Debt Management Performance Assessment (DeMPA)

Sierra Leone

December 2009
The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank’s Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt
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EXECUTIVE SUMMARY

During July 20-31, 2009 a World Bank team composed of Elizabeth Currie (Lead Financial Officer, BDM), Iaroslav Baclajanschi (Economist, ECSP3), and Baba Musa (Director Debt Management Department, WAIFEM) travelled to Freetown, Sierra Leone to undertake an assessment of the government’s debt management capacity and institutions, using the Debt Management Performance Assessment Tool (DeMPA). This tool provides a methodology for assessing government debt management performance through a comprehensive set of indicators spanning the full range of DeM functions.

The mission met with representatives from entities involved in government debt management, including, among others, officials from the Ministry of Finance and Economic Development (MOFED), the Bank of Sierra Leone (BSL), the Office of the Auditor Service (AS) and three banks, of which two are state-owned and one is a private sector bank (see Annex 1 for a complete list of officials met).

The Government of Sierra Leone (GoSL) has received various types of assistance and funding from various IFIs and regional training entities in the area of debt management. In recent years, the MOFED received funding from the African Development Bank (ADB), for a number of needs of the Ministry’s Public Debt Management Unit (PDMU), namely i) staff salaries; ii) procurement of hardware and software; and iii) higher education degrees of PDMU staff. Also, ADB plans to fund a project to link government databases (i.e. CSDRMS and IFMS), as well as a project to design a new Debt Management Law, as well as a Procedures Manual. In addition, MOFED employees have participated for many years in WAIFEM training programs on public debt management. Also, staff from MOFED and BSL has received Commonwealth Secretariat training on management of CSDRMS.

The results of this assessment show that seven (7) indicators warranted an overall score of C or better, demonstrating compliance with the minimum requirement; these referred to the debt management strategy; evaluation of debt management operation; coordination with fiscal policy; domestic borrowing; external borrowing; debt records and debt reporting, and debt administration and data security. A total of eight (8) indicators did not meet the minimum requirement at the time of the mission. These correspond to legal framework; managerial structure; audit, coordination with monetary policy; loan guarantees and on-lending; cash-flow forecasting and balance management; segregation of duties, staff capacity and business continuity and debt reporting.

The mission notes that MOFED is currently implementing reforms in the areas of public debt management and domestic debt market development, including i) designing a new comprehensive Public Debt Law; ii) implementing the reorganization of the Debt Management Unit in MOFED; iii) formulating and implementing a Procedures Manual for debt management functions in MOFED; iv) implementing connectivity between two major data bases, namely CSDRMS and the Integrated Financial Management System of the government. As a consequence, the mission expects several of these indicators to improve with reform implementation.

1 The assessment is based on the DeMPA tool Version of November, 2008. The DeMPA tool and its accompanying Guide, which provides supplemental information and detailed descriptions of individual indicators, can be downloaded from: http://www.worldbank.org/debt
1. ASSESSMENT METHODOLOGY AND SCORES

1.1 Assessment and Scoring Methodology

The DeMPA comprises a set of 15 debt management performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management (DeM) operations as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building needs, the performance indicators do stipulate a minimum level that should be met under all conditions. Consequently, if the assessment shows that the minimum requirements are not met, this will clearly indicate an area requiring reform and/or capacity building.

The scope of the DeMPA is central government debt management activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including implicit contingent liabilities (such as liabilities of the pension system, losses of state-owned enterprises, etc.) as well as debt of state-owned enterprises if these are not guaranteed by the central government.

The DPIs have one or more dimensions linked to the subject of the DPI. Each of these dimensions is assessed separately. An aggregate score of each indicator is then based on the assessments for the individual dimensions of the indicator. For DPIs that have two or more dimensions, an aggregate score is determined by averaging the scores for individual dimensions of an indicator.

The scoring methodology assesses each Dimension and assigns a score of either A, B or C based on the criteria listed. The evaluation starts by checking whether the minimum requirement for that dimension has been met, corresponding to a score of C. A minimum requirement is the necessary condition for effective performance under the particular dimension being measured. If the minimum requirements set out in C are not met, then a D score is assigned. In the cases where a dimension cannot be assessed, an N/R (not rated or assessed) score is assigned. The A score reflects sound practice for that particular dimension of the indicator. The B score is an in-between score lying between the minimum requirements and sound practice.

2. COUNTRY BACKGROUND

After the war, real economic growth rebounded: 27% in 2002, 9% in 2003 and just over 7% for 2004-2007. However, in the last quarter of 2008, the economy came under pressure from slowing global demand and falling export prices, particularly for diamond and bauxite. Real GDP is estimated at 5.5% in 2008, below the projection of 6.4%. On the positive side, growth was solid in agriculture and the service sector. Inflation remained in the double digits with average CPI inflation reaching 14.8% in 2008, fueled by higher international food and fuel prices. However, inflationary pressures subsided toward the end of the year due to the steep decline in import prices (mainly for oil), leading to a fall in end-period inflation to 12.2%.

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Monetary policy continued to be guided by the broad objective of containing inflation and maintaining financial stability, with challenges arising from fiscal imbalances, higher world food and oil prices, and the global economic downturn. The issuance of Le 47.5 billion (equivalent to US$14.3 million) of T-bills, which were converted from BSL’s holding of non-interest-bearing government securities, contributed to slower reserve money growth.

Rising food and fuel imports—combined with lower exports—contributed to deterioration in the external current account deficit. However, with higher than anticipated private financing inflows, gross international reserves reached US$209 million at end-2008, well above the US$180 million IMF program target. After remaining fairly stable over the past three years, the Leone gradually depreciated during the fourth quarter of 2008, and by the end of March of 2009, it had depreciated against the U.S. dollar by about 6%.

Budget execution during 2008 suffered from shortfalls in domestic revenue and delays in the disbursement of external budgetary assistance. The revenue shortfall reached Le 30.6 billion (0.5% of GDP) for the year. Various factors contributed to the shortfalls, including lack of implementation of two planned revenue-enhancing measures. The global economic slowdown impacted negatively on customs and mining revenues. External budgetary support fell short of the programmed assistance by about 40%; delays in disbursements resulted from fiduciary concerns by some donors and difficulties in meeting some performance-related benchmarks.

Sierra Leone’s public debt includes public and publicly guaranteed external and domestic debt, including domestic arrears. In recent years, external debt management focused on securing relief to achieve sustainability, but now is shifting to securing the funding necessary to finance developmental needs, while maintaining medium and long-term debt sustainability. Total public debt stock fell from US$1.8 billion in 2001 to US$1.0 billion in 2008 (48% of GDP) after reaching Completion Point under the HIPC initiative. The share of external debt fell from 81% to 75% in 2008, as a result of the Paris Club debt cancellation (US$240 million in NPV terms) and additional debt relief from MDRI (US$610 million), and of rescheduling of arrears and current stock from bilateral creditors. Simultaneously, the proportion of domestic debt increased from 19% to 25% due mainly to increased bank financing of the budget deficit.

In December 2008, external debt amounted to US$620 million, almost half of which is owed to commercial creditors. Most external debt corresponds to multilateral creditors (53%), followed by commercial creditors (40%) and bi-lateral lenders (8%). Domestic debt amounted to Le288.6 billion (equivalent to US$86.6 million), of which almost half corresponded to Treasury-bills T-bills), another 30% to a Non-Negotiable, Non-Interest Bearing Bond (NNIB), 13% to domestic arrears and 9% to Treasury Bearer Bonds of one-year maturity.

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4 This includes both commercial bank and central bank funding.

5 Exchange rate of Leone 3,330.7 = US$1.

6 NIBB are government bonds created to relieve the BSL balance sheet of accumulated losses and are being gradually transformed from their non-marketable, non-negotiable state into marketable instruments for monetary policy implementation.
3. SUMMARY OF PERFORMANCE INDICATOR ASSESSMENT

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7 Including domestic suppliers, parastatals and ex-diplomat arrears.

8 The one-year Bearer Bonds issued in physical form pre-dated the 12-month dematerialized T-bill, which were created relatively recently.
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3.1 Governance and strategy development

**DPI-1 Legal Framework**

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The most important legal framework that governs public debt management in Sierra Leone is the 1991 Constitution and the 2005 Government Budget and Accountability Act (GBAA). The Constitution vests Parliament with powers to pass laws authorizing the Government to enter into loan agreements to secure funding for itself or a public agency. In addition, there is also the Local Government Act of 2004 which stipulates that a local council may raise loans within Sierra Leone for the purposes and under the conditions established by the Minister of Finance; these loans must be approved by the Ministry of Finance and Economic Development.

The GBAA establishes the permitted purposes of borrowed funds, namely, i) financing budget deficits; ii) refinancing maturing debt or pre-paying a loan before its redemption date; iii) obtaining foreign currency and iv) maintaining credit balances in the government Treasury’s main account. The Act gives the Minister of Finance the authority to borrow, issue loan guarantees and make payments required to meet government debt obligations at their due dates; in addition, it requests the Minister to report such payments to Parliament within three days after they have been made. The MOFED is required to maintain detailed records of the public debt, guarantees in favour of third parties, and loans granted by the Government. The GBAA mandates MOFED to undertake annual reporting to Parliament, with a summary of the amounts of public debt outstanding, both external and domestic, at the end of the financial year, including by debt instrument and category of debt holder; this report should also include the financial terms of the debt instruments, amounts of borrowing by other entities guaranteed by the Government, other contingent liabilities and a summary of outstanding loans granted by the Government (including on-lending).

The Bank of Sierra Leone Act establishes the BSL as an agent for the government, and it does so on very general terms. In practice, however, BSL conducts the domestic debt auctions not only on behalf of MOFED, but also for monetary policy implementation purposes (see discussion in DPI-7). BSL is undercapitalized, and does not issue its own securities to avoid bearing the cost of monetary policy implementation; instead, the government has agreed that its T-bills and T-bonds be used for this purpose, with the government covering the corresponding cost. This means government bills and bonds are used for both fiscal and monetary policy implementation. All relevant decisions associated with the primary auction, such as timing and tenor, are taken by the Monetary Policy Committee (MPC), chaired by the Governor and primarily made up of BSL staff, although MOFED’s Financial Secretary does attend (but

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9 BSL will act as agent for the Government on such terms and conditions as may be agreed between the Bank and the Government.
not the head of PDMU). The MPC acts on recommendation of the Monetary Policy Technical Committee (MPTC) where the Head of PDMU only participates “in attendance”, i.e. not as a full member of the Committee; moreover, there are times when the PDMU Head is not present at the meeting. Although a formal delegation for domestic debt issuance from the Minister of Finance to the Governor of the BSL may exist, we found no such evidence; neither was there evidence that MOFED approves and directly signs-off on tenders. Therefore the de facto arrangements –primarily originating in the undercapitalization of BSL- mean this indicator does not comply with the minimum requirements.

Score: The Constitution and GBAA provide clear authorization to the Minister of Finance and Economic Development to borrow and issue new debt, undertake debt-related transactions and issue guarantees on behalf of the central government subject to Parliamentary approval. In practice, however, government domestic debt issuance is managed by BSL largely for monetary policy implementation, major decisions on T-bill issuance are made by the Monetary Policy Committee, and the MOFED does not take final decisions/approval on auction bids. As a consequence, this indicator does not meet the minimum requirements, and the DeMPA score is “D”.

**DPI-2 Managerial Structure**

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<tr>
<td>Overall score</td>
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Responsibilities for public debt management are relatively fragmented in Sierra Leone, as they are shared between MOFED and BSL, and also between different units in MOFED. The MOFED, primarily through its Public Debt Management Unit (PDMU), Economic Affairs Division (EAD) and Economic

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10 For example, as recorded in the MPTC Minutes of July 2009.

11 To obtain a “C”, documented evidence would be required of a formal delegation from the Minister of Finance to BSL, for debt issuance of government paper for monetary policy purposes, (although this in turn would be problematic given that the Minister can delegate but is still ultimately responsible for public debt management). If such a delegation does not exist, domestic debt issuance would require approval of auction tenders by MOFED. Looking beyond, to meet the requirements of a “B” score, even though the Constitution already contains mandatory annual reporting of debt (external and domestic) to Parliament, the legal framework would need to be modified to include clear debt management objectives in the GBAA.
Policy and Research Unit (EPRU) is responsible for a variety of front, middle office and back office functions. In turn, BSL, through the Financial Management Department (FMD) is responsible for front and back office functions\textsuperscript{12}, mostly domestic debt related, as explained below.

The PDMU is responsible for the design of debt strategies, as well as restructuring and refinancing of existing debt. Loan negotiations for external debt are conducted by a team which includes staff from PDMU, EAD, the relevant line ministry, and the office of the Solicitor General; PDMU acts as technical advisor, providing analysis of loan concessionality, terms of loan such as tied and untied, disbursement procedures, etc. PDMU also monitors on-lending to parastatals, and cross-indebtedness between GoSL and parastatals. It prepares debt servicing estimates for the annual budget. EAD\textsuperscript{13} is largely responsible for negotiating multi and bi-lateral borrowing, with input from PDMU\textsuperscript{14}. Coordination between these units is primarily informal; there are preliminary plans to merge these two units in the re-organization being planned for MOFDE. Domestic marketable debt issuance will still largely be carried out by BSL probably until such a time as the Bank is fully capitalized.

The FMD carries out multiple activities related to domestic debt (e.g. domestic debt auctions, debt registration, transactions confirmations, settlements and payments), as well as debt registration and record maintenance of all debt data –both domestic and external- in CS-DRMS\textsuperscript{15}. PDMU in MOFED has read-only access\textsuperscript{15} but is directly responsible for debt data related to domestic arrears and on-lending. FMD also carries out debt-servicing payments of external debt, as per instructions of PDMU\textsuperscript{16}. The MOFED, through the PDMU, checks the creditor payment advices and subsequently gives the order to service the debt.

Coordination and information sharing between PDMU and FMD is formally carried out through the Monetary Policy Technical Committee\textsuperscript{17} which meets monthly with attendance of MOFED officials; however, PDMU participates solely as observer, not as a member of the MPTC.

Although there is weekly information sharing on debt transactions and central government cash flows within the Net Domestic Finance Committee, the main objective of this Committee is to assure compliance with IMF quantitative performance criteria and indicative targets, in particular given that one important performance criteria is the ceiling on “net domestic bank credit to the central government”. This refers to the net banking system’s claim on the central government, as calculated by BSL, including

\begin{itemize}
  \item It also has analytical middle office functions for domestic debt management, but largely from the perspective of monetary policy implementation. This is also applicable in case of front office responsibilities.
  \item The current proposal for reorganization of the debt management functions in MOFED includes merging PDMU and EAD, thus consolidating most of MOFED’s debt management functions.
  \item Yet another unit in MOFED, the Economic Policy and Research Unit, is responsible for reporting on debt by way of the bi-annual Economic Bulletin.
  \item This corresponds to a transition period, given that in the future PDMU will be granted full access to CS-DRMS, as determined in a project being funded by the ADB.
  \item The Bank of Sierra Leone Act establishes the BSL as fiscal agent for the government (Chapter VIII, Article 43), although there is no Fiscal Agency Agreement signed between the two entities.
  \item The BSL does not issue its own securities for OMO, because the costs would aggravate its current undercapitalization; instead BSL issues T-bills and Bonds, the cost of which are borne by the GoSL.
\end{itemize}
Finally, there is considerable BSL-MOFED coordination and information-sharing on debt through the annual debt sustainability analysis (DSA) exercise, and by way of the BSL’s input on MOFED’s Debt Management Strategy.

Borrowings and debt-related transactions are guided to a degree by a formalized debt management strategy and are undertaken without undue political interference. Although Congress ratifies borrowings, according to the law, this step is applicable to external debt transactions with IFIs. In terms of the management structure of borrowing process, debt issuance and debt management policy is set by i) the Minister of Finance and Economic Development who authorizes the periodically updated Debt Management Strategy and ii) the high level Monetary Policy Committee, chaired by the BSL Governor, which establishes monetary policy that largely determines domestic debt market issuance. Domestic debt issuance is then operationalized in BSL by i) the Monetary Policy Technical Committee (MPTC) which decides and approves the weekly offer amount of domestic government securities, depending on the financial sector’s liquidity; and ii) FMD which implements the auctions and various operational responsibilities, and iii) the MOFED units responsible for executing the non-domestic marketable components of the formalized debt management strategy (PDMU and EAD). As discussed above, there is significant coordination among all these units.

**Score:** As there is considerable coordination between MOFED units and BSL, both in formal and more informal terms, Dimension 1 is given a score of “C”. As for Dimension 2, all loan guarantees are issued and approved by MOFED. In theory, the beneficiary Ministries request the guarantees and the final approval and issuance is given by the MOFED; in practice, there are no guarantees outstanding or issued and so dimension 2 is not rated.

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18 This includes T-bills (excluding holdings of T-bills for monetary operations); treasury bearer bonds; loans and advances of commercial banks to the government (less government deposits in commercial banks); ways and means (less central government deposits) and HIPC and MDRI relief deposits.

19 The monthly MPTC includes the BSL Directors of Banking, Research, International Finance, and the MOFED’s Director of EPRU, and of the Budget Bureau. The Chairman of this Committee is the Director of Financial Markets, BSL.

The MPTC is the supporting committee for the higher level Monetary Policy Committee (MPC) made up of the Governor and Deputy Governor of BSL, MOFED’s Financial Secretary, the Senior Director in the Governor’s Office, Adviser to the Governors and Director of Research, with the following in attendance: MOFED’s Director of EPRU and the Budget Bureau and others from BSL and the Statistician General.
The government has a medium-term strategy (2009-2012) covering at least 90% of total government debt, and it is expressed as guidelines for the preferred direction of specific indicators for interest rate, refinancing and foreign currency risk. In addition, it contains the minimum target of the grant element in external borrowing, as well as a description of measures aimed at supporting domestic debt market development.

Quality of the strategy document: The strategy covers at least 90% of total debt (external debt, including both public and publicly guaranteed; and domestic, including T-bills and bonds, ways and means, arrears and recapitalization bond). The strategy is based on an analysis of recent economic developments, debt trends, a DSA, a financial risk assessment and macroeconomic projections conducted by the government. The strategy has been designed and formally approved for a number of years, starting in 2001 and with updates in 2005, 2008 and 2009.

The most recent strategy is the document “National Debt Strategy Analysis DSA and New Financing Report 2009”, of July 2009. The debt management objectives are to fund national development, while keeping debt sustainable, minimizing costs and risks of borrowing and reducing long-term dependence on external aid, by developing domestic savings, investment and capital markets. The DSA shows that Sierra Leone’s external and domestic public debt will generally remain sustainable in the MTEF and Poverty Reduction Strategy Paper (PRSP) II 20.

The risks identified in the report include financial portfolio risks with potential impact on the budget: foreign currency risk is high given the large share of foreign currency debt, even though concessional interest rates are very low; refinancing risk is high given the high proportion of domestic debt maturing in less than one year, due to the underdeveloped state of the domestic markets; also the cost is relatively high. As the totality of the debt portfolio is in fixed interest rates, the authorities consider interest rate risk to be negligible, (although in fact it is significant given that short-term domestic debt is equivalent to 25% of total debt).

The public debt strategy for the period 2009-2012 is centered on the following dimensions:

- Design a detailed sustainable domestic debt strategy with BSL to introduce long term debt instruments; reduce refinancing risk by having a clear domestic debt issuance calendar; also lengthen

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20 The PV of total debt to exports in unsustainable under one of the scenarios (macro-shock scenario in medium to long term), and PV of total debt to budget revenue will become unsustainable in the macro-shock scenario and MTEF scenarios in the medium to long term.
maturity of domestic debt\(^{21}\) (which would reduce refinancing and interest rate risk), by extending issuance to 3 and 5 year bonds\(^{22}\); implement a separation of fiscal and monetary policy instruments\(^{23}\).

- Implement the external commercial debt buy-back operation so as to attain sustainability levels under the solvency ratio of PV of debt to exports.

- Continue to prioritize grants and highly concessional loans, (with a minimum 35% concessionality element, but more actively seek additional financing at the 35% grant element from non-traditional donors and creditors (e.g. India, China, Arab countries) in addition to the existing concessional funding to finance the PRSP II; also avoid all commercial borrowing.

- Accelerate efforts to absorb loans and grants, especially in relation to project aid and pursue the disbursement of all committed funds.

- Reduce aid dependence over the long term by increasing domestic debt and budget revenue\(^{24}\)

- Continue to borrow from domestic investors and increase the share of domestic debt within the overall portfolio from 42% to around 55% in the medium to long term.

- Design, discuss with partners and implement a National Aid Strategy\(^{25}\)

- Create a Public Debt Management Committee to improve coordination between debt and macroeconomic policies, review an annual analysis and approve individual borrowings.

Process: The strategy proposal was made by staff of MOFED and the Bank of Sierra Leone, Statistics Sierra Leone and other key government institutions involved in macroeconomic and fiscal management\(^{26}\). As in recent years, the draft strategy is worked on by the Debt Strategy Committee, with staff from MOFED, BSL, Statistics SL, National Revenue Authorities, DACO and other relevant key ministries. Once a preliminary strategy is drafted, the PDMU carries out an editorial review and forwards the draft proposal to the Financial Secretary (FS), who in turn shares it with the Finance Minister, who formally approves the debt management strategy, and then shares it with the Cabinet of Ministers. The strategy is then publicly disseminated in a hard copy form and shared with a variety of stakeholders, from local banks and universities to Parliament. The debt management strategy was first formalized in 2001, first updated in 2005 and then again in 2008 and 2009.

\(^{21}\) In 2008, as part of this strategy, the authorities had achieved a lengthening of the maturity profile of T-bills by introducing 182-day and 273-day T-bills.

\(^{22}\) Also conduct detailed study and market consultations to determine the type of instrument, maturities and interest rate, which can be absorbed by the domestic capital market.

\(^{23}\) The GoSL proposed to leave the short end of the curve to BSL, and to keep instruments greater than one year for fiscal policy funding. This may take some time to implement.

\(^{24}\) Increasing budget revenue is not so much a debt management activity as a fiscal policy objective.

\(^{25}\) To improve the effectiveness of aid flowing into the country by i) establishing clear objectives for all development partners to align their policies and procedures with the government; ii) reviewing its own policies and procedures; iii) establishing clear responsibilities for the different Government entities and iv) developing a compendium of donor/creditor practices.

\(^{26}\) The DRI and WAIFEM were also involved in the update of DSA and the debt management strategy.
**Score:** Given the existence of a formal and structured DeM strategy, of medium-term horizon and covering at least 90% of total debt, Sierra Leone meets the minimum requirements for a score of “C” for dimension 1. Although the use of government paper for monetary policy in theory complicates the execution of the debt management strategy, in practice so far the BSL has complied with the debt strategy, for example, by extending T-bill maturity from 91 days to 180 and 273 days. BSL has also worked towards the development of the domestic debt market by replacement of the discount window of the Bank with an efficient inter-bank market and repos; and operationalization of the Electronic Book Entry System to enhance the payments system.1; the extension of domestic debt maturities is plausible given the government’s interest in extending maturities. However, this dimension does not merit a score of “B”, given that it does not include target levels for indicators of the interest-rate, refinancing and foreign currency risks, although it does establish the general desired direction for these indicators: e.g. for dealing with interest rate and refinancing risk it proposes to introduce medium-term (3 and 5 year) domestic bonds and has been extending the maturity of T-bills as an intermediate step for longer-term paper.. Dimension 2 is rated as “B” because the strategy proposal is prepared by DeM entities, the views of the BSL are officially provided as a formal input to the debt strategy design27, the strategy is approved by the Minister of Finance, shared with the Cabinet of Ministers and is subsequently made publicly available.

**DPI-4 Evaluation of Debt Operations**

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<tbody>
<tr>
<td>1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government’s debt management strategy</td>
<td>C</td>
</tr>
</tbody>
</table>

| Overall Score | C     |

Currently there are two main reports which disclose the GoSL debt management activities, central government debt, and compliance with the debt management strategy: i) the *Economic Bulletin* and ii) the main Budget report. Both documents provide extensive debt management information to Parliament, and the Budget is prepared exclusively for Parliamentary approval.

The annual “*Government Budget and Statement of Economic and Financial Policies*” has comprehensive information on public debt management. The most recent document presented to Parliament by the Minister of Finance and Economic Development in November of 2008, included not only forward-looking information, but also a review of the public debt strategy of the past year (2008).

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27 For example, the DSA and Debt Management Strategy for 2009 “was produced jointly by staff of MOFED, the Bank of Sierra Leone, Statistics Sierra Leone and other key government institutions involved in macro-fiscal planning.”
The strategy formally approved for 2008 was aimed at restructuring the debt in order to reduce the debt service obligations and maintain an optimal level of debt to avoid debt overhang, and had the following elements:

- Clearing arrears owed to domestic suppliers
- Lengthening the maturity profile of the securities and introducing 182-day and 273-day T-bills and gradually introducing longer dated instruments of 2, 3 and 5 years
- Limiting BSL financing of the budget deficit
- Enhancing the liquidity forecasting framework in a bid to improve cash management functions of the government so as to minimize build-up of domestic arrears
- Facilitating the development of the secondary market by reviewing the current system of discount houses and considering improvements in the distribution channel in the market place

The Budget’s section on the Medium-Term Macroeconomic Framework 2009-2011 also has comprehensive information on public debt management, including how debt was managed in 2008, with the following items:

Description of debt stock; planned debt relief of commercial creditors; a DSA which showed debt is sustainable in the medium to long term, although still faced with a moderate risk of debt distress if there is a serious external shock; minimum degree of concessionality of 35% for future borrowing; increase in commercial bank funded domestic debt (T-bills) due to shortfalls in domestic revenue coupled with delays or shortfalls in external budgetary support; restructuring of existing debt to reduce debt service obligations, e.g. clearing of arrears with domestic suppliers, lengthening maturity profiles of T-bills from 90 days to 182, 273 and 364 days and gradual introduction of 2, 3 and 4 treasury notes; arrears of MDAs related to private contracts, which the government will pay during the next 3 years with prior review of Auditor General; cross-debt settlement arrangements of GoSL with SOE, taking into account tax liabilities owed to the government; and a summary of ADB funded project of building institutional capacity for public debt management in MOFED.

Factors affecting domestic debt market development: plans for the introduction of new monetary policy instruments, especially longer maturing government securities; replacement of the discount window of the Bank with a fully operationalized and efficient inter-bank market and repos; operationalization of the Electronic Book Entry System to enhance the payments system.

The Economic Bulletin is published bi-annually by the Economic Policy and Research Unit (EPRU), a division of MOFED. In October of 2008, for example, the report included an evaluation of public debt for all of 2007 and the first half of 2008. The most recent Economic Bulletin (June 2009) covered the year 2008 and included:

- description of the government’s debt policy, its objectives and the strategy for meeting the objectives.
- explanation of how the deficit was financed (mostly domestic debt, and mix of non-bank financing and central bank financing) and how debt levels compared to ceilings established in Budget and the IMF PRGT program. Explanation of net foreign financing of the deficit, and analysis of its compliance with the IMF program target; review of outstanding public debt, composition and structure of external debt, composition by lender, and dimensions of debt servicing.
- analysis of evolution during 2008 of domestic interest rates, in response to new T-bill issuance and the rise in inflation; description of evolution in cost of Treasury Bearer Bonds; description of holders of T-bills and 12-month T-bonds.
- explanation of total arrears owed to domestic suppliers (verified and approved), payment of arrears and outstanding balance.
• evolution of grants, types of grants, and delays in disbursements of particular donors.

In sum, there is considerable debt management information included in these two documents and the analysis relates to the debt strategy current at that time. The PDMU formerly produced a quarterly and annual report on public debt management28 (e.g. in 2005 and 2006); more recently, these reports were discontinued, which is unfortunate as they were dedicated exclusively to debt management and facilitated reading and understanding of the government’s debt management.

**Score:** Practices meet the minimum requirements for a score of “C”, namely, public and transparent annual and bi-annual reports – read by Parliament- providing details of government DeM activities and outstanding central government debt. There is also considerable analysis of activities and risks, in general terms related to the debt management strategy. However, the lack of a structured and systematic evaluation of DeM outcomes with regards to a strategy or objectives means that a score of “B” is not applicable.

**DPI-5 Audit**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Frequency of internal and external audit of central government debt management activities, policies and operations, and publication of external audit reports</td>
<td>D</td>
</tr>
<tr>
<td>2. Degree of commitment to address the outcomes from internal and external audits</td>
<td>NR</td>
</tr>
<tr>
<td>Overall Score</td>
<td>D</td>
</tr>
</tbody>
</table>

The Audit Service (AS) was created by the 1991 Constitution that established the position of the Auditor General and the Audit Service Board; subsequently an Audit Service Act was passed in 1998. The AS developed an audit manual and a Code of Ethics; audits are based on INTOSAI and IFAC International Standards of Auditing. However, currently there are only transactions audits, which typically focus on aspects such as whether accounts are kept and procedures followed. Public debt is audited as another component of the public accounts and this evaluation is included as part of the Auditor General’s Annual Report29; debt management functions of PDMU and EAD are also audited because they are included in the audit of MOFED, but again this is limited to transaction auditing. There have been no audits of public debt activities, policies and operations during the past five years, i.e. performance audits. The Auditor General explained that a few pilot performance audits had been introduced in 2009 and that eventually –

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29 The Auditor General’s Annual Report has traditionally not been published for several years after the audit, because reports are submitted to Parliament and for review by the Public Accounts Committee; this lag reduces its effectiveness.
and once technical capacity had been strengthened—this methodology would be applied to public debt management. The only report specifically dedicated to debt management issues was a 2008 audit on domestic debt arrears for the period 2005-2007, which will be presented to Parliament in 2009.\(^{30}\)

The 2005 GBAA Part II refers to the Internal Audit (IA) function in MOFED. The build-up of IA staffing has been gradual; priority activities have been the creation of IA units in the MDAs, and training of new staff. Qualified accountants are limited to the MOFED’s IA. While limited transaction auditing has been carried out in MOFED, there have been no internal audits of the debt management function.

The BSL has both external and internal audits of the debt management functions: the internal audit annually evaluates all debt management functions, albeit primarily in terms of compliance with the Operations Manual which means it does not qualify as performance-based auditing. In addition, the BSL annually contracts a private external firm to carry out the Bank’s external financial auditing, but again, until now there is no performance auditing.

**Score:** Dimension 1 does not meet the minimum requirements, and gets a score of “D”, due to the lack of external performance audits of government DeM activities, policies, and operations within the past five years. In light of the lack of internal or external DeM performance audits and related recommendations, Dimension 2 cannot be rated (“NR”). Thus, the overall score for DPI-5 is “D”.

### 3.2 Coordination with Macroeconomic Policies

**DPI-6 Coordination with Fiscal Policy**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Coordination with fiscal policy through the provision of accurate and</td>
<td>B</td>
</tr>
<tr>
<td>timely forecasts on total debt and debt service under different scenarios</td>
<td></td>
</tr>
<tr>
<td>2. Availability of key fiscal variables and an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken</td>
<td>D</td>
</tr>
<tr>
<td>Overall Score</td>
<td>C</td>
</tr>
</tbody>
</table>

The PDMU provides forecasts of debt service due and the outstanding stock of debt to the Budget Bureau and EPRU on a quarterly basis. PDMU makes sensitivity analyses by subjecting debt servicing to interest rate and currency rate shocks, and then provides this information to EPRU and the Budget.

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\(^{30}\) Of total claims of Le85.4 billion, Le53 billion were verified by the AS and considered eligible for payment. The government was ordered by the Auditor General to pay these arrears in chronological order. A portion was paid in 2008 (Le20 billion) with support from the European Commission, and the remaining amount will be paid during the next 2-3 years.
Bureau; the latter is responsible for determining expenditure forecasts, including debt servicing forecasts, for inclusion in the Medium Term Fiscal Framework.

In turn, PDMU receives information from EPRU and the Budget Bureau on key fiscal variables during the budget preparation cycle. EPRU provides the macroeconomic framework, including revenues, expenditures, inflation, financing needs etc., while the Budget Bureau provides expenditure forecasts. The information flow between the budget and the PDMU is established and formalized through weekly meetings of Net Domestic Finance Committee. This Committee is monitoring macroeconomic developments, compliance with IMF quantitative performance criteria and indicative targets, in particular the ceiling on “net domestic bank credit to the central government”, disbursements of external assistance by donors within the PRGF program and their impact on government finance cash flows with subsequent recommendations for debt management. The Debt Sustainability Analysis and Debt Management Strategy reports have been updated during the past two years and results of the analyses are also reflected in the report “Government Budget and Statement of Economic and Financial Policies” containing revenue, expenditure and debt service projections for the next three years, including for the next budget year. The baseline assumptions of the DSA are consistent with the underlying medium term macroeconomic projections relating to the PRGF agreed on between the GoSL and the IMF; an optimistic scenario of higher growth is also considered, as is a pessimistic scenario. In addition, new financing scenarios are included, with the baseline scenario being compared to a scenario with a higher level of expenditure (Accelerated Poverty Reduction Spending Scenario or PRSP+). The analysis also includes the fiscal impact of domestic debt and its sustainability in the medium and long term, under two scenarios: i) a baseline scenario which reflects the existing practices of rollover maturing debt at the short end of the yield curve; and ii) an optimistic scenario which assumes debt restructuring by lengthening the maturity profile and introducing 182-day, 273-day and gradually introducing longer dated instruments of 2, 3 and 5 years. The results show that SL’s domestic debt is highly unsustainable owing to the rolling over practice at high interest rates, and that reforms are needed both in terms of domestic debt market reforms, and in terms of debt management reforms. Thus, the DSA is fully integrated with the MTFF and the debt service forecasts, and has direct implications for debt management strategy and domestic debt market development.

Long-term fiscal indicators are also used for DSA calculations, with the medium term inputs based on the MTFF until 2012 and then maintained roughly constant as a percentage of GDP. DSA is carried out

31 The Government’s medium-term strategy focused on reducing poverty by stimulating economic growth while preserving macroeconomic stability. The policies to achieve these objectives – including fiscal policy - are elaborated in the second generation Poverty Reduction Strategy Paper (PRSP II) which was finalized and launched by the President in May 2009. The medium-term macroeconomic framework is agreed upon with the IMF.

32 If the Debt Management Strategy is updated again in 2010, three years of continuous updates will have taken place as it was updated in 2008 and 2009.

33 Also, the 365-day T-bond is discontinued and converted into the 2-year bond to correct the conflict that exists at 365-day tenor. The macroeconomic assumptions for this scenario include low inflation, low interest rate and stable growth supported by PRGF program arrangement. The Central Bank would enhance its OMO by introducing repos as well as a deposit auction facility.

34 DSA is conducted for a 20-year period (2009-2028). All variables are projected for this period, according to baseline, optimistic and shock scenarios. For example, in the baseline scenario, private transfers sharply decline by 35% in 2009, rise to 48.6% in 2010, fall around 8% in 2011 and continue to gradually fall to the end of the period in 2028.
by the staff of PDMU, BSL and other government bodies, with external assistance from WAIFEM and in coordination with the IMF. The latest DSA for Sierra Leone was prepared in July 2009 covering both domestic and external debt, as well as domestic debt in arrears.

Score - Dimension 1: As part of the yearly budget preparations, central government debt servicing forecasts and sensitivity analyses are provided by PDMU to the fiscal units of MoF; thus the score is “B”. Dimension 2: The PDMU has access to key fiscal variables (actual and forecast, as agreed in the MTFF) as well as an analysis of debt sustainability that has been undertaken by the government with outside help within the past three years. However, the minimum score is not achieved because the DSA is not carried out independently and exclusively by the government, without external assistance.

**DPI-7 Coordination with Monetary Policy**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Coordination with monetary policy implementation through information sharing on debt transactions and the government’s current and future cash flows</td>
<td>D</td>
</tr>
<tr>
<td>2. Extent of a limit to direct access of resources from the Central Bank</td>
<td>C</td>
</tr>
<tr>
<td><strong>Overall Score</strong></td>
<td><strong>D+</strong></td>
</tr>
</tbody>
</table>

The Bank of Sierra Leone Act from 2000 sets the objective of the BSL “to achieve and maintain monetary stability” and gives the BSL full authority over monetary policy, through the high level Monetary Policy Committee (MPC). However, it is not clear if this means price stability or exchange rate stability.

The Bank of Sierra Leone Act also establishes the BSL as fiscal agent for the government (Chapter VIII, Article 43). There is no specific Fiscal Agency Agreement signed between the two entities, describing in detail the relevant duties and responsibilities of the BSL.

The BSL conducts the domestic debt auctions on behalf of MOFED, and for its own monetary policy implementation purposes. All relevant decisions associated with the auction, such as the timing and tenor, are the responsibility of the Monetary Policy Committee, at proposal of the Monetary Policy Technical Committee. The BSL does not have its own securities for monetary policy implementation and uses Government T-bills and 12-month T-bonds for this purpose. In this context, the rules for the auction of T-bills and bonds make provision for BSL to increase or decrease the amounts sold at the auction by up to 30% of the announced amount. Subsequent operations of BSL in the secondary market will depend on its analysis of the financial sector’s liquidity situation; BSL is also using repos for...

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35 Domestic debt auctions are largely carried out for monetary policy implementation purposes. The government only issues domestic debt is when it converts central bank loans (Ways and Means) into government securities at the end of the year.
meeting monetary policy objectives. The primary dealers are not informed clearly of the difference between transactions made for monetary policy implementation and those made for fiscal purposes.

Information sharing between the MOFED and BSL is made through the monthly meetings of the Monetary Policy Technical Committee which started meeting again since June 2008, following the recommendation of the IMF May 2008 mission. The MPTC reviews the Monetary Operations Programme approved by MPC and the liquidity outcome. There is also weekly information sharing on debt transactions and central government cash flows within the Net Domestic Finance Committee. The main objective of the NDFC is to assure compliance with IMF quantitative performance criteria and indicative targets, in particular the ceiling on “net domestic bank credit to the central government”. This refers to the net banking system’s claim on the central government, as calculated by BSL, including net position of the government with i) commercial banks and ii) the BSL. The Committee also quantifies the amount of borrowing required for the next two weeks.

Under existing law MOFED has access to short-term financing from the BSL under a “Ways and Means” credit line, up to a ceiling equivalent to 5% of the previous year’s revenues. Any such financing must be repaid within ninety three days from the end of the government’s financial year to which it relates. This short term financing is converted into market securities held by the BSL at the end of the financial year, and are later sold on the secondary market in line with monetary policy objectives.

**Score:** Since monetary operations are not kept separate from debt management transactions and market participants are not informed properly about the scope of operations with government securities by the BSL, the minimum requirement for Dimension 1 is not met and the score is “D”. The legal framework prevents the monetization of the fiscal deficit and thus Dimension 2 meets minimum requirements and has a score of “C”. However, the absence of quarterly tenor limitations for such financing does not allow higher scores.

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36 The agenda of the MPTC of July 9th, 2009 included macroeconomic developments against PRGF program targets (June 2009) and outlook for July; fiscal operations June-July; selected indicators June-July such as behavior of Narrow Money and Broad Money; net claims on government by the banking system and BSL; development in prices and inflation forecast; development in the financial markets; liquidity forecasting; developments in the money markets and in the forex market; and recommendations of MPTC for MPC consideration.

37 This includes T-bills (excluding holdings of T-bills for monetary operations); treasury bearer bonds; loans and advances of commercial banks to the government (less government deposits in commercial banks); ways and means (less central government deposits) and HIPC and MDRI relief deposits.

38 Article 42 of The Bank of Sierra Leone Act, 2000.
3.3 Borrowing and Related Financing Activities

**DPI-8 Domestic Borrowing**

<table>
<thead>
<tr>
<th>DIMENSION</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets</td>
<td>D</td>
</tr>
<tr>
<td>2. The availability and quality of documented procedures for local currency borrowing in the domestic market</td>
<td>B</td>
</tr>
<tr>
<td>Overall Score</td>
<td>C</td>
</tr>
</tbody>
</table>

Currently the government is issuing market based instruments for all its new domestic borrowing; in the past the recapitalization bond and the Non-Negotiable Non-interest Bearing Bond was issued by the Government to cover the losses of BSL. Thus, by the end of 2008 these two instruments accounted for about 33% of total domestic debt.

The current instruments are: T-bills with maturities of up to 1 year (91-, 182-, and 364-day)\(^{40}\) and Government Bearer Bonds with maturity of 1-year\(^{41}\) (fixed rate\(^{42}\)). These securities are subscribed to by primary dealers that include commercial banks, discount houses, insurance houses and the National Social Security and Insurance Trust (NASSIT)\(^{43}\).

These are issued largely in accordance with a quarterly and then monthly borrowing plan determined by the Monetary Policy Committee, which establishes the schedule of auctions on a quarterly basis; however, this schedule is not published, and it is not accessible to market participants. The concrete issuance plan with the auction dates as well as the amounts offered per type of security- is only announced one week ahead of the auction and the BSL reserves the right to issue T-bills at short notice and in any manner as it deems fit. On auction day, bids are collected, and then sent to the Auction

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\(^{40}\) The auction is multiple-price, meaning each successful bidder is allocated T- bills at the price at which they bid.

\(^{41}\) One year bond is physical and corresponds to Bearer Bonds for the retail market, while the 12-month T-bills are for the wholesale market.

\(^{42}\) Identified by the single price / interest rate, meaning that the marginal interest that clears the market is the interest rate at which each successful bidder is allocated Treasury bonds.

\(^{43}\) NASSIT is a Statutory Public Trust set up by the National Social Security and Insurance Trust Act No. 5 of 2001 to administer Sierra Leone’s National Pension Scheme.
All the terms and conditions, procedures and criteria describing the auction process and selection criteria for primary dealers, are published on the BSL website in the *Guidelines for the Issuance and Transfer of T-bills and Bearer Bonds*. Individuals turn to primary dealers to participate in the auctions.

**Score:** Given that neither the BSL nor MOFED publish a borrowing plan for T-bills and T-bonds with at least one month of anticipation, Sierra Leone does not meet the minimum requirement for Dimension 1 and thus has a score of “D”. In turn, Dimension 2 scores “B” due to the public availability of terms, conditions and procedures to access the primary market.

### DPI-9 External Borrowing

<table>
<thead>
<tr>
<th>DIMENSION</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)</td>
<td>C</td>
</tr>
<tr>
<td>2. Availability and quality of documented procedures for borrowing in foreign markets</td>
<td>D</td>
</tr>
<tr>
<td>3. Availability and degree of involvement of legal advisors</td>
<td>B</td>
</tr>
<tr>
<td>Overall Score</td>
<td>C</td>
</tr>
</tbody>
</table>

Aggregate planned amounts of external borrowing are included in the *Government Budget and Statement of Economic and Financial Policies* (which includes the Medium Term Expenditure Framework – MTEF). However, the external debt borrowing plan is not being revised or updated until the budget revision at the end of the year or until the actual reporting on budget outcomes following budget execution. Instead, domestic debt is being used to fill the gap in the budget in case the amount of external assistance is less than was initially expected.

External multi- and bi-lateral borrowing is made solely on concessional terms; although external commercial borrowing existed in the past, currently this is not an alternative. The PDMU ensures that every loan has a minimum grant element of 35% (as per the IMF-PRGF arrangement). Sierra Leone has established a list of priority creditors and donors, based upon the donor/creditor policies and procedures, and the alignment of their assistance with national priorities; this ranking is presented in *National Debt Strategy Analysis (NDSA) and New Financing Report* of 2008. The DeMPA team, however, did not find

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44 The Auction Commission has representatives of both BSL and MOFED.

45 http://www.bankofsierraleone-centralbank.org/
evidence of these criteria being actively used in the process of external borrowing in 2009; the only criteria mentioned was the grant element calculation. This may be explained by two factors: i) the limited number of financing options available to Sierra Leone after the MDRI completion point, and ii) the involvement of particular donors in projects of a certain category, which also limits financing options.

Taking the above mentioned into consideration, Dimension 1 meets with the minimum requirements (Score “C”) as defined in the DeMPA, but cannot be given a score of “B” as the yearly external debt borrowing plan is not updated throughout the year.

Currently the only term sheets that exist are made by the back office in the BSL: CS-DRMS contains electronic term sheets for all external borrowings, with the financial information specified by DeMPA. MOFED does not send term sheets to BSL but instead sends signed loan agreements after which FMD enters the terms of loans into term sheets, and codifies it for entry into the CS-DRSM. Every loan is entered into CS-DRMS: in some cases immediately on receipt of the loan agreement from MOFED; in other cases only two or three days after the loan agreements have been signed. However, this does not comply with best sound practice, i.e. a term sheet is prepared by the front office (the negotiators of the credit) less than one week after the loan negotiation is concluded.

MOFED prepares and negotiates external borrowings following certain procedures, including obtaining the legal opinion of the Solicitor General, the signature of the Minister of Finance and Development, sharing with the Cabinet of Ministers and finally obtaining approval from Parliament. This procedure is also applicable in the cases of on-lending, with the additional requirement of a subsidiary agreement between MOFED and the beneficiary. These internal procedures are documented in MOFED flow charts, that specify who should do what and in what order. However, there is no formal Procedures Manual in the debt management units of MOFED. Therefore, Dimension 2 does not meet the minimum requirements, and is given a score of “D”.

Going forward, however, as the government starts borrowing on non-concessional terms, the PDMU will need to further formalize the comparative analysis and presentation of the terms and conditions of the loans. Legal advisors from the office of Solicitor General are involved during a substantial part of the negotiating process. They participate in the debt contracting process at the negotiating stage as part of a working group that negotiates the terms and conditions of the loan directly with the creditor. In addition, most creditors require a legal opinion from the Solicitor General before the loan agreements signed. However, in some cases the legal advisors are not involved from the first stage of the negotiation process in terms of analysing the legal agreements, and so this Dimension 3 is given a “B” score.

**Score:** Dimension 1 meets minimum requirements (“C”) with minimum cost-effective analysis of borrowing terms and conditions; Dimension 2 has a score of “D” given the lack of a formal procedures manual for external borrowing, and the lack of a term sheet prepared by the front office after the loan negotiations concludes. Dimension 3 scores a “B” because the legal advisors are involved during a substantial part of the negotiation process.
The GoSL does not provide guarantees to parastatals, although the laws authorize the MOFED to extend guarantees. There are procedures regarding the assessment and approval process, as laid out in flowcharts, but a fully documented procedures manual is lacking.

The GoSL is legally permitted to undertake on-lending to parastatals, and has occasionally done so. Currently there are only two outstanding on-lent loans, for a total of US$25.7 million, or 2.5% of the approximate US$1 billion debt portfolio. The procedures for approval of on-lending operations are the same as in the case of borrowing, but with an additional subsidiary agreement between the GoSL and the beneficiary of the loan. Using the example of the loan on-lent to the Sierra Leone Maritime Administration, the latter agrees to pay US$6.2 million into an escrow account at BSL, which would serve to address the repayment of the loan received from ECOWAS by GoSL. The resources paid into the escrow account are solely controlled by the MOFED. Upon opening of the account, the SL Maritime Administration makes an initial deposit of US$50,000 and when the original debt payment is coming due they make the corresponding deposit in the escrow account.

Derivatives: The Government of Sierra Leone has not engaged in the use of derivatives, and there are no procedures or guidelines for such activities.

Score: Thus, the scores for dimensions 1 and 2 are “D”, given that the MOFED lacks a procedures manual and only has flowcharts with procedures for issuing government guarantees and for on-lending. This score should change in the near future given that the authorities are contracting a consultant to

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46 One of them involves ECOWAS Regional Development Fund for US$6.2 million (2006), on lent to the Sierra Leone Maritime Administration with a 22-year maturity at 3% interest rate; the other involves a loan from the Chinese Government for CNY133 million (approximately US$19.5 million) on lent to SIERRATEL, the telecommunications parastatal, with a 20-year maturity and a 2% interest rate.
design a procedures manual, which then would be formally approved. Looking towards the future, procedures should include credit risk assessments, which is a requirement for a “B score. As there are no derivatives transactions, dimension 3 is rated as N/R. The overall score for DPI-10 is thus “D”.

3.4 Cash flow forecasting and cash balance management

**DPI-11  Cash Flow Forecasting and Cash Balance Management**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts</td>
<td>D</td>
</tr>
<tr>
<td>2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program</td>
<td>D</td>
</tr>
<tr>
<td>3. Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts</td>
<td>N/R</td>
</tr>
<tr>
<td>Overall Score</td>
<td>D</td>
</tr>
</tbody>
</table>

The Consolidated Revenue Fund (CRF) is managed by the office of the Accountant General⁴⁷. All expenditures are financed from the CRF account, with the exception of those corresponding to Project Implementing Units (where donors earmark funds to separate accounts).

The Budget Bureau prepares monthly forecasts of the government cash balance, which is made available to BSL, the Net Domestic Finance Committee and the Accountant General. However, revisions of monthly forecasts suggest that the weekly aggregate forecasts on the level of cash balance provided one month ahead are not reliable. No forecasts of overnight cash balances are made. The main reason given for this is a strong drive to spend all available money immediately from line ministries and agencies resulting in absence of cash available overnight. In addition to all the above, the absence of forecasts of BSL credit on a weekly basis a month ahead as part of the overall cash forecast suggests that the score for this dimension is D.

The government does not have to maintain any float in its CRF account, although there should be balances in the blocked accounts used for monetary sterilization purposes. In any case, there are no investments made, neither in the market nor with BSL. Moreover, the Bank of Sierra Leone Act

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⁴⁷ This is probably also the case for the blocked account in the BSL used for sterilization purposes, but we lack confirmation.
specified that the BSL will not pay interest on amounts deposited in any Government account. Considering that the MOFED does not invest in market or term deposits, this dimension is “D”.

The third dimension is not been rated since the PDMU does not operate any bank accounts.

**Score:** Dimension 1 has a score of “D” given the lack of reliability of weekly aggregate forecasts of the level of cash balance provided one month ahead; also, the cash forecasts does not include projections of BSL credit on a weekly basis one month ahead. Dimension 2 is considered a “D” as there are no investments of balances. Dimension 3 is not rated as the PDMU does not operate any bank accounts.

### 3.5 Operational Risk Management

**DPI-12 Debt Administration and Data Security**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Availability and quality of documented procedures for the processing of debt service.</td>
<td>D</td>
</tr>
<tr>
<td>2. Availability and quality of documented procedures for debt data recording and validation, as well as storing of agreements and debt administration.</td>
<td>D</td>
</tr>
<tr>
<td>3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system.</td>
<td>A</td>
</tr>
<tr>
<td>4. Frequency and off-site, secure storage of debt recording/management system backups.</td>
<td>A</td>
</tr>
<tr>
<td>Overall score</td>
<td>C+</td>
</tr>
</tbody>
</table>

The BSL and MOFED use the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS version 1.3) for recording and processing of debt service. BSL is the main administrator of the database, while MOFED maintains a backup of the database with “read only” access.

The country has many points in favour of meeting the minimum requirements of Dimension 1. The Financial Market Department of BSL has a Procedures Manual (updated bi-annually at a minimum) which prescribes operational procedures; in addition, the CS-DRMS Procedures Manual is used. The schedule of debt service due is sent by BSL to MOFED one month before the due date, where it is checked against creditor billing statements. The MOFED has procedures documented in flow-charts for the authorization of the debt payment order, although it lacks a formal Procedures Manual Payment orders are prepared manually and are subject to a multiple-person authorization process, involving BSL and MOFED (in the latter, PDMU, the Accountant General, the Financial Secretary and the
Minister); all payments are made on the due date. All these factors would point to a “C: score but the minimum requirements are not met due to the lack of a formal Procedures Manual in MOFED. Looking to the future, to meet requirements for a “B” score, once the Manual is in place, payment orders should not be prepared manually; this should change given that the MOFED authorities are working on a project for making electronic payment orders (and, as already mentioned, a Procedures Manual)

The second dimension has a score of “D” because MOFED does not meet the minimum requirements, although BSL would obtain a “B” score. BSL, which is responsible for debt recording and validation, has a formal Procedures Manual in place for dealing with these responsibilities, in addition to the CS-DRMS manual. BSL ensures there are separate checks of inputs made into CS-DRMS, before they are considered complete. Debt data are validated against received payment notifications. The debt data in the debt recording and management system is secure; access to the CS-DRMS system by users and IT specialists is strictly controlled through access permissions and password controls. The original loan agreements are locked in a large, secure and fireproof cabinet in the office of the Head of PDMU at MOFED (apparently safe from theft and flooding), and back-up copies of these loan agreements are kept at BSL. Furthermore, given that the procedures manual at BSL is updated regularly (every second year, and in some cases yearly if the need arises), the requirements for a score of “B” are met at BSL. However, MOFED does not comply with the minimum requirements, given that a formal Procedures Manual is lacking in PDMU, which would formalize storing of agreements and debt administration. Therefore, the score is lowered to “D”, but this should be upgraded as soon as the Manual is completed.

On the third dimension, there are documented procedures in BSL for controlling access to the debt recording and payment system and the procedures are updated by the IT administrator in BSL whenever staff changes occur. In addition, the system produces audit trails indicating respective staff that accessed the system. This is also monitored by the head of unit of the Financial Markets Department of BSL. The fact that there is no procedures manual at MOFED is not relevant insofar as this dimension is solely applicable to BSL; MOFED only has a back-up, read-only version of the debt recording and payment system. The score for this dimension is “A”.

On the fourth dimension relating to the secure storage of debt recording/management system backups, daily backups are made on site in BSL, and weekly backups are made every Friday to be maintained off site on separate backup tapes, at a location outside of Freetown. In addition, PDMU at MOFED has copies of the debt database. This would protect the data base in case of building-specific emergencies. Finally, COMSEC has a complete back-up of the database, updated on a quarterly basis, so that would provide protection from the impact of an incident in Freetown. In sum, back-ups exist as well as off-site storage of debt recording/management. Thus the score of “A” is merited.

**Score:** Dimension 1 is scored as “D” because although there are some documented procedures for processing debt servicing, involving a multiple-person authorization process, these are not formalized in a Procedures Manual. The second dimension has a score of “D” given that there are documented, formal procedures in place at the BSL (updated Procedures Manual) for debt recording and validation, as well as storing of agreements and debt administration, but again no Procedures Manual in MOFED which would cover storing of agreements and debt administration. Dimension 3 has an “A” score because of the use of validated procedures for controlling access to the debt recording and payment system, and because the system produces audit trails and is monitored by the Head of the Financial Markets Department at BSL. Finally the score of Dimension is also an “A” due to daily onsite backups and weekly off-site backups, quarterly back-ups outside the country, and the secure storage of debt recording backups.
DPI-13 Segregation of duties, staff capacity, and business continuity

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Segregation of duties for some key functions, as well as the presence</td>
<td>D</td>
</tr>
<tr>
<td>of a risk-monitoring and compliance function.</td>
<td></td>
</tr>
<tr>
<td>2. Staff capacity and human resource management.</td>
<td>D</td>
</tr>
<tr>
<td>3. Presence of an operational risk management plan, including business-</td>
<td>D</td>
</tr>
<tr>
<td>continuity and disaster-disaster recovery arrangements.</td>
<td></td>
</tr>
<tr>
<td>Overall score</td>
<td>D</td>
</tr>
</tbody>
</table>

For external debt, there is a clear segregation of duties of key functions: in MOFED, EAD and PDMU are responsible for external loan negotiations and contracting, while back office functions are mainly located in BSL’s Financial Market Department, responsible for recording transactions and other functions such debt servicing payments (based on MOFED’s authorization). At BSL there are different staff entering data and checking data. On domestic debt, FMD is responsible for conducting the auctions, with PDMU’s participation: every transaction is checked and authorized by the Director of FMD of BSL, with presence of a representative of PDMU and representatives of commercial banks. There are different units in FMD for front and back office responsibilities. However, there are no staff in PDMU nor in Financial Market with the responsibility of risk monitoring and compliance. Therefore, on the first dimension, although there is clear separation of responsibilities, Sierra Leone does not meet with the minimum requirements because no one in PDMU has at least a part-time responsibility for risk monitoring and compliance; therefore the score is “D”.

On the second dimension, most PDMU staff have received minimum training for the tasks that they are expected to perform, although staff would benefit from more quantitative and analytical training in risk management skills. Staff at PDMU –with one exception- have Masters degrees, some of them from universities abroad. Staff turnover at the PDMU is moderate. Somewhat generic job descriptions exist, and although there was informal documentation on the responsibilities of each of the staff of PDMU, these are not periodically reviewed and updated to reflect changes in responsibilities (although with the major reorganization coming up they will no doubt be updated). The minimum requirements for this indicator are not met (Score “D”) primarily because of the lack of formal job descriptions that are reviewed and updated periodically, and because staff need additional training in aspects related to risk management and middle office functions.

48 A risk-monitoring and compliance function to monitor whether all government debt management operations are within the authorities and limits set by government policies and comply with statutory and contractual obligations. This could be an individual staff member with partial or total dedication to this function.
On the third dimension, the BSL keeps the debt database and also has business-continuity and disaster-recovery plans in place. However, there is no proof that the disaster recovery site was tested in the past three years. Moreover, the MOFED is lacking these components, even basic ones such as fire drills. It does have considerable back-ups of the data base but there is little formalization of staff protection. Thus, the minimum requirements are not met for this dimension.

Score: The score for Dimension 1 is “D” because there are no employees at PDMU and FMD at BSL with at least a part-time responsibility for risk monitoring and compliance. Dimension 2 has a score of “D” primarily because of the lack of formal, updated job descriptions; in addition, although staff have good academic levels, they would benefit from more specific training on middle office analytical and risk-management functions. Dimension 3 also has a “D” due to the lack of business-continuity and disaster-recovery plans, in particular in terms of staff protection.

### 3.6 Debt Records and Reporting

#### DPI-14 Debt Records

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Completeness and timeliness of central government debt records</td>
<td>A</td>
</tr>
<tr>
<td>2. Complete and up-to-date records of all holders of government securities in a secure registry system</td>
<td>D</td>
</tr>
<tr>
<td>Overall score</td>
<td>C+</td>
</tr>
</tbody>
</table>

The CS-DRMS 2000+ used by BSL (with a back-up at PDMU) for monitoring, settling, and accounting for external debt transactions has complete debt records with less than one month lag for central government external and guaranteed debt, as well as for all debt-related transactions, including debt restructuring. Ninety percent of domestic debt is recorded in Book Entry System provided by the IMF, the exception being the Bearer Bonds which are in physical form (9% of domestic debt) and are recorded in an Excel spreadsheet. Thus BSL has complete records of external debt in CS-DRMS and domestic debt in book entry system and a small proportion in Excel. BSL has registered all debt relief in the debt records. Thus, there are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring, which would meet the minimum requirement for a score of “C”. Since the debt records contain debt relief, this dimension also meets the requirement for a score of “B”. Moreover, given that debt records have less than a 1-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring, the score for Dimension 1 is “A”.

The BSL acts as the issuing house and the registrar for government securities (T-bills) and Bearer Bonds. There is an exception with regards to the Treasury Bearer Bonds, which are still being issued in physical form, although they only represent 9% of domestic debt. The BSL uses Excel as a registry system for these bonds, but a project is being organized which will convert these bonds into electronic form. BSL keeps up-to-date and secure records of all holders of government securities, in book entry system, again
except for Bearer Bonds which are in physical form. Moreover, all the transactions are backed up on a
daily basis (onsite) and a weekly basis (off-site). In addition the registry system has up-to-date records
of all holders of de-materialized government securities, which had been audited in 2008. This would
have met the minimum requirements, were it not for the fact that the BSL uses Excel spreadsheet for
recording the Bearer Bonds. Thus, the score for Dimension 2 is “D”, but this should change as soon as
BSL completes the project for converting these bonds into electronic form, enabling this part of the debt
to be kept in a book-entry system, instead of Excel.

**DPI-15 Debt Reporting**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Score</th>
</tr>
</thead>
</table>
| 1. Meeting statutory and contractual reporting requirements of central
government debt to all domestic and external entities. | D |
| 2. Meeting statutory and contractual reporting requirements for total
nonfinancial public sector debt and loan guarantees to all domestic and
external entities. | NR |
| 3. Quality and timeliness of the publication of a debt statistical bulletin (or its
equivalent) covering central government debt. | C |
| Overall score | D+ |

The legal obligation for reporting is spelled out in general terms in the GBAA, which mandates MOFED
to undertake annual reporting to Parliament, with a summary of the amounts of public debt outstanding,
both external and domestic, at the end of the financial year, including by debt instrument and category of
debt holder; this report should also include the financial terms of the debt instruments, amounts of
borrowing by other entities guaranteed by the Government, other contingent liabilities and a summary of
outstanding loans granted by the Government (including on-lending). As for contractual obligations, the
GoSL must provide reports to creditors such as the World Bank and IMF. Regarding the World Bank
debtor reporting system (DRS), SL has good reports/and ability to report, given that they are using CS-
DRMS, but some fairly operational problems existed with loan numbers that did not correspond with the
Bank loan numbers. In any case, under the DRS, the GoSL is rated as having “moderate” debt reporting
problems. The IMF receives quarterly reports on public debt as part of the PRGF Arrangement.

There is considerable amount of reporting on debt in the bi-annual Economic Bulletin, in the annual
National Debt Strategy Analysis (DSA) and New Financing Report, and in the annual Government
Budget report. The BSL has online historical statistics of government debt outstanding and debt flows, as
well as BSL holdings on Treasury Bearer Bonds and T-bills. There is no single document of MOFED
providing annual reporting to Parliament, but a significant amount of information is provided in the
different reports cited above. However, GSL does not comply with the minimum requirements because
most of the data has a lag of more than three months.
On the second dimension the reporting of total non-financial public sector debt is not done; there seem to be no requirements in this sense, and thus the score is NR.

On the third dimension, the score is “C”. The abovementioned reports referencing the first dimension largely comply with the minimum requirements in terms of statistical requirements: they include stocks by creditor, instrument, currency, interest rate basis, and debt flows (principal and interest rate payments); also, debt data is not more than six months old from the date of publication. To obtain a “B” score, the reports should include debt indicators/basic risk measures e.g. average time to maturity, share of debt falling due within a specific time period, shape of redemption profile, average time to refixing and duration, etc. Looking towards the future, it would be extremely useful to reactivate a periodic statistical bulletin, with a detailed debt profile showing historical evolution, and risk indicators; ideally, it would be produced on a quarterly basis\(^{49}\) and then annually to cover the whole year.

\(^{49}\) PDMU of MOFED produced in 2005 and 2006 a comprehensive annual bulletin providing information on the debt profile and operations and covering both external and domestic debt. However, this publication was discontinued. This is unfortunate given that it gathered in one single report all the statistics on the aggregate debt portfolio, thus facilitating greater transparency and ease of reading.
SIERRA LEONE OFFICIALS MET (JULY 20-31, 2009)

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