

**EXECUTIVE
BOARD
MEETING**

EBS/20/27
Supplement 2

March 25, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Sierra Leone—Staff Report for the 2019 Article IV Consultation, Second Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Friday, April 3, 2020
Publication:	Yes*
Questions:	Ms. Ongley, AFR (ext. 38414)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, Islamic Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



SIERRA LEONE

March 24, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of January 31, 2020)

Membership Status: Joined 9/10/62; Article VIII

General Resources Account:	SDR Million	% Quota
Quota	207.40	100.00
Fund holdings of currency	207.39	99.99
Reserve position	0.02	0.01

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	99.51	100.00
Holdings	103.34	103.85

Outstanding Purchases and Loans:	SDR Million	% Quota
ECF Arrangements	262.52	126.58

Latest Financial Arrangements :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 30, 2018	Jun 29, 2022	124.44	31.11
ECF	Jun 05, 2017	Nov 29, 2018	161.77	39.17
ECF ¹	Oct 21, 2013	Dec 14, 2016	186.66	186.66

Projected Payments to Fund²

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Principal	19.51	30.22	42.14	44.28	46.5
Charges/Interest	0	0	0	0	0
Total	19.51	30.22	42.14	44.28	46.5

Implementation of HIPC Initiative:

Commitment of HIPC Initiative assistance
Decision point date

Enhanced Framework

March 2002

¹Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount will be shown in this section.

Assistance committed (NPV terms)	
By all creditors (US\$ million) ³	675.20
Of which: IMF assistance (US\$ million)	125.21
(SDR equivalent in millions)	100.00
Completion point date	December 2006
Disbursement of IMF assistance (SDR million)	
Amount disbursed	100.00
Interim assistance	66.03
Completion point balance	33.97
Additional disbursement of interest income ⁴	6.58
Total disbursements	106.58

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ⁵	117.34
Financed by: MDRI Trust	76.75
Remaining HIPC resources	40.59
II. Debt Relief by facility (SDR Million)	

Eligible Debt

<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
December 2006	N/A	117.34	117.34

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 02, 2015	20.74	20.74

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

³ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

⁴ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

⁵ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of 2004 that remains outstanding at the time the member qualifies for debt relief.

Safeguards Assessment:

The 2017 safeguards assessment found that the safeguards framework at the Bank of Sierra Leone (BSL) had deteriorated and that concerted efforts were needed to mitigate safeguards risks. Continuous capacity constraints and lack of coordination among departments had negatively impacted the control environment. The risks were further exacerbated by weak oversight and audit mechanisms. While financial statements continued to be prepared and audited in accordance with international standards, audits were not completed within the statutory deadline. A subsequent safeguard monitoring visit in 2018 found that while the BSL was taking steps to implement safeguards recommendations, greater efforts were needed to address control weaknesses. A forensic audit of foreign currency transactions between the BSL and government agencies was recommended to establish the magnitude of past misappropriations. A remedial action plan to address findings has been completed, but implementation of the plan has been slow.

Exchange Rate Arrangement:

For customs valuation purposes and for official transactions, the Bank of Sierra Leone (BSL) calculates an official exchange rate every Friday morning as the weighted average of the auction rate, the commercial bank mid-rate, and the bureau mid-rate in the previous week. Commercial banks may buy foreign exchange from and sell it to individual customers and may trade among themselves or with the BSL on a freely negotiable basis. As of end-December 2019, the BSL mid-rate was Le 9,716.7=US\$1, which is also the new Program exchange rate.

Sierra Leone's *de jure* exchange rate regime is classified as floating, with the value of the leone determined by the market. The *de facto* exchange rate arrangement is reclassified as 'other managed'.

With effect December 14, 1995, Sierra Leone has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation on July 1, 2016.

Technical Assistance:

Sierra Leone—Technical Assistance, FY 2019-20		
Fiscal		
FAD	Improving Risk Processes, Compliance Management (1 of 2)	June 4–15, 2018
	Policy Advice and Revenue Modeling	June 13–23, 2018
	Strengthen Management: Organizational Structure	August 8–21, 2018
	Strengthening Reform Strategy; Reforming Governance	September 5–18, 2018
	Strengthen Core Tax Administration Procedures and Processes	October 18–31, 2018
	Reform Strategy and Implementation update	October 18–31, 2018
	Risk Identification, Compliance etc.	December 3–14, 2018
	Central Bank Revenue Modelling and Forecasting	December 3–7, 2018
	Central Bank Revenue Modelling and Forecasting	February 18–26, 2019
	Fiscal Risks and Arrears Management	March 20–April 1, 2019
	EI Risk Based Compliance Strategy	May 6–17, 2019
	Improving Risk Processes, Compliance Management etc. (2 of 2)	June 3–12, 2019
	Core Process Re-engineering	June 20–July 3, 2019
	Modernization Strategy	July 25–26, 2019
	Modelling and Support to Petroleum Licensing Round	September 26–30, 2019
	EI Risk Based Compliance Strategy 1 of 2	Sept. 23–Oct.4, 2019
	Dispute Resolution	November 4–15, 2019
	Joint STX mission under MNRW	November 4–15, 2019
	EI Risk Based Compliance Strategy 2 of 2	January 20–31, 2020
	Filing and Payment, Process re-engineering	January 22–31, 2020
	Filing and Payment, Process re-engineering	February 3–7, 2020
	Modelling and Support to Petroleum Licensing Round	February 26– March 6, 2020
	Follow-up on natural resource regime mission	March 2–11, 2020
AFRITACW2	Building excise duties compliance management system	January 7–18, 2019
	Development of Controls for ECOWAS Customs Integrity Framework—Phase 1	July 15–19, 2019
	Design of Risk Management Strategy and Supporting Framework	September 16–27, 2019
	Sierra Leone Training on PPP Fiscal Risk Management Tool	September 9–13, 2019
	Training on Excel Based Modelling Techniques	November 11–22, 2019
	Review of the Sierra Leone Integrated Macroeconomic Model (SLIMM)	November 11–22, 2019
	Strengthen excise duties management capacity	November 18–29, 2019
	Development of Stakeholder Engagement Strategy	November 25–29, 2019

	Development of Stakeholder Engagement Strategy	November 26–December 6, 2019
	GST Compliance and Data Matching	January 22–24, 2020
	GST Compliance and data matching	February 17–28, 2020
	Strengthen capacity to audit telecom sector	February 24–March 6, 2020
	Delivery of Training on Stakeholder Engagement Strategy	March 2–13, 2020
	Professional Attachment for NRA Risk Management Unit to Mauritius Customs	March 16–27, 2020
	Follow-up Mission to Support Authorities Implement Commitment Control Measures	April 6–17, 2020
	Development of Customs Integrity Framework (ECOWAS)	April 20–24, 2020
	PIMA	December 4–17, 2019
Monetary/Foreign Exchange/Financial		
MCM	Resident Advisor: Central Bank Modernization Extension	April 30, 2018–May 31, 2018
	Central Bank Modernization Advisor (Extension)	June 1, 2018–March 31, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Bank Supervision and Regulation (Extension)	January 26–31, 2019
	Bank Supervision and Regulation (Extension)	February 1–March 8, 2019
	Central Bank Modernization Advisor (Extension)	April 1–30, 2019
	Debt Management and Central Bank Balance Sheet	April 23–May 3, 2019
	Central Bank Modernization Advisor (Extension)	May 1–28, 2019
	FSSR Scoping Mission	December 2–6, 2019
	Project Assessment	November 11–15, 2019
LEG	Review Banking Law	August 23–28, 2018
AFRITACW2	Credit Risk Analysis	April 9–20, 2018
	Improving Monetary Policy Analysis and Foreign Exchange Operations	May 21–June 1, 2018
	Debt Management and central Bank Balance Sheet	April 23–May 3, 2019
	RBS: Developing RBS Manual	October 14–25, 2019
	WAH-Supporting MPC Preparations and Monetary Policy Report Issuance	September 6–13, 2019
	Improving Monetary Policy Analysis and Follow-Up on Monetary Operations	May 20–24, 2019
Statistics		
STA	Balance of Payments Statistics and International Investment Position (EDDI2)	November 11–16, 2018
	Balance of Payments Statistics and International Investment Position (EDDI2)	October 14–25, 2019

	Government Finance Statistics	February 2–15, 2019
	FSI: Financial Soundness Indicators (FSSF)	March 1–15, 2019
	National Accounts (EDDI2)	April 15–19, 2019
	Consumer Prices/Producer Price (EDDI2)	April 29–May 10, 2019
	External Sector Statistics (EDDI2)	October 14–25, 2019
	Consumer Price Index (EDDI2)	September 9–13, 2019
	Consumer Price Index (EDDI2)	February 24–28, 2020
AFRITACW2	Completion of TNA for Valuation and Classification Training and Preparation of Training Module	April 1–12, 2019
	Supporting the Upgrade of Chart of Accounts Complying GFSM 2014, and their Implementation	July 8–22, 2019

Source: IMF TAIMS

Resident Representative:

Ms. Monique Newiak assumed responsibility for the Fund office in Freetown on September 3, 2019.

JOINT WORLD BANK-IMF WORK PROGRAM, 2019–21

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank Work Program			
National	Third Productivity and Transparency Support Credit (PTSC-III)	Jan 6-17, 2020	May 2020
	SL Economic Update 2020	Jan 6-17, 2020	May 2020
	SL Programmatic Public Expenditure Review, 2019-21	Jan 6-17, 2020	May 2021
	SL Economic Diversification Study	TBD	January 2020
	Sierra Leone Boost initiative	TBD	January 2020
	Agro-Processing Competitiveness	TBD	December 2023
	Financial Inclusion	TBD	June 2025
	PFM Improvement and Consolidation	TBD	March 2020
	Revitalizing Ed Development (FY14)	TBD	December 2019
	Skills Development	TBD	October 2023
	Health Service Delivery & System Supp	TBD	June 2021
	Safety Nets Project	TBD	June 2023
	Energy Sector Utility Reform	TBD	December 2022
	Integrated Resilient Urban Mobility Project	TBD	June 2024
	Extractive Industries Technical Assistance Project Phase 2	TBD	December 2022
	Agribusiness Development Support	TBD	November 2021
	Freetown Emergency Recovery Project	TBD	February 2021
Regional	West Africa Power Pool for Cote D'Ivoire, Liberia, Sierra Leone and Guinea -AF	TBD	December 2020
	Ebola Emergency Response Project	TBD	December 2020
	Disease Surveillance & Response in West Africa	TBD	January 2023
IMF work program			
	Third Review of the ECF Arrangement	April-May 2020	June 2020
	Fourth Review of the ECF Arrangement	September-October 2020	December 2020

Title	Activities	Provisional Timing of Mission	Expected Delivery Date
B. Coordinated or Joint Work and Missions			
	Debt Sustainability Analysis		Ongoing
	World Bank support for diagnostic study of state-owned banks	July-September 2019	September 2019
	Coordinated activity on the Fund's Financial Sector Stability Review (FSSR) and the Bank's FSAP development module	Fund: December 2019 and March/April 2020 Bank: TBD	Fund: May 2020 Bank: Ongoing
	Coordinated TA activities on PFM and arrears prevention	Various	Ongoing
	Coordinated TA activities on improving statistics, including on national accounts	Various	Ongoing
C. Requests for Work Program Inputs			
1.Fund Requests to Bank	Updates on macro-relevant work		Continuous
	Updates on work related to the energy sector and other key infrastructure projects		Continuous
2.Bank Requests to Fund	Regular updates of performance under the Fund-supported program, macroeconomic developments and projections (including following each IMF mission)		Continuous
	IMF Assessment Letter		As needed

STATISTICAL ISSUES

(As of March 13, 2020)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance, with some key data shortcomings in most sector statistics. A major and sustained improvements in the coverage and timeliness of economic data will require greater interagency coordination and restructuring the institutional framework, with continued and well-coordinated capacity building support from development partners.

National Accounts: Statistics Sierra Leone (Stats SL) produces and disseminates GDP estimates by activity in current price and constant prices of 2006, according to the 1993 SNA. With STA technical assistance annual GDP estimates have been improved, especially regarding the compilation of construction, estimation of informal sector activity, measurement of government services, agricultural production, household final consumption, and constant price gross domestic product (GDP). Assistance has also been provided to develop and maintain the business register and select the sample for the economic survey. Remaining issues concern developing better data sources for agricultural and mineral production, and generally continuing the improvement of informal sector measurement. However, shortages of resources and staff continue to pose major constraints to the statistical development undertaken by SSL. The economic survey, for which the resources were recently released by the government, started in December 2019.

Price Statistics: Prior to March 2017, SSL compiled and released on a monthly basis two different measures of inflation—a national consumer price index (CPI) and a Freetown index. This caused confusion as users were unsure which index determined the official rate of inflation for Sierra Leone. Also the national CPI did not aggregate consistently from regional sub-indices. Missing price data were imputed according to the CPI Manual 2004. In March 2017, SSL recompiled and published the national CPI with STA technical assistance.

Sierra Leone temporarily suspended publishing the CPI in March 2019 to correct the treatment of several items in the CPI basket, including the abolition of public secondary school fees, revisions of midwifery services and mobile phone charges. Publication of the CPI resumed in October 2019, with some of the changes benefiting from STA technical assistance. Work to further improve the CPI is ongoing with STA support, including refining some of the recent changes, as well as a broader update of expenditure weights and items in the CPI basket using the 2018 Integrated Household Survey to ensure the CPI is representative of current expenditure patterns. The producer price index (PPI) covers the manufacturing, mining, quarrying and utilities sectors but is based on the structure of the economy in 2011 and should be updated.

Government Finance Statistics: The budget reporting system was established with support from a Fund/ UNDP technical assistance project. Monthly cash flow data on central government revenue, current expenditure, and financing are disseminated, following the national presentation broadly aligned with the GFSM 1986. The transaction coverage of the central government budgetary cash flow is incomplete. Data on foreign-financed development projects are published as an appendix in the budget statement document, but they are not consolidated in central government operations. In 2004, as part of the GDDS regional project for Anglophone African countries, work was undertaken to reconcile fiscal and monetary data, and to improve the coverage and classification of the two data sets. The 2019 GFS mission trained government official and assisted with the gradual implementation of the GFSM 2014 framework. With the current drive towards decentralization and the growing role of local government and the social security fund, there is an urgent need to compile and monitor their operations (and financial balance sheet data) for the consolidated general government. The authorities are currently considering the introduction of a flash reporting system for government expenditure in general and for foreign aid-financed projects, in particular.

The quality of fiscal statistics can be further improved for fiscal analysis and policymaking by: (i) reporting and disseminating arrears data for sub-sectors of general government on a quarterly basis, and (ii) properly recording the settlement of arrears with a relevant counterpart entry under expenditure, net acquisition of nonfinancial assets, or net incurrence of liabilities.

Financial Sector Surveillance: Sierra Leone does not participate in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). Provisional Financial Soundness Indicators (FSIs) have been compiled for two quarters and are expected to be finalized pending further methodological improvements.

Monetary and Financial Statistics: The main components of the central bank balance sheet are available daily and weekly under the early warning system on key financial targets. The Bank of Sierra Leone (BSL) compiles the full monetary survey, with a lag of about six weeks; it has comprehensive coverage of commercial banks. The BSL has made progress in the compilation of monetary data. The BSL, with assistance from STA, has completed the migration to standardized report forms (SRFs) for the central bank and other depository corporations (ODCs). However, there is a need to expand the coverage of monetary and financial statistics by including data on other financial corporations (OFCs).

Sierra Leone has not reported data to the Financial Access Survey (FAS) since 2012. Until 2012, Sierra Leone reported some data and indicators of the FAS, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External Sector Statistics (ESS): The BSL is responsible for compiling balance of payments and international investment position (IIP) statistics, currently prepared on an annual basis. Primary data sources are administrative-based data (BSL own records, line ministries, Customs and Excise Department (Customs) records), partner-country and international organizations data, and the annual survey of major companies for estimates on services, income, and financial flows relating to direct, portfolio, and other investments.

Data weakness in cross-border surveys, low response rates due to limited follow-up and validation, low quality of data reported to the BSL, and use of rough estimates adversely affect the quality of compiled ESS data. This could be addressed through closer follow-up with data providers. These shortcomings reflect the weak legal environment and institutional cooperation related to the ESS compilation, as well as, resource constraints. A Balance of Payments Committee comprised of key stakeholders to support work on improving ESS data sources is essential to advance the work in the ESS compilation.

II. Data Standards and Quality

Sierra Leone is participant in the General Data Dissemination System (GDDS) since 2003.

No data ROSC is available.

III. Reporting to STA

Data are not reported regularly for publication in the *Government Finance Statistics Yearbook (GFSY)*, which is expected to be restored after the 2019 GFS mission. The most recent data refer to 2014, and no sub-annual data are reported for inclusion in the *International Financial Statistics*.

Sierra Leone: Table of Common Indicators Required for Surveillance
End-February 2020

	Date of Latest Observation	Date Received	Frequency of Data¹	Frequency of Reporting¹	Frequency of Publication¹
Exchange Rates	February 2020	February 2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	December 2019	February 2020	M	M	M
Reserve/Base Money	December 2019	February 2020	M	M	M
Broad Money	December 2019	February 2020	M	M	M
Central Bank Balance Sheet	December 2019	February 2020	M	M	M
Consolidated Balance Sheet of the Banking System	December 2019	February 2020	M	M	M
Interest Rates ³	December 2019	February 2019	M	M	M
Consumer Price Index	January 2020	February 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing—General Government	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing—Central Government	September 2019	November 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	June 2019	October 2019	Q	Q	Q
External Current Account Balance	2018	October 2019	A	A	A
Exports and Imports of Goods and Services	2018	October 2019	A	A	A
GDP/GNP	2018	October 2019	A	A	A
Gross External Debt	June 2019	October 2019	A	A	A
International Investment Position ⁴	2018	October 2019	A	A	A

¹Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

²Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

³Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴Includes external gross financial asset and liability positions vis-à-vis nonresidents.