:

- The Government's recent reconciliation exercise, in close consultation with IMF staff, revealed that securities issued to the non-bank sector during June-December 2018 should have been included to calculate the adjusted NCG target. At the time of the first review, the data reported implied an *upward* NCG adjustor of Le 164 billion compared to the updated data which imply a *downward* adjustor of Le 476 billion.
- Separately, IMF staff identified the need to correct the presentation of the relevant adjustors to the NCG target. Data on the accumulation of unpaid checks and change in non-bank securities had been presented on a net basis. At the time, the Government provided different figures related to the accumulation of unpaid checks and using the correct figure results in a slightly lower adjustment of the program target.

This non-observance of the PC would have required the Executive Board granting a waiver of non-observance of the PC under the ECF, in order to complete the review. In the absence of such a waiver, it appears that the inaccurate reporting led to a non-complying disbursement of SDR 15.555 million following completion of the first review.

In accordance with IMF policy, I hereby inform the Government of Sierra Leone of this matter. If, after we have had the opportunity to consult, I determine that Sierra Leone indeed received a non-complying disbursement under the ECF arrangement, I will report this matter to the IMF's Executive Board to make recommendations on the appropriate way forward.

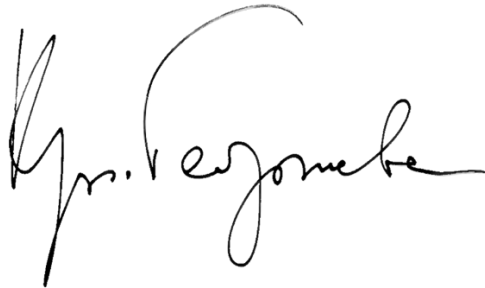
The Executive Board may either grant a waiver of the nonobservance of the related PC or require Sierra Leone to make an early repayment of the non-complying disbursement. A waiver would normally be granted if the deviation from the target was minor or temporary or if the member subsequently took corrective actions to achieve the objectives of the program supported by the ECF arrangement.

I would welcome any further information and your views on this matter. I understand that almost all these securities were issued to clear domestic payment arrears. As this is a priority under the ECF, I would value information on steps you have taken to improve recording and future management of such obligations, including in the context of your forthcoming arrears clearance strategy.

I understand officials from the Ministry of Finance and the Bank of Sierra Leone have been coordinating closely with IMF staff through these developments. Our staff remain at your disposal to assist in progressing this matter.

I look forward to receiving a response at your earliest convenience, as this is needed before the Executive Board considers any further request by Sierra Leone for disbursements under the ECF arrangement.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Mr. Kallon', with a stylized, flowing script.

cc: Prof. Kelfala Kallon (Governor, Bank of Sierra Leone)  
Mr. Dumisani Mahlinza (Executive Director, IMF)



## ANNEX II

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Ministry of Finance  
Secretariat Building  
George Street, Freetown  
SIERRA LEONE

17 March 2020

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431 U.S.A.

Dear Managing Director,

Thank you for your letter of March 12, 2020 concerning the issue of correcting the reporting of securities issued to the non-bank sector in the context of the first ECF review. We agree with the statements in your letter and would like to provide further context on this matter, including steps we have taken, and will continue to take, to prevent reoccurrence or incorrect recording going forward.

During our discussions with IMF staff on the second ECF review, we noticed differences between the total stock of securities and the discounted portion of those securities reported in the monetary survey, which was included in the computation of Net Credit to Credit to Government. We noticed that we had inadvertently omitted the remaining portion of securities held by the non-bank sector in the computation of non-bank financing of the budget. The omission came in the context of our motivation to expeditiously resolve a large stock of domestic arrears that we inherited from the previous administration. Cleaning up this stock of arrears is a priority both for us and under the ECF arrangement. We therefore moved quickly to regularize some portion of these arrears for priority government contractors, including through issuing securities to the non-banking system. While the speed of our actions was well-intentioned, we did not take into account the division and monitoring of bank and non-bank financing between the Bank of Sierra Leone and the Ministry of Finance, and its implications for statistics compilation.

As we became aware of the omission, we immediately alerted the IMF team and engaged in a reconciliation exercise to correct our statistics. We discussed this in detail with IMF staff, in particular at the local office, throughout our reconciliation process. The revised statistics revealed a breach of the performance criterion of net credit to the government in December 2018, as outlined by you in your letter.

To prevent a reoccurrence of this or similar issues, we have taken a number of measures. In particular:

1. We established a process to monitor holdings of securities originally issued to the non-banking sector involving both Ministry of Finance and the Bank of Sierra Leone. With the backward-looking reconciliation of data completed, we are now regularly requesting holdings of these securities from both the bank and non-bank sector, allowing for improved reporting and monitoring going forward.



2. The issuance of further securities related to arrears shall be within the context of the Arrears Clearance Strategy.
3. In early March, we requested IMF technical assistance to further strengthen the recording and reporting of domestic budget financing, specifically in relation to the securitization and amortization of domestic arrears. We are attaching a copy of that request for your information as we consider this technical assistance to be a high priority in the context of our forthcoming arrears clearance strategy.
4. We have been working closely with IMF staff on the reporting and recording of securities issued to regularize arrears in the context of the ECF program, and have reflected our plans in our Memorandum of Economic and Financial Policies for the next ECF review.

We would also like to emphasize that the breach in the program target was inadvertent. Our execution of the budget remained in line with the program and these securities did not amount to additional financing of extra-budgetary activity but were part of a refinancing operation to clear arrears. Looking ahead, we have been working on with IMF staff to ensure that the technical memorandum of understanding for the ECF more strongly takes into account of refinancing operations that arise from arrears clearance under our new strategy.

Given the inadvertent nature of the breach, our immediate actions to correct the statistics and to avoid the reoccurrence of a similar issue going forward, and given that there are no adverse implications for the ECF program going forward, we would like to request a waiver for the non-observance of the performance criterion of net credit to the government in December 2018. We hope that your recommendation to the board will be to grant this waiver.

We will be happy to provide any additional information and discuss further.

Very truly yours,



**Jacob Jusu Saffa**  
**Minister of Finance**

Copy: Prof. Kelfala Kallon (Governor, Bank of Sierra Leone)  
Mr. Dumisani Mahlinza (Executive Director, IMF)



## ANNEX III

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Ministry of Finance  
Secretariat Building  
George Street, Freetown  
SIERRA LEONE

2 March, 2020

Dear Sirs,

### **REQUEST FOR TECHNICAL ASSISTANCE**

This letter is to request technical assistance in the recording and reporting of domestic budget financing, specifically in relation to the securitization and amortization of domestic arrears. As such operations impact both the bank and non-bank sectors, we are requesting this TA to be delivered to the Ministry of Finance and Bank of Sierra Leone.

The request is critical to support both our internal records and policy implementation as well as program monitoring in the following ways:

- With our arrears clearance strategy—a commitment under the ECF-supported program—nearing finalization, negotiations with contractors starting shortly, and some securitization completed already in the past, the TA will be most effective if delivered in the next three months.
- With arrears under discussion constituting close to 10 percent of GDP, this TA will be “macro critical” for further monitoring of cashflows and debt developments, providing a crucial input into our weekly cash management meetings and macroeconomic stabilization program.
- In addition, the TA will be vital to ensure timely and correct reporting of developments—both under the current ECF-supported program and to the public, strengthening accountability in this critical area. In particular, for program monitoring purposes, a comprehensive and granular recording of arrears securitization will be required (recording of marketable and non-marketable securities separately; separation of legacy arrears from new arrears).

Given the multidimensional aspects of the requested TA, we believe that its delivery would benefit most from an integrated approach, with trainings provided to staff from all affected agencies, including staff from the Ministry of Finance (debt management unit, accountant general, budget office) and Bank of Sierra Leone staff (financial markets).

In this regard, we would welcome a coordinated delivery of TA, covering the fiscal reporting (STA), arrears repayment (FAD) and debt management and reporting (MCM/STA).

To be able to focus this technical assistance on these key issues and minimize time spent reiterating issues discussed in depth with previous arrears TA missions, the IMF country team and the recent PIMA mission, we would like to express our strong preference for core members of the team to be familiar with the arrears situation in Sierra Leone.

Many thanks in advance for your consideration!

Yours sincerely,



**Jacob Jusu Saffa**  
**Minister of Finance**

**Addressed to:**

IMF Heads of Departments of FAD, MCM and STA  
Mr. Vitor Gaspar  
Mr. Tobias Adrian  
Mr. Louis Marc Ducharme

Copy: The Deputy Minister of Finance I  
The Deputy Minister of Finance II  
The Financial Secretary  
The Governor, Bank of Sierra Leone  
The Accountant General  
Mr. Dumisani Mahlinza (Executive Director, Executive Board of the IMF)  
Mr. Dominique Desruelle (Deputy Director AFR and reviewer for Sierra Leone)  
Ms. Karen Ongley (Advisor and mission chief for Sierra Leone)  
Ms. Monique Newiak (IMF Resident Representative for Sierra Leone)