ActionAid International Sierra Leone

SIERRA LEONE: IMF CRISIS SOLUTION REPORT

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Disclaimer

Full responsibility for the text of this report rests with the authors. The views contained in this report do not necessarily represent those of the people consulted or AAISL.

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Abbreviations

AAI	-	ActionAid International
AAISL	-	ActionAid International Sierra Leone
AfDB	-	African Development Bank
BSL	-	Bank of Sierra Leone
CRF	-	Consolidated Revenue Fund
DfID	-	Department for International Development
DTD	-	Domestic Tax Department
ECF	-	Extended Credit Facility
EIF	-	Enhanced Integrated Framework
ESAF	-	Enhanced Structural Adjustment Facility
FDGs	-	Focus Group Discussions
FDI	-	Foreign Direct Investment
FHCI	-	Free Health Care Initiative
GDP	-	Gross Domestic Product
GoSL	-	Government of Sierra Leone
GST	-	Goods and Services Tax
HIPC	-	Heavily Indebted Poor Countries
IFIs	-	International Financial Institutions
IMF	-	International Monetary Fund
IPRSP	-	Interim Poverty Reduction Strategy
LICs	-	Low Income Countries
LTO	-	Large Tax Payer money
MDAs	-	Ministries Departments and Agencies
MDGs	-	Millennium Development Goals
MDRI	-	Multilateral Debt Relief Initiative
MoFED	-	Ministry of Finance and Economic Development
NCP	-	National Commission for Privatisation
NDA	-	Net Domestic Assets
NRA	-	National Revenue Authority
NIR	-	Net International Reserve
ODA	-	Overseas Development Assistance
ODI	-	Overseas Development Institute
OECD	-	Organisation of European Community Development
PFM	-	Public Financial Management
PRGF	-	Poverty Reduction Growth Facility
PRSP	-	Poverty Reduction Strategy Paper
SAF	-	Structural Adjustment Facility
SAP	-	Structural Adjustment Program
SDR	-	Special Drawing Rights
SIEROMCO	-	Sierra Leone Ore and Metal Company
SL	-	Sierra Leone
SMEs	-	Small and Medium Scale Enterprises
SSAs	-	Sub Saharan African States
UNDP	-	United Nations Development Program
US	-	United States

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Executive Summary

ActionAid International is an antipoverty organization and is involved with a number of global advocacy initiatives that seek to shed light on the injustices and practices of international financial institutions such as the IMF that continue to keep poor countries in poverty through a range on instruments under the frame of providing macroeconomic risk advice. The global financial and economic crisis that engulfed the world in 2008-2009 has shifted the policy and political context for developing countries. ActionAid International (AAI) plans to monitor the main solution offered by the international community to developing countries hit hard by the crisis. This exercise attempts at researching in an effort to provide evidence on the responses of the Sierra Leone government to restore growth and reduce volatility, especially with regard to domestic resource mobilization and reform of the global reserve system, the evidence will serve to and advocate for better options that might provide more fundamental, systemic solutions for poor countries.

Following from the indicative issues (research questions) determined, the study interrogates critical areas of the relationship between International Monetary Fund (IMF) and the Government of Sierra Leone in terms of the history of programs, conditionalities, what has changed, and current prospects in terms of fiscal space to accelerate growth and ensure poverty related spending. The study by and large makes use of a mixed methodology of desk research, expert interviews, and focus group discussions.

Findings

Evidence from the study indicates generally, that knowledge about IMF activities in Sierra Leone is not common. A few privileged classes have clear cut ideas about IMF in Sierra Leone. However, the focus group discussions revealed that those who knew about IMF had little or nothing good to say about it. They expressed the view that IMF is a business institution that should not give loans and some were of the opinion that IMF was in some manner responsible for increased poverty in Sierra Leone.

The GOSL has a very long relationship (spanning over four decades) with the IMF, however, this relationship is not considered as very helpful to Sierra Leone. People are of the opinion that if the policies suggested by IMF and implemented by the GoSL have still not improved the living conditions of Sierra Leoneans, a country, considered resource rich, which should have no business with chronic and pervasive poverty, then the relationship is problematic A few respondents knew that IMF provides technical assistance but the level of skills transfer to local cadre they cannot ascertain.

Research studies, such as "Contradicting Commitments," Wage Bill caps and Teachers[1] indicate that IMF loan conditions unnecessarily restrict economic growth rates and restrict spending and public investment in social sector budgets, hence compromise investment in social sector infrastructure and the training and employment of much-needed additional teachers, nurses, and doctors.

All IMF Reviews of Sierra Leone's performance over the last five year period (2006 -2010) have provided mixed conclusions either in terms of performance criteria or structural reforms. In terms of domestic revenue mobilization, for example, restructuring of the National Revenue Authority (NRA) was delayed partly due to the challenges in implementing the Goods and Services Tax (GST). The GST was problematic and confusing and did not receive public approval easily. Its implementation increased prices of basic consumer goods. The Public Private Partnership Act is yet to be approved, and there still exists discretionary duty waivers/duty free exemptions as recorded by MoFED.

Between 2006 and 2011, a series of review mission visits were made to monitor the performance of the economy according to agreements signed between GoSL and the IMF, which included multiple criteria and structural benchmarks. These benchmarks, recognised by the IMF as guides, are considered limitations by the citizens of Sierra Leone. The following analysis reveals stringent conditions that are probably unachievable, such as single digit inflation and domestic revenue–to-GDP ratio of 15% or more. These IMF

[1] How the Achievement of Education For All is Being Undermined by the International Monetary Fund," by the AAI Education Team, which focused specifically on the impacts of IMF loans on available expenditure for education budgets

conditions, (the single digit inflation and the tax revenue to GDP ratio) mirror requirements of the West African Monetary Zone (WAMZ).

GoSL Policy response

Increased Government spending to boost demand for local goods was proposed as a temporary, countercyclical measure in response to the fall in export earnings caused by the international crisis. In spite of the projected drop in revenues, Government continues to protect poverty-related expenditures especially in health, education, water supply and agriculture, with support from DfID, EU, AfDB, IDB and IFAD.

Diversification of the export base is a supply-side policy response, which cannot be undertaken quickly enough to deal with the current crisis, but will serve to boost farmers' income in the long run and make them competitive. Government has encouraged and supported farmers to engage in mechanized farming and to form clusters called Agricultural Business Centres (ABCs). If this succeeds, it will entice youths to engage in agriculture.

Government is seeking additional budget support from its budget support partners as a practical but not sustainable mode of revenue mobilisation and seeking to review the Minerals Act and policy to see how much more can accrue to the government that would create fiscal space for social spending. Government is aware that mobilising adequate domestic revenue is the only route out of the situation.

Government has reduced import duty rates on basic essential commodities to minimise the impact of the crisis on the population and against IMF dictates continues, though to a lesser extent, to subsidise petroleum products to safeguard the masses.
Sierra Leone is one of the countries that have been noted for a successful stimulus package.[2]

[2] See J Weekes, CPRD, SOAS

PART 1

BACKGROUND

Sierra Leone has been chosen as one of the countries for this study, in part, because it is a beneficiary of one of the four most important ways in which the IMF is rebuilding its influence through crisis-related programs. As of August 2008, 78 low-income countries including Sierra Leone , were eligible for assistance from the Poverty Reduction & Growth Facility (PRGF, since reconfigured, with the rough equivalent now called the Extended Credit Facility, or ECF). Loans under the PRGF and ECF usually carry an annual interest rate of 0.5 percent, with repayments made semi-annually, beginning 5 years and ending 10 years after the disbursement. PRGF and ECF programs are designed to cover only areas within the primary responsibility of the IMF, however particular measures that are assumed to have a direct, critical macroeconomic impact can be considered. The usual areas covered by the IMF comprise advising on prudent macroeconomic and financial policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, tax and customs administration

Sierra Leone requested “augmentations” – additions to the total amount borrowed under the IMF program -- to its existing PRGF program, and was the first country to get an augmentation after the crisis, ($10.8 million expansion in December 2008, followed by a second augmentation for $18.8 million in June 2009), as it became clear that the crisis’s impacts were seriously affecting Sierra Leone.

The augmentation, according to the authorities, was to help strengthen the country’s international reserve position to cope with the external shocks from the world food and fuel price hikes

The GoSL requested a successor three-year ECF arrangement to support their plan to raise economic growth by increasing investment in infrastructure and developing an accessible financial sector. The program hopes to create fiscal space for accelerated capital and social spending by broadening the tax base, containing non-priority spending and raising public sector efficiency, especially in project selection and implementation. This is a twist from old practices because it envisages Sierra Leone can accelerate capital and social spending by broadening the tax base, suggesting the authorities must have knowledge of new means of increasing domestic revenue, and the IMF concurs sufficiently to accept it as the logic for increased government expenditure. Inadequate domestic revenue mobilisation has plagued Sierra Leone for more than two decades, as illustrated by the persistent budget deficit.

This study assumes that raising public sector efficiency in Sierra Leone goes beyond retrenchments but includes the provision of an enabling environment, improved incentive packages to an extent of achieving “brain gain” as opposed to the “brain drain” the country has suffered from. However, it is worthwhile to note that even if the IMF chooses to focus on development in Sierra Leone and other Low-Income Countries(LICs), its insistence on single digit inflation and spending based on the available resource envelope will not be abandoned. Given this likely stalemate, ActionAid Sierra Leone is convinced that further advocacy pressure following as part of a rights-based approach will increase the flexibility of IMF to lend a freer hand to worthy developmental programmes in Sierra Leone and other LICs.

General objective:
To examine the fallout from the global financial and economic crisis of 2009.

Specific objectives:

1. To determine whether the solutions proposed for crisis-affected developing countries by the international community, and specifically the G20, are the right ones for Sierra Leone
2. Provide evidence on the impact of the IMF programmes and investigate the conditions and impact of the new lending arrangement with regard to social spending , productive activity and poverty reduction
3. Examine existing problems with tax practices and domestic resource mobilization and recommend strategies for improvement of the domestic revenue base of the country
4. From the empirical evidence accumulated in the research, propose systemic reforms that could make the global economy less distorted and more just.

Key research indicators

IMF Program:

Existing conditions; new impositions; further elaborations of existing government policy; conditions that attempt to address the impacts of the financial crisis and which attempt to safeguard vulnerable populations; accomplishment of both goals; efficacy/ necessity of such programmes in the face of the global financial crisis.

Programme implementation:

Review the IMF's program reviews; comprehensiveness of government's implementation of programs & conditions; requests for waivers or government short falls; gauging the impact of results on economy and vulnerable people.

Impacts on the general economy (macro indicators):

Effects of the global financial crisis on the country; most important macro indicators that affect the lives and livelihoods of vulnerable populations and the importance of development for creating a stronger future; programme support in helping save the country from worse impacts; alternatives of addressing impacts; importance of alternatives particularly for the vulnerable (alternatives for the rich and poor)

Impacts on human welfare:

Effects of reduction/elimination of subsidies and inflation and deficit targets on vulnerable populations; evidence from available data; response of people in health and education sectors to the program; areas for further exploration in field research.

Alternative approaches (domestic resource mobilization):

Potential sources of revenue for the government; equity in existing tax regimes; sectors to target for tax reforms in order to increase fairness and revenue; governance issues that need to be addressed in such reforms; sustainability/impacts of alternative approaches and likelihood of SL needing to go to the IMF in the event of future crises.

PART 2

METHODOLOGY

This study employed a mixed methodology of Desk Research, Expert Interviews, and Focus Group Discussions as described below.

2.1 Desk Research

The Consultant reviewed documentation on GoSL Letters of Intent to the IMF, 2006 to date, the IMF Mission's report and Executive Board decisions on Sierra Leone. Also reviewed were policy and related documents from Ministry of Finance on the response mechanisms on the effects of the Global Financial Crisis generally and the performance of the economy and macro targets set over time and allocations towards poverty related allocations and expenditures. These works were reviewed to gain general insights on Sierra Leone's agreements with the IMF over time and to gain an understanding of what had changed since the Global Financial Crisis and its implication for the general economy as well as addressing issues relating to poverty and social protection.

2.2 Expert Informants' Interviews

This study began with exploratory interviews with experts in the Economic Policy Research Unit of the Ministry of Finance and Economic Development (MoFED); the Central Bank of Sierra Leone and Economists in the University of Sierra Leone to provide information on the objectives of the study particularly the research questions. The mix of experts was also to bring different opinions of experts in related field to share varying perspectives on the efficacy of the response mechanisms and what that holds for the economy at large and poverty reduction efforts. At another level, representatives from the Local Government Finance Division in the MoFED charged with the responsibility of financing poverty-related spending through Local Councils were targeted for transfers they were to facilitate. Local Councils were also targeted to verify whether there has been changes in the allocations and programming that addresses poverty and social protection at the community level. This was merely to gauge the effects of the crisis on the propensity of Local Councils to deliver services to their respective communities. Civil Society partner organizations were also targeted, including youths, mostly college students and entrepreneurs.

2.3 Focus Group Discussion (FGDs)

Focus group interviews were held with ordinary Civil Society Organisations (CSOs), Local Government Officials and ordinary citizens in Freetown and Bombali district. One FGD each was held in Freetown and Bombali, targeting CSOs together in a perspective-seeking exercise to bring their views to bear on the consequences of the Global Financial crisis (using specific sectors as indicators) on the level of poverty. Citizens were also grouped together in locations by categories (women and youths) to gauge their perceptions on the effects of the financial crisis on the poor living in rural communities. The purposes of the FGDs were to gauge citizens' opinion generally on the IMF and the economic crisis, and the changes that may have occurred in terms of their capabilities to survive in the face of certain predetermined indicators drawn from the research questions that were considered relevant to the focus of the study. (See Appendix B for a summary)

PART 3

IMPACT OF FINANCIAL CRISIS ON THE SIERRA LEONE ECONOMY

3.0 Introduction

The global financial crisis which started in the U.S. and engulfed the world in 2008 shifted the policy and political frontiers of developing countries like Sierra Leone, whose economy is susceptible to external shocks. The consequences have been rising unemployment, poverty and hunger which paints a bleak picture for these ailing economies. The picture becomes even more scary with ODI estimates indicating that developing countries could lose US$250 billion, with SSA's being about US$ 50 billion. However, contrary to the above, the *World Trade 2010-2011* study revealed . World trade recovered sharply in the first half of 2010, after the strong increase already observed in the course of 2009. However, most recent data show a deceleration of world trade during the summer. For developed economies, the level of imports has not yet reached the pre-crisis level. Thus, the recession has created an apparent "import gap" that is not completely closed. It raises some questions concerning the future trend of developed countries imports.
According to the Working Group assumptions, world trade will grow only by 7.3% next year in volume terms after a strong 15.5% in 2010. Due to the carry-over effects, those annual average growth rates mean that rather weak figures are expected in the second half of 2010 and in the first half of 2011, in line with global assumptions on world economy (tightening of fiscal policies, end of the effects of inventories rebuilding). World trade growth might accelerate slightly in the second half of 2011. According to the Working Group assumptions, global imbalances would not be reduced next year. It will put an additional pressure on exchange rates.

Several recent studies[3] discuss a fiscal stimulus for developing countries involving increased aid and/or global stimulus but what had been evidenced in some is that the IMF still emphasizes cuts in government expenditure which constrains that economy from coherently pursuing their poverty reduction drive

3.1 Sierra Leone during the Global Financial Crisis

The research results reveal that the global financial and economic crisis adversely affected the performance of the Sierra Leone economy in 2008 and 2009 but by 2010 evidence indicated that the economy was recovering. 2011 had been promising, with an upsurge in economic activities, mainly ore, rutile, bauxite, zircon, gold and diamond mining, backed by increased agricultural productivity.

Sierra Leone's financial system was relatively insulated from the difficulties which have ensnared the international financial markets over the past 12-18 months, mainly because

[3] The Global Financial Crisis and Countercyclical Fiscal Policy and Why Did Fiscal Stimulus Work in Sierra Leone during the Crisis? By John Weeks and Ministry of Finance & Economic Development, Economic Policy & Research Unit Sierra Leone (MoFED-EPRU) 2009 *IMF PRGF - 4th. Review: Note on Impact of the Financial Crisis & Global Recession on Sierra Leone* (Freetown: MoFED

the AfDB had a package in place for fragile states, Sierra Leone being one. A weekly foreign exchange auction was introduced by the Bank of Sierra Leone to assist the business community to import basic commodities, a measure meant to prevent undue price increases of basic commodities.

Though the trade deficit did not decrease, total exports rose strongly in 2010, ending the year at US$ 341.2 million, 48 percent above total exports in 2009. Mineral exports expanded by 43 percent over the year, driven by a strong recovery in exports for all minerals except rutile, which increased by a more moderate 13%. The prices of most of these minerals rose significantly over 2010, and the pick-up in demand that began in late 2009 continued, leading to higher export volumes. In addition, zircon emerged as a new mineral export in 2010.
Overall cash crop performance weakened, with coffee, fish and shrimp suffering precipitous drops, but this coincided with a rapid expansion in the 'other' category of exports, which indicates that the classification of certain exports has changed.

Cocoa exports continued to increase strongly, by over 80 percent in 2010 to US$ 37.1million. Cocoa now constitutes 21 percent of Sierra Leone's total exports. The import bill in 2010 was US$ 770.0 million, 48 percent higher than 2009 imports. The value of rice imports fell by 10 percent, as a result of lower values and international prices in 2010 than in 2009 as well as an increase in domestic production. Overall, food imports were stable, increasing by US$ 0.4 million to US$ 104.9 million. Imports of beverages, tobacco and crude materials fell by approximately 20 percent. However, the import bill was driven up by a dramatic rise in machinery and transport equipment of 162 percent or US$ 154 million. This increase is largely due to high levels of capital importation in 2010 by large mining companies beginning operations and contractors scaling up work on infrastructure projects. Imports of mineral fuel increased by 36 percent, as a result of increased economic activity as well as the higher international oil prices. Since increases in petroleum prices are linked with increases in prices of basic commodities, the burden of food and fuel price hike rests more on poor households.

As for remittances, the economic meltdown led to reduction in the earnings of migrants abroad and thus impacted on remittances which were projected to have fallen from US$38 million in 2008 to US$25 million in 2009. The shortfall in export receipts and reduction in remittances from abroad, led to the shortfall in the foreign exchange inflow which culminated in the sudden depreciation of the Leone over the period 2009 to 2010.(Economic Bulletin 2011 p29).

The global crisis reduced prospects for private capital flows to Sierra Leone. Since 2004, there has been an increase in the amount of foreign direct investment to Sierra Leone, particularly the increase in operations of foreign mining concerns. During the 2008-09crisis, period, mining companies scaled back operations and delayed additional investment, but with the recovery in 2010, the level of mining activity around the northern province and the of hope for increased employment and revenue for GoSL is enormous. However, fear still looms among the populace of Sierra Leone because mineral revenues have not been prudently used in Sierra Leone and many other African countries, like diamonds have been a curse rather than a blessing.

Overseas Development Assistance - Sierra Leone is particularly vulnerable to reductions in ODA as it is a highly aid-dependent country, with foreign assistance accounting for over 50% percent of national budget and approximately 18% of GDP[4]. The trend had been downward in the last five years.

Domestic revenue - was projected to decline by 0.4 percentage points of GDP to 11 percent in 2009, falling short of the IMF programme target by 1.5 percent of GDP. Domestic revenue collected in 2010 exceeded the original budget projections by 19.4 percentage points and was 34.2 percent above the amount collected in 2009. Total domestic revenue rose from Le 750.8 billion in 2009 (11.7 percent of GDP) to Le 1.01 trillion (13.3 percent of GDP) in 2010. Of the total, tax revenue was estimated at Le 879.3 billion, which implied a growth rate of 38.9 percent compared to 2009 tax revenue of Le 633.0 billion. Non-tax revenue (composed of licenses, other revenues and royalties from minerals and fisheries) rose by 10.3 percent from Le 69.2 billion in 2009 to Le 76.3 billion in 2010.

The strong revenue performance was accounted for mainly by the improved collection of income taxes. Receipts from Income Tax Department (ITD) amounted to Le 303.0 billion (4.0 percent of GDP), exceeding the budget projection of Le240.5 billion by Le 62.5 billion (26.0

[4] Aid coordination structures in SL; p246 Poverty reduction and Economic development in Sierra Leone

percent). The better-than expected performance in income taxes is attributed to the following reasons: (i) the payment of outstanding personnel income tax by African Minerals of Le 24.5 billion (ii) payment Le 34.1 billion as capital gains tax by Woodside Energy in respect of the sale of oil block (iii) intensification of field audits which yielded additional revenue of Le 16.8 billion and (iv) the collection of tax arrears of Le 8.5 billion.

Despite the initial challenges experienced when the Goods and Services Tax (GST) was launched in January 2010, the tax was successfully implemented. Total GST collected in 2010 amounted to Le 246.4 billion (3.2 percent of GDP).The good performance of GST in 2010 was not anticipated given the uncertainties that surrounded the implementation of the new tax. The successful implementation of GST was on the back of effective and regular sensitization programmes. Intensified field audits and stricter enforcement including the imposition of penalties for late filing and payment as well as sealing of defaulters' premises contributed to the improved performance. However, the full administration of the GST is still a problem (providing receipts for transactions and full compliance) and tax revenue has still not reached the target set.

There are all indications that because Sierra Leone's financial system was in its nascent stage, with an inconvertible currency, the Leone, no stock exchange market, a few foreign owned commercial banks, and little for the non-bank financial institutions in Sierra Leone to transact abroad, the full blown effects of the economic crisis were not felt, but only further threatened an already fragile economy.

Sierra Leone has been noted for putting in place a successful stimulus package. A study by Professor John Weeks showed that the package Sierra Leone implemented was an adjustment of the exchange rate; that is the government allowed the value of the Leone to fall so that Sierra Leone can export more and reduce her imports to prevent an increase in the trade deficit. Alongside this, the government had to balance the exchange rate adjustment with fiscal expansion in order to achieve the desired stimulus and maintain macro stability, the desired option of the IMF. The central bank's conversion of external assistance into domestic currency provided for *de facto* monetary accommodation of the fiscal and exchange rate measures." Thus, he concluded that MoFED was strikingly successful in counteracting the adverse effects of the global recession through such a set of macroeconomic interventions".

The SLPRSP II/ second generation PRSP (The Agenda for Change, 2008-2012) is premised on massive inflow of funds from both domestic (increased tax revenue, royalties, and proceeds from AML) and foreign donor support. If there are shortfalls in inflows, would the IMF complement the efforts to make sure Sierra Leone stays on its growth path and hopes of reducing poverty to meet the MDG goals? This is a big question for a nation dependent on foreign aid.

Governance is improving and decentralization fully on course, but though both are required in our development strides, they are not rice and cassava. Thus the efforts to design targeted and well-prioritised spending can be interpreted as a move to fully develop the agricultural sector (host to 67% of the labour force), while assisting in increasing productivity and processing of our agricultural products, with a deliberate effort to increase rice production and cut down on food imports. Thus pro-poor growth was in sight with likely increases in the incomes of farmers

PART 4

IMF AND SIERRA LEONE

4.0 Sierra Leone –IMF Relationship

The meeting of delegates in Bretton Woods, New Hampshire in 1944 of forty four allied nations that led to the birth of the twin institutions, the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) commonly known as the World Bank (WB) laid out the roles of these institutions, with maintenance of international liquidity at the heart of the IMF's roles. The breakdown in international monetary cooperation led the IMF's founders to plan an institution charged with overseeing the international monetary system (the system of exchange rates and international payments that enables countries and their citizens to buy goods and services from each other).

Nearly two decades after that Sierra Leone became a member of the IMF in September 1962, and from 1967 has had a number of financial arrangements with the IMF. During the last decade alone, there were five such arrangements, three in the form of emergency assistance provided to countries emerging from conflict and two PRGFs.

Various structural adjustment programs (SAPs) were implemented without restructuring the economy or improving the standard of living of the citizens in the late 1980s. It is generally accepted that the IMF brought more woes to Sierra Leone during that period, and that the impacts likely contributed to the political chaos which culminated in the civil crisis.

4.1 THE PRGF PROGRAMMES IN SIERRA LEONE 2006-2010

Research (“Confronting the Contradictions”; “Does the IMF constrain Health spending in poor countries?”; “Wage bill caps and teachers in Sierra Leone”) indicates that these loan conditions can unnecessarily restrict economic growth rates and consequently restrict increased spending and public investment in social sector budgets. As a result of these policies, governments are often unable to maintain or properly invest in basic infrastructure for social sectors, let alone train and hire the many more teachers, nurses, and doctors that are projected to be necessary to fight HIV/AIDS and achieve the MDGs.

An IMF mission visited Sierra Leone in March 2010 for the 6th review of the PRGF loan, and urged the authorities to continue tightening fiscal policy in 2011, including significantly lowering budgetary domestic financing, especially from the Bank of Sierra Leone. This is expected to contribute to lowering Treasury bill interest rates and inflation. The mission also supports the significant reduction in domestic fuel subsidies and subsequently implementation of an automatic monthly pricing mechanism for electricity. These two would add more burden on the poor, offset any gains from the lowering of inflation that occurred and even lead to danger of illicit connections in Sierra Leone.

It is evident from the above that the IMF and the GoSL collaborate on policy issues, such as the introduction of the GST which put more burden on the poor (CPI rose by 18.4%).This burden would be multiplied by the reduction in subsidies on fuel which is a favoured option by the IMF. This further demonstrates that the IMF still has its old obsession with tightened monetary policy to target inflation, even in times of crisis, or at the risk to economic growth .

All IMF reviews have provided mixed conclusions either in terms of performance criteria or structural reforms (see Table in Appendix A1).

The IMF agreed that the government achieved two key structural benchmarks by introducing the GST and the monthly Monetary Policy Committee meeting. The GST was met with stiff resistance from the populace but more so from the business community. Shops were closed for a whole day and there was hue and cry, but after the second day the crisis died down and GST was implemented amidst a lot of misunderstanding and confusion as to who pays what and the mode of transaction. The petty businesses were quick to point out that they do not meet the threshold for GST. One interesting aspect was that though basic commodities that do not bear GST were announced, the sellers of those goods adjusted their selling prices to cover for what they felt they would pay for consuming GST indexed goods. The result was a general increase in the prices of all commodities

Even though the benchmark for adoption of a new tariff policy framework was not met, electricity tariffs were raised sufficiently in 2009 to ensure the financial viability of the publically-owned electricity enterprise. This will impact negatively on low income households and likely make more households vulnerable. Looking ahead, the GoSL is receiving technical assistance from the World Bank to move to a cost-based formula for electricity pricing.

The review mentioned that the medium-term outlook for Sierra Leone is favourable and that economic growth will benefit from the recent completion of the Bumbuna power station, investment in basic infrastructure, initiatives to improve the business climate and raise agricultural productivity, and continued macroeconomic stability. This according to the review is expected to support a recovery of real GDP growth to 4.8 percent in 2010 and to at least 6 percent in 2012.

One conclusion of the Review Mission is that “Fiscal space will be created for accelerated capital and social spending by broadening tax bases, containing non-priority spending, and raising public sector efficiency, especially on project selection and implementation.” In Sierra Leone containing non priority spending and raising public sector efficiency portends reductions in leakages which might be accrued for social spending**.** Domestic revenue is targeted to increase to at least 13.5 percent of GDP by 2012 due to the introduction of GST, higher taxation on mining, and improvement in tax administration. The authorities will also minimize discretionary tax exemptions in order to meet revenue targets. The above connotes that IMF noticed GoSL’s expenditures are sometimes not prudent and therefore calls for cuts in non priority spending (international telephone bills, large entourage travelling abroad and the like) and minimizing discretionary tax exemptions. These are two leakages no nation can continue when they are desirous of domestic revenue mobilization. This sort of solution is apt and relevant for pro-poor growth and poverty-related spending.

Following the successful conclusion of the final PRGF program review, a new three-year successor arrangement under the Extended Credit Facility (ECF) arrangement was approved by the Executive Board of the IMF in June 2010. The IMF says the ECF arrangement is designed to focus on (i) creating fiscal space for improving basic infrastructure and social services while maintaining macroeconomic stability; (ii) strengthening tax performance and improving public financial management (PFM) systems; and (iii) developing the financial sector to support private sector development.

The IMF emphasized the need to continue implementing prudent economic policies to sustain macroeconomic stability and promote broad based economic growth. The Fund also urged the Government to intensify its revenue mobilization efforts in order to create the fiscal space to support infrastructural development and the delivery of basic services.

With the start of economic recovery, the program assumes concessional external budget support amounting to about US$78 million in 2010, expected to be committed in the second half of the year. The requested disbursements from the Fund associated with the completion of the review and a new ECF arrangement, amounting to SDR 15.88 million, are projected to close the remaining external financing gap in 2010.[5]. The program also assumes a buyback of most remaining outstanding external commercial debt in 2012[6].This is intended to reduce the external debt stock of Sierra Leone which stands presently at 42% of GDP (MoFED).

There are some indications that the flexibility INGOs,NGOs and CSOs had been advocating for from the IMF might be realised because, the Press release No 11/4509Second and Third reviews under ECF) reveal that waivers were approved for net domestic credit to the Central Bank and more importantly the performance criterion on the ceiling on new nonconcessional external debt.. Both would create fiscal space that would help Sierra Leone undertake the massive infrastructural investments, that would improve the road network and create an enabling environment for the private sector rather than the usual hypothesis of “crowding out effect”. The innovative utilisation of such resources in the productive sectors of the economy would create both backward and forward linkages- for example access to market, increases the sales revenue of the farmers, but also takes place at a reasonable price level- transport cost is reduced, wear and tear of vehicles reduced and other auxiliary economic activities might emerge that benefits the youths and even the rural poor.

However, there are still indications that single-digit inflation is IMF’s target for Sierra Leone. The IMF should collaborate with the authorities to determine a moderate level of inflation in Sierra Leone while they grapple with the efficient provision of basic services across the nation..

The IMF recognises that the economy is recovering but views our expected iron ore boom with caution which calls to attention the civil society of Sierra Leone. The licenses/ fees, royalties, export tax that Sierra Leone is to derive from the 40,000 metric tons (first shipment to China) should be prudently and judiciously utilised. Civil Society should ensure

[5] This external budget support is included under official transfers and public sector disbursements in the balance of payments In the absence of this financial support, the projected overall balance of payment surplus would turnaround to a deficit of close to US$50 million a year in 2011–12.

[6] The nominal value of the commercial debt, which currently is being assessed with support from the World Bank, could amount to US$250 million. It is assumed that the buyback will be financed by donors consistent with other similar buyback operations

that the revenue derived be used to promote farmers and to make for the loss of fertile land to iron ore mining, develop the community by building modern, first class hospitals and schools, providing electricity, pipe-borne water and other social amenities.

To achieve some or all of the above services the IMF provided pieces of advice that maintain the orthodoxy of their policies, tightening policies, government should embark on revenue and expenditure measures, maintain exchange rate flexibility to accommodate external shocks,…..' continued fiscal restraint will be critical to maintaining macroeconomic stability in the period ahead'. This is an indication that IMF would not deviate from their goals, though they might accommodate some excesses of the government; They mention extra-budgetary expenditure by the government but squarely note that it is as a result of the infrastructural developments the government is embarking on. Mr. Shinohara recommends[7] that that GoSL authorities improve tax administration, strengthen public financial management to reduce leakages and deepen financial intermediation because these reforms have the capacity to create fiscal space for capital and social spending to derive 'inclusive and broad based growth'. This is a signal that the IMF might concur with AAISL on pro-poor growth(what the IMF is calling inclusive and broad based growth) as the main route in the fight against poverty.

SINGLE-DIGIT INFLATION A MUST

The Mission stresses that "Monetary policy will aim to achieve single-digit inflation" while maintaining a flexible exchange rate regime, which is an old conditionality of the IMF which continue to plague our authorities.

Our concern here is that the IMF is aware that even with money growth targeting, increases in prices of basic commodities and importation costs can disrupt the pricing system in Sierra Leone and lead to inflationary pressures as happened at the beginning of the year 2010. Single digit inflation cannot be achieved through monetary policy alone, but in combination with improvements in the real sector.

[7] Second and Third Reviews Under ECF- Press Release No. 11/450 December 7, 2011

The promotion of inflation targeting has implications for the type of conditionality that the IMF imposes. As the IMF states "Conditionality in Fund-supported programmes is intended primarily to ensure that Fund resources are used to support adjustment toward sustained external viability, and thereby to safeguard the capacity to repay the Fund. Traditionally, monetary conditionality consists of limits on monetary aggregates - specifically, a floor is set for the level of net international reserves (NIR) and a ceiling is established on the net domestic assets (NDA) or on base money."

. As a result, inflation targeting might require a further tightening of monetary conditions for countries undergoing IMF programs in order to maintain inflation rates in the low single digits. To the extent that such tightening slows employment growth even further, inflation targeting as part of IMF conditionality could have even more severe impacts on employment and poverty impacts for developing countries. Sierra Leone suffers from high youth unemployment and should be working out modalities to generate middle-level jobs, perhaps by creating business innovation and incubation centers to turn job seekers into job creators, to reduce the threat this poses for the nation.

The above confirms that inflation targeting is not the magic wand but increase in productivity, stabilizing the income of farmers by creating buffer stocks for their products when there is a glut, constructing processing houses to add value and feeder roads for access to markets and access to financial services within the localities way of life are measures to curtail inflation to single digit without squeezing poverty spending by restricting government expenditure in the name of austerity.

As usual the mission stated that ‘Monetary policy will aim at bringing inflation down to 12.5 percent at end-2010’ and that Reserve money is envisaged to grow at 8 percent in 2010—or somewhat lower than nominal GDP reflecting excess liquidity at the beginning of the year—which could accommodate a 32 percent growth in private credit. The BSL will achieve this target through open market operations and net sales of foreign exchange. These operations do not mean anything to a poor household grappling with the basics

It is noticeable that on monetary policy, the IMF has continued to push for tightening in countries such as Ethiopia, Ghana, Sierra Leone and Zambia, despite the fact that inflationary pressures are due to the external shocks caused by the financial crisis and escalation of food and fuel prices, rather than by raising internal demand. Inflation targets for 2008 and 2009 remained firmly within the 'single-digit' range. And the Fund's inflation targets for 2010 have continued on a downward trend. In many countries, this only served to intensify recessionary trends

In Sierra Leone, the Fund is promoting the introduction of a General Sales Tax (GST) which is expected to increase domestic revenue and also cost of living.

The IMF has often continued to advocate monetary tightening despite the reality that inflation in LICs is often caused by exogenous factors, such as rising food and fuel prices, and/or structural bottlenecks impeding supply responses. Yet, based on the Fund's traditional understanding, inflation is assumed to originate in the monetisation of fiscal deficits. This approach leads to the commonly adopted policy prescription to increase the policy interest rate in order to contain inflation. But such a monetary policy stance only serves to exacerbate the problem, making credit more expensive. This discourages private investment and worsens the terms on which government could raise debt domestically. Both impacts affect the way in which the productive capacity of an economy could be expanded, and how, as a result, structural bottlenecks in the economy could be relieved, thereby lowering inflationary pressures.

A second major point is that the IMF's chief tool for cutting inflation rates is the policy interest rate. While the inverse relationship between the rate of interest and inflation might hold in high-income countries, this relationship is much weaker in LICs. In the latter grouping of countries, deep-seated structural bottlenecks and capacity constraints are a major source of inflation. If this is the case, the objective of easing inflation should be sought by addressing the underlying causes rather than relying on the ineffectual, and essentially counter-productive, tool of interest rate management.

It would be prudent and judicious for the NRA to focus on improvement in tax administration by making revenue collections more efficient and effective to achieve domestic revenue targets, because this will provide fiscal space for the government to embark on investment in infrastructure, roads, health and the educational sectors for poverty reduction. This is a mammoth task the NRA has to grapple with within the next few years if Sierra Leone is to free itself from this perpetual financial bondage.

INTERNATIONAL RESERVES

One interesting aspect of IMF prescriptions is maintaining some level of reserves mainly to ascertain you have the capacity to repay. Thus it is very common to read in a country's Letter of Intent sent to the IMF passages like: "to achieve the targeted increase in reserves, the external financing gap is projected at $15.8 million. The authorities are requesting an augmentation of access under the PRGF arrangement equivalent to 10 percent of quota to close this gap (about 0.3 months of imports). This would bring Sierra Leone's total access to SDR 51.88 million, equivalent to about 50 percent of quota. Given the fiscal adjustment already made through spending cuts and identified additional external financing amounting to about US$16 million , the augmentation would be appropriate to support maintenance of international reserves". The government seems handicapped to suggest the use of the augmentation to cushion cost of living of the public sector workers, or improve conditions of service of Teachers, or improve connectivity in the country.

Without the augmentation, reserves would likely decline in 2009. Sierra Leone's capacity to repay the Fund remains favorable. Total debt service obligations to the Fund are projected to peak in 2015 at 2.5 percent of exports of goods and services and to decline thereafter. This can be likened to saving in the midst of shortage. Table4.2 reveals the reserves in import months over the period 2007-2012, which is quite impressive and implies availability of basic imported commodities.

Table 2: International Reserves (US $ Millions and in Months of import (2007-2012)

	2007 (Act)	2008		2009		2010	2011	2012
		Prog	Est	Prog	Rev.Prog	(Prog)		
Gross International Reserves	215.5	180.1	209.5	219.3	218.0	223.0	228.0	238.0
Months of Imports	4.9	3.9	5.2	4.2	5.0	4.7	4.4	4.3

Source: Sierra Leone Authorities and IMF Staff estimates and projections

4.3 SIERRA LEONE'S DEVELOPMENT PRIORITIES

According to the priorities laid out in the Agenda for Change (PRSP II), the key economic objective of the GoSL is to raise growth by accelerating investments in infrastructure and developing an accessible financial sector**.** The focus of the next three-year program (2010-2012) will be on (i) creating fiscal space for improving basic infrastructure and social services while maintaining macroeconomic stability; (ii) strengthening tax performance and improving public financial management (PFM) systems; and (iii) deepening the financial sector.

The question that requires major attention is whereas the revenue base of the Country is low and the government is embarking on massive infrastructural development where is the money coming from? Would this not thwart the government's efforts in providing pressing social amenities? Government needs to embark on prudent and judicious spending with a concentration on providing for the bulk of the poor masses. This does not mean that the IMF should restrict the GoSL spending on infrastructure, as this would likely yield the desired growth in employment which will in turn lead to increase in national income and thus lead to sustainable growth because tax revenues will increase. Though there had been a financial crisis, Government is embarking on investment in infrastructure because of its likelihood to increase employment, especially of the youth and thus, the composition of expenditure will shift toward capital spending, which is projected to increase from 7 percent of GDP in 2009 to 9 percent of GDP by 2012, with the wage bill expected to increase by 0.4 percent in 2011–12 because of higher wages for health sector workers. The overall fiscal deficit is expected at 4-5 percent of GDP while domestic financing is targeted to remain below 2 percent of GDP per year. This will ensure a sustainable fiscal outlook.

On April 27, 2010 the GoSL launched a new free health care initiative (FHCI) for children and pregnant women to reduce the high infant and maternal mortality rates and achieve the corresponding Millennium Development Goals (MDGs). The annual additional cost of the initiative is estimated by the GoSL at about US$22 million, or 1.2 percent of GDP, mostly covering purchase of drugs and a higher health sector wage bill. While recognizing the need to improve health services in the country, the IMF mission stressed the need to carefully assess the fiscal implications, including the wage bill of the whole public service, to ensure sustainability of the policy.

While recognizing the risks and the need to speed up pay reform for the public sector at large, the authorities argued that the success of the FHCI required a substantial and immediate increase in salaries and noted that the budget impact was limited since DfID offered to pay a significant share of the higher wage bill in the initial years.

The implication here is that the GoSL took a bold step to implement the FHCI as it would serve the general public better. It is worthwhile to note that though the IMF did not restrict GoSL, it proposed a more gradual approach to the salary increase in the health sector and stressed the importance of implementing the pay reform, which involves a gradual increase in wages for all public servants partly financed by retrenchments. The above indicates the new wave of flexibility that had been pronounced but still echoes the old programme: "… partly financed by retrenchments", the same language of SAP in the 1980s. However, there had been no retrenchments because the DfID is largely responsible for funding the FHCI. It should be noted, that as laudable the FHCI is, there are problems associated with it that attention needs to be addressed to details such as the remoteness of some localities, especially the rural areas and the tendency to target the wrong recipients.

There is also dire need for the government to pay special attention to the education of its citizens. Currently the educational system is in turmoil, with performance at one of its lowest levels in the history of Sierra Leone. The lack of funding for higher education (including teacher training) has implications for the quality of primary and secondary education as well as economic development and growth. Human resource development was conceived in the Agenda for change (PRSPII) but requires domestic resource mobilisation and international input for it to take its rightful place in the national development agenda.

The authorities remain committed to reforms to improve the investment climate and will focus on improving the physical infrastructure, increasing access to finance —especially for women and SMEs — and creating a more business friendly regulatory environment. In the coming period, renewed attention would be given to strengthening the financial sector, making the main utilities — particularly the National Power Authority (NPA) — financially viable, and persevering with the anti-corruption strategy. Preparations are underway for a comprehensive tariff study to inform an electricity tariff policy. This is another disturbing news for the poor because with higher tariffs, a large proportion of Sierra Leoneans will only afford electricity by illicit means, which again has dire consequences.

The authorities intend to build on the success achieved this year by the Anti-Corruption Commission (ACC). Several cases were brought to court, leading to some prominent convictions. The ACC will be strengthened by focusing on public education and outreach. Simultaneously, the other two elements of the anti-corruption campaign, namely investigations and prosecutions, will be accelerated.

PUBLIC FINANCIAL MANAGEMENT FOR EFFICIENCY

It is appropriate for GoSL to strengthen PFM to raise efficiency in public spending, particularly for capital spending, and to strengthen monetary operations and deepening the financial sector to enhance financial stability and increase intermediation. This would improve the credit situation in the economy, provide access to financial services and provide the required environment for SMEs, a conduit for poverty reduction. However, the policies that will be implemented to ensure full pass-through of international market prices on fuel to the domestic market price to safeguard budget resources should have compensatory valves for workers and their households since fuel price is an important signal for increases in the cost of living in Sierra Leone.

However, the IMF continues to pursue it old goals amidst the new wave of member countries having a larger aid landscape and new architecture as against what was the case in the 80s and earlier. With the traditional biases, the IMF continues to support macroeconomic frameworks where private interests supersede public interests and the role of the state, where the financial sector takes priority over the productive sector, and where the interests of foreign investors and corporations override those of domestic actors.

While experts are not blaming IMF for most of the socio-economic ills, the youths and civil society activists think differently. Civil society activists are aware of the school of thought of most of the senior economists of the government of Sierra Leone and liken them to the Neo-Liberal Economists (Bretton Wood Institution bred boys) and as such are quick to conclude that IMF has a seat in MOFED and the BSL. They are aware of IMF and the conditionalities and still see the PRSPs as conditionalities.

However, they also agree that there is dire need for the government to follow intelligent economic policies . For example, the Public-Private Partnership Act is still on hold. This is an aspect that will bring the private sector face to face with the public sector and see how they can complement each other to arrive at the destination of pro-poor growth and inclusive growth. There is a consensus (among experts and CSOs) that government needs to negotiate better terms for mining concessions as well as royalties and community development funds for socio-economic development of communities endowed with the exploited raw materials.

KEY TRANSMISSION CHANNELS IN THE SIERRA LEONEAN ECONOMY

This study identifies key macroeconomic variables that can determine the impacts of the mode of solutions chosen for the global recession on Sierra Leone.

Financial Sector

Sierra Leone's financial system would have been the linking sector for the transmission of the global recession to the Sierra Leone economy but it is at a nascent stage. Thus, it was relatively insulated from the difficulties which have faced the international financial markets over the past 12-18 months, especially where the monetary instruments in use at this time had not been properly linked with the international corporate markets and the stock exchange market is yet to be fully operational.

This implies that Sierra Leone's banks do not have toxic assets on their balance sheet and are not as directly affected because they are not so closely integrated into global banking and financial markets.

One recent development in the country was the proliferation of foreign owned banks in the financial system which means that these banks with off-shore Headquarters in Nigeria puts our Financial system along the chain from the Nigerian financial sector. This development, which was meant to improve financial intermediation, has brought its own fears of the likely effects of the global crisis, on the domestic financial sector. However, the only discernible effect had been reduction in household remittances from abroad(which is difficult to estimate because of the diverse modes of transfer)

Commodity prices and trade

Another channel through which the financial meltdown would impact on the Sierra Leone economy is trade. In particular, there has been a significant decline in the prices of key commodities exported by Sierra Leone since the second half of 2008. The Sierra Rutile and Sierra Leone Ore and Metal Company (SIEROMCO) are U.S.-based companies, subjecting them to immediate impacts of the crisis, which caused a negative impact on their operations in Sierra Leone. With the metamorphosis of the global financial crisis into a generalized recession in the major industrial nations, income from exports was bound to fall because of falling demand for these commodities due to both income and wealth effects. Communities are consuming less because of a fall in income levels, often associated with increasing unemployment. Simultaneously, this resulted in the postponement of operations of Koidu Holdings and subsequent closure of mines (bauxite) in March 2009.

Koidu Holdings restarted operations in the second quarter of the year and are already exporting but there are indications that export of bauxite will cease before the end of the year as only stockpiles are being exported following the closure of the company. Production of rutile is forecasted based on the output of the single dredge operating and any medium term output growth will depend on when another dredge becomes operational.

Imports on the other hand decreased by 2.8 percent from US$269.0 million as at June 2009 compared to US$ 276.6 million for the same period in 2008. Food and petroleum imports over the period fell by 13.9 percent and 46.8 percent respectively compared to the same period for 2008. Whenever food and fuel prices increase, the burden is on the poor households as all prices are simultaneously increased and this engenders inflationary pressure which further worsens the living conditions of the poor.

Remittances

With the credit crunch, there were all likelihoods that remittances to Sierra Leone will be affected because of reduced income for migrants working in crisis-hit economies. Workers' remittances have played an important role in development finance in Sierra Leone especially through the foreign exchange bureaus. Remittances from the Sierra Leonean Diaspora are known to be an important source that contributes to household and hence national income. Remittances from abroad are projected to fall from US$38 million in 2008 to US$25 million in 2009 before rebounding to US$37 million in 2010 and US$43 million by 2012[8]. The fall in remittances led to a decrease in domestic demand, and hence reduced the GDP growth in 2009 to 4%.

The shortfall in export receipts in addition to the reduction in remittances from abroad, led to the shortfall in the foreign exchange inflow. The sudden depreciation of the Leone has been attributed to the shortfall in foreign exchange inflows, which in turn led to panic buying of foreign currencies.

Foreign Direct Investment

The global crisis has diminished prospects for private capital flows to Sierra Leone. Since 2004, there has been an increase in the amount of foreign direct investment coming into Sierra Leone, particularly associated with the increase in operations of foreign mining concerns in the country. As a result of the global crisis, some mining companies have scaled back operations and delayed additional investment. However, with the expected turnaround in global growth in 2010, world demand for commodities will improve. Projections are that investment in the mining sector will increase in 2011 due to the anticipated improvement in the global economic environment.

Overseas Development Assistance (ODA)

[8] International Development Association, Third Governance Reform and Growth Credit (GRGC-III)

Sierra Leone is a major recipient of aid from developed nations for the financing of Government programmes. While there is no evidence yet that donors plan to reduce flows for Sierra Leone (major donors have made commitments to the multi-donor trust fund (MDTF), history and econometric evidence suggests that ODA flows tend to be pro-cyclical and so it is reasonable to expect a decline. Sierra Leone is particularly vulnerable to reductions in ODA as it has about 67 percent of all public investment programmes financed by external resources..[9]

Domestic Revenues

Domestic revenue for the first half of 2008 was on target due to improved performance from the Customs and Excise Department. Domestic revenue collected in 2010 exceeded the original budget projections by 19.4 percentage points and was 34.2 percent above the amount collected in 2009. Total domestic revenue rose from Le 750.8 billion in 2009 (11.7 percent of GDP) to Le 1.01
trillion (13.3 percent of GDP) in 2010. The strong revenue performance was accounted for mainly by the improved collection of income taxes.

However, the impact of the global crisis seemed to have shown on income tax and non-tax revenue collection. Revenues from Income Tax department were below target on account of lower revised estimation of profits of the large tax payers because of the impacts of the global crisis. Revenue for the mines department was below target as the impact of the fall in global demand and mineral prices became evident. The lack of transfer of off-budget revenues into the Consolidated Revenue Fund (CRF) by seven MDAs'[10] affected collection from the other departments.

Even though the revenue target for the first half of 2010 was met, the target set in the original budget was not attained. There are hopes that by the end of the year, the passing of the finance bill will improve on the non-tax revenues. It is highly unlikely that customs and excise revenues for the first half of the year will match the second half of the year as a lot of bulk cargo importation was undertaken during the first half of the year for key commodities.

[9] United nations Economic Commission for Africa: The Global Financial Crisis: Impact, Responses and the Way Forward, 2009

[10] The 2009 Finance Bill has now being passed in Parliament and this situation has now been reversed

Budget support was below target by Le 41.7 billion (or 36%) as Le 74.7 billion was received against a budgeted amount of Le 116.3 billion. This shortfall in budget support can be accounted by delays in receiving the EC's 2008 variable tranche and the AfDB budget support for the first half of the year. The EU Court of Auditors and the EU Parliament were demanding strong guarantees that the Public Financial Management (PFM) reforms were progressing in Sierra Leone and the request for timely Audited reports[11].

Policy Responses

Government has taken several steps to mitigate the impact of the global crisis on the economy through:

Increased Government Spending

The overall impact of the recession is evident when comparing IMF projections for 2009 from the May 2008 mission and the May 2009 missions. Falls in output growth, declines in export levels, a widening current account balance, and decreasing expectations for foreign reserves are all in evidence. In light of the worsening economic downturn in 2009, MoFED commissioned a study to assess the impact of the global recession on the Sierra Leone economy and to identify policy responses which would mitigate the impact of the on the poor and vulnerable over the next 18 months. This report (*The Impact of the Global Financial Crisis on the Economy of Sierra Leone: a Report for UNDP Freetown and MoFED, Sierra Leone*) has now been finalized. It recommends that:

> *"To counter the effects of the international crisis on the domestic economy… the government of Sierra Leone [should] initiate a macroeconomic stimulus package, fiscal expansion complemented by currency depreciation implemented through exchange rate management. The fiscal expansion would be largely financed by borrowing from the central bank (Bank of Sierra Leone), with a component of additional external assistance. Exchange rate management is a necessary complement in order to 1) to raise the relative price of tradables to prevent the fiscal expansion from generating an unsustainable trade deficit; and 2) to achieve a real exchange rate associated with the fiscal expansion that is sufficiently trade altering but not excessively inflationary".*

[11] Head of Economic and Trade Section of the European Union Delegation (Concord Times, 19 May 2011)

In other words, government should seek to boost demand for local goods, both by raising spending and devaluing the currency. This is proposed as a temporary, countercyclical measure in response to the fall in export value caused by the international crisis.

Fiscal expansion, if handled correctly, can not only support demand in the current period, but enhance the potential growth rate of the economy over the longer term, by removing some of the infrastructure bottlenecks which have become binding constraints on long-term sustainable growth. There remain objections to running the high deficits that a fiscal expansion would create – in particular, that they stoke inflation. However, in Sierra Leone, the economy already has significant unused labour resources, which can be employed without increasing wage rates. Moreover, this allows room for the extra deficit to be paid for by an increase in the money supply, without unduly raising inflation.

Regarding the form of expenditure, purely capital projects are often inappropriate tools of fiscal expansion because they often cannot be initiated quickly enough to respond to demand declines, and cannot be stopped without wastage when the economy becomes over-heated. Much of current expenditure is also inappropriate because it is not practical or rational to suspend it. For example, it would not be rational health or education policy to hire more medical staff or teachers during a downturn and lay them off when the economy recovers. Effective counter-cyclical expenditure would be based on so-called 'semi-capital' programmes, defined as programmes that use relatively simple capital equipment to create rapidly-completed facilities that have a large component of repair and maintenance. Examples of such programmes are digging sanitation ditches, repair of public buildings, environmental improvement through erosion reduction, and clearing of rural footpaths. As a mini stimulus package, Government requested the local councils to each identify two projects which are currently being funded with emphasis on infrastructure development.

Protect Poverty Expenditure

In spite of the projected drop in revenues, Government has protected poverty related expenditures especially in health, education, water supply and agriculture.

- Diversify the Export Base - Diversification of the export base is a supply-side policy response, which cannot be undertaken quickly enough to deal with the current crisis. However, over the medium term, Sierra Leone should look to encourage the production of a wider range of goods for export so that the stability of the macro-economy is less dependent on the buoyancy of the mining sector. In particular tourism, raw and manufactured agricultural goods, and fisheries products have the potential for expansion in the next three to five years. Work is already ongoing in some of these areas under the Enhanced Integrated Framework (EIF). Government has recently developed a National Export Strategy with support from the Commonwealth.

Mobilize Additional Domestic Revenue: To improve the effectiveness of the government budget as the principle instrument to reduce vulnerabilities to shocks, maintaining stability and improving delivery of basic services objectives, DfID budgeted £25 m but from 01/12/2010 to date has spent £12.5 The Government of Sierra Leone and the European Union , Thursday 4th November 2010 signed the Financing agreement in favour of Sierra Leone to provide €52.5 million (over Le279 billion Leones) through the 10th European Development Fund to support transition from post-conflict to development. The objective of the 2010 Annual Action Programme (AAP) is to support democratic governance and Sierra Leone's poverty reduction strategy, as set out in its "Agenda for Change 2008-2012"

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- Reduction in Import duty rates: Government has reduced import duty rates on basic essential commodities to minimise the impact of the crisis on the population.
- Despite the pressure on the Leone, government has continued to maintain a market clearing rate through weekly foreign exchange auction. The amount supplied in the foreign exchange auction was recently scaled up from US$1.2 million to US$1.7 million to meet increased demand, and to assist the business community import more through official channels so as to lower prices.

Other effects of the crisis in 2010

An expected effect of the global recession on the economy was a reduction of both internal and external finance. The shortfall in development finance will reduce the fiscal space and diminish the ability of government to boost growth and reduce poverty. Spending pressures might arise more if the global crisis continues. Pressures for added social spending associated with currency depreciation could be greater than expected.

To avoid a decrease in ODA which has serious consequences for the economy it is important for donors to honour existing commitments on aid to Sierra Leone to enable government protect its priority spending areas as laid out in the Agenda for Change (second poverty reduction strategy paper). Donors seem committed to disburse funds that have been earmarked over the medium term and are prepared to extend a few initiatives. For example DfID intends continuing support of Private Sector Development and the National Commission for Privatisation (NCP); the World Bank, AfDB and UNDP have committed funds for the Youth Commission.

Foreign direct investment inflows are likely to slow down as FDI often responds to growth with a lag. Remittances would only increase if the global economic environment improves in 2010 because the majority originates in advanced economies where the economic slowdown is more pronounced. FDI inflows reached $32.5 million in 1990 before the outbreak of the violent civil strife in 1991, and then declined rapidly for a decade. FDI has ranged from $39 million in 2000, $61 million in 2004, and $43 million in 2006, to a high of $90 million in 2007. Due to Chinese investments in road, building and significant mining projects, estimates of FDI in 2010 are at a level of over $2 billion. Of note is that the heightened figure in 2010 reflects a large GoSL mining investment agreement, the viability of which is currently in question. Recent business reforms have made Sierra Leone a more friendly location for FDI. Among them are simpler start-up procedures for business registration, company law which provides stronger investment protection, enhanced Commercial Courts, better training and technology to make income tax management and collection more efficient, a Goods and Services Tax (GST) that replaced seven different taxes, and a smoother business insolvency process (Investment Climate Statement Economic Section, U.S. Embassy, Freetown, Sierra Leone, 2011)

However, it is interesting to note as well that disbursements to local councils over the period 2007- 2011 did not show signs of decrease, in actual fact disbursements increased though targeting cannot be fully ascertained. Evidence from the data reveals that though there was a financial meltdown in the global economy it did not adversely affect disbursements to Local Council grants in Sierra Leone. In 2010 transfers to Local Councils was Le 75.7 Bn and in 2011 the budgeted allocation for Local Councils was Le 86.9Bn, with about Le62.2Bn disbursed by third quarter 2011[12]. Thus, the decentralisation process has been and is still on course. This process was jointly funded by the Government of Japan and the World Bank with a capacity building component for both Local government officials and government personnel. It is almost about folding up after setting up all the local government structures throughout the country.

[12] Local Government Finance Department

Table2:Trends in Local Council Grant profile 2004 – 2009

LOCAL COUNCIL GRANT PROFILE (IN LEONES) 2004 - 2009.						
GRANT TYPE	2004	2005	2006	2007	2008	2009
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
Administrative Grant	1,352,800,000	3,326,036,000	3,185,571,209	1,444,320,000	2,164,649,701	2,512,275,000
Education	-	-	11,809,999,975	8,446,107,828	19,104,218,661	28,589,221,080
Direct Transfers	-	-	-	1,520,000,000	3,163,457,468	4,482,000,000
Indirect Transfers*	-	-	11,809,999,975	6,926,107,828	15,940,761,193	24,107,221,080
Other Grants**	-	-	360,086,135	343,000,000	937,299,997	981,100,000
Solid Waste Management	-	848,600,000	1,402,521,970	776,000,000	1,194,999,997	1,586,600,000
Health Care Services	-	3,868,884,000	9,115,849,298	2,191,189,626	14,272,500,000	15,441,000,000
Agriculture and Food Security	-	-	2,421,734,064	915,500,000	3,280,799,998	7,892,200,000
Rural Water Services	-	-	687,647,663	269,500,000	592,900,000	805,000,000
Local Government Development Grant	1,553,149,579	5,337,594,000	7,852,797,853	-	11,196,655,806	16,876,105,670
GRAND TOTAL	2,905,949,579	13,381,114,000	36,836,208,167	14,385,617,454	52,744,024,160	74,683,501,750

* these are payments to service providers made on behalf of councils e.g school fees subsidy, textbooks, teaching & learning materials, fees to WAEC for NPSE & BECE

** these include transfers for fire prevention services, youth and sport services,, social welfare gender and children's affairs, marine resources etc

PART 5

5.1 TAX REGIMES DURING THE PRGF AND IMPACT ON THE POOR

Sierra Leone, like other developing countries, receives part of its revenue from taxes (both direct and indirect). A lack of sufficient government revenue often results in large budget deficits. Deficits in theory generally have undesirable or devastating macroeconomic consequences such as crowding out private investment and increasing inflation, deteriorating the balance of payment and the external value of the currency. However, Keynesian economics does not frown at deficit financing. For a post conflict and fragile state, like Sierra Leone, where the physical infrastructure, schools, hospitals, health centers and clinics were totally devastated coupled with poor road network, some impassable, there should be scope for deficit financing, to enhance the country's capacity to catch up with the others. Taxation may affect income distribution and economic stability and sometimes creates distortions, because it affects the relative price of inputs and final products. Hence governments of various economies around the globe should adopt tax policies with an objective of raising revenue to meet their expenditure needs, while at the same time reducing the level of associated distortion (IMF March 1997).

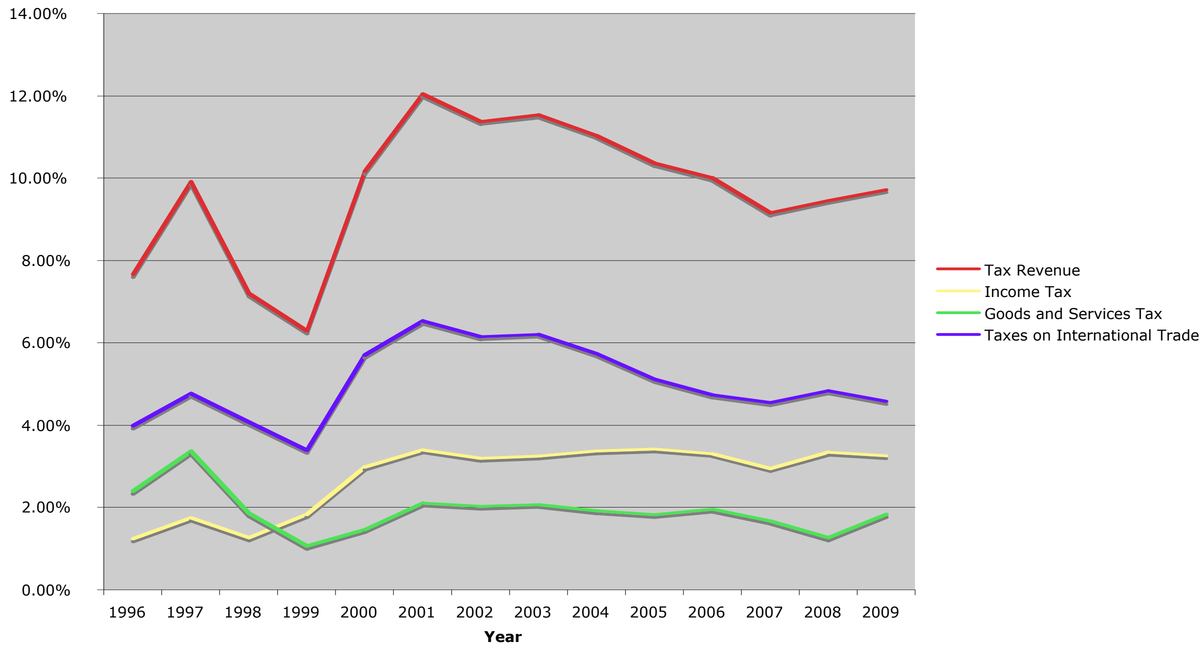
Taxation policy has always been an important instrument for augmenting revenue, especially in developing countries, where it is the major source of domestic revenue. It is also an important instrument for attaining a proper pattern of resource allocation, income distribution, and economic stability, in order that the benefits of economic development are evenly distributed. To date Sierra Leone still faces difficulty in raising tax revenue to the level required for promotion of economic growth, especially as salaries are low and there are many minute business units operating with very low levels of capitalization.. A poor tax performance, in terms of raising revenue can mean either deficiencies in tax structure policy or an inadequate effort to collect, on the part of the

According to Zee (1988), three options open to government for addressing the problem of non-sustainable fiscal deficits include (1) the determination of the optimal tax rate for a given level of expenditure; (2) the determination of the optimal level of expenditure for a given tax rate; and (3) the simultaneous determination of the optimal level of expenditure and the optimal tax rate.

Lipumba & Mbelle, (1990) indicated that increasing tax revenue and reducing expenditure are the most important fiscal challenges facing a government entangled in the budget deficit problem. An accurate estimate of the optimal level of expenditure requires knowledge of the productivity of the tax system. This will assist in identifying a sustainable revenue profile for the country. It will also help in determining appropriate modifications to the existing tax structure and rates as well as areas for improving tax administration.

The Graph below (Figure 1) illustrates the different contributions of the various taxes in Sierra Leone. The recent history of tax reform can be divided into four distinct periods.

Figure 1: Tax Collection 1999-2009



Source: Data 1996-2007 from IMF Statistical Appendixes for Sierra Leone. Data for 2008-2009 from Government of Sierra Leone authorities.

There were significant gains in revenue growth during a period of relative stability in 1996 and early 1997 but in 1998-99, government revenue fell sharply as the rebel war intensified. From a low of slightly above 6% of GDP in 1999, tax revenue had almost doubled to 12% of

GDP by 2001 and remained at nearly that level in 2002-2003. Buoyed by renewed economic growth and a surge in foreign aid (which increased from 11.5% of GDP in 1999 to 44% in 2001), tax revenue increased in all areas and reached pre-war level of the 1970s.

After experiencing impressive revenue growth until 2003, the National Revenue Authority saw tax revenue collection as a share of GDP decline from 11.53% of GDP in 2004 to only 9.16% of GDP by 2007. This overall decline was driven by a dramatic fall in customs collections, from 6.20% to 4.54% of GDP, while the collection of both goods and services and income taxes fell only very slightly.

Slowing economic growth does not appear to be a sufficient explanation for falling customs revenue. From 2003-2007 the share of imports in GDP continued to rise, but the share of revenue from imports taxes nonetheless began to fall. Given this pattern, falling revenue must have resulted from either a change in the composition of imports, changes in tariff rates or increased leakages and corruption. The conclusion that corruption began to expand at the ports during this period is corroborated by interviews with well-placed officials, while it also helps to explain the stagnation of income tax revenue during the period. Sierra Leonean tax law provides for the collection of a 3% withholding tax on imports, which is counted towards future income tax payments. Prior to 2003 this tax was collected directly by the Income Tax Department (ITD) and was an essential source of information for identifying and taxing domestic taxpayers. Yet after 2003 the collection of this tax was transferred to the customs authority, and the ITD reports that difficulties in getting detailed collection information from customs has made it more difficult to enforce domestic income taxes.

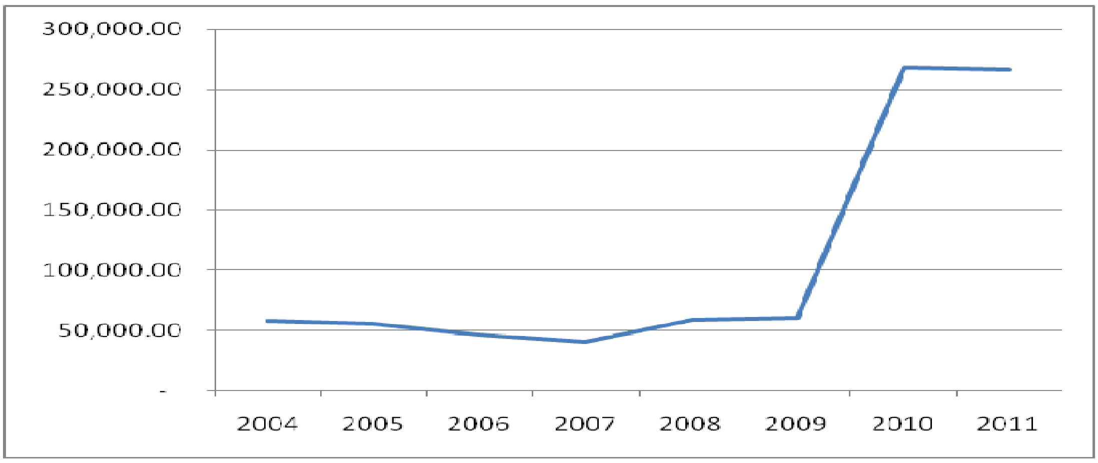
The stagnation of income tax collection also appears to reflect two additional factors. First, the rate of corporate tax was reduced from 35% to 30% in 2004, despite some concerns among tax officials about the revenue impact. Second, the NRA began to report difficulties in collecting taxes due from major parastatals/ companies[13]. The difficulty of collecting taxes

[13] National Revenue Authority Annual Report for 2006

from parastatals is not only important as an explanation for falling revenue, but is also indicative of declining political support for effective revenue collection[14].

While there were thus significant negative trends during the period, it is important to equally acknowledge several positive developments. On the policy front, this period saw planning begin towards several of the reforms that were implemented in subsequent periods, and this process attracted financial support from the UK's Department for International Development (DFID) in particular. More tellingly, responsibility for managing various revenue collection activities that had previously been handled by other agencies was transferred to the NRA in 2004, with impressive results. The transfer of responsibility for collecting non-tax revenues resulted in revenue growth from 0.45% of GDP in 2003 to 0.85% in 2004. Meanwhile, responsibility for the oversight of duty free exemptions was transferred to the NRA from the Ministry of Finance. The result was a steep decline in revenue lost to 'discretionary' exemptions (those not approved by parliament), and total duty free exemptions declined from 1.99% of GDP in 2004 to only 0.81% of GDP in 2007 (Graph5.2, while the increase in duty free after 2007 followed a decision to shift administration back to the Ministry of Finance). Aside from pointing to the impressive performance of at least parts of the NRA, the fall in duty free exemptions further highlights the poor performance of customs administration, which should have experienced significant revenue increases as a result.

Figure 2: Extent of Duty-Free Exemptions 2004-2011 (in million leones)



Source: NRA statistical records 2011

[14] Tax justice- A study done by Christian Aid Sierra Leone (unpublished)

Overall the period from 2004-2011 presents a picture of a government still committed in principle to pursuing tax reform, but which was unwilling to take aggressive action to address declining performance at customs in particular. Like its predecessor, the new government has shown important support for reform measures at the NRA, but has simultaneously seemed unable or unwilling to decisively counter the politicization of revenue collection, with significant consequences for revenue performance. Overall, revenue collection in the aftermath of the election has experienced a modest recovery, growing from 9.2% of GDP in 2007 to 9.7% in 2009, but has still remained significantly below levels earlier in the decade.

The Goods & Services Tax (GST)

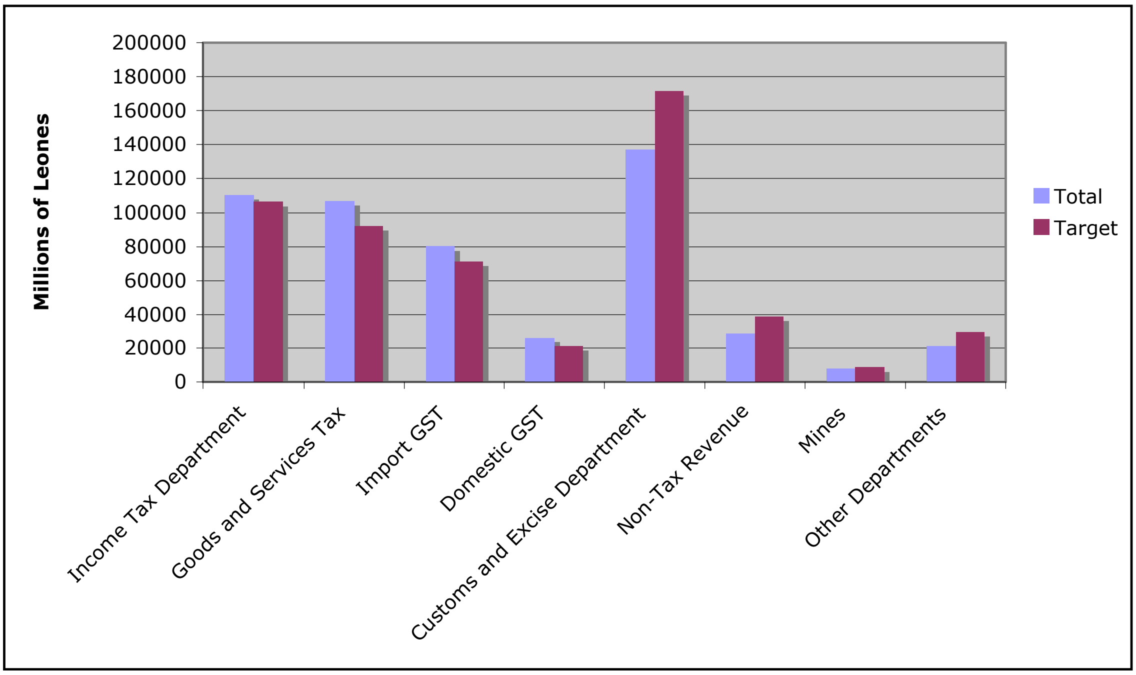
More ambitious has been the introduction of the Goods and Services Tax, a tax supported by IMF , as a route out of low tax revenue. The introduction of the GST was a benchmark set that GoSL worked towards amidst protests The introduction of the tax was initially scheduled for later that year, but was then postponed until January 1, 2010 amidst protests led by importers who claimed to be insufficiently prepared to implement the tax. When the tax was finally implemented in 2010 it was met by continued protests from importers, who briefly closed their shops, but this resistance was short-lived given decisive government commitment to the new tax. The GST, a compression of about seven other taxes, had been designed to leave prices largely unchanged, as the rate of 15% was equivalent to the existing rates of import and domestic sales tax, which comprised the overwhelming bulk of expected revenues.. In practice, the introduction of the GST resulted in a significant increase in prices, which apparently resulted from a combination of (a) misunderstanding leading vendors to add 15% on top of existing prices and (b) opportunistic behaviour among vendors who used confusion about the GST as cover for increasing prices and profit margins. These price increases led to significant public unhappiness but never erupted into broader public opposition or jeopardized the implementation of the tax. This was the beginning of the worsening economic conditions for the poor at the start of 2010.

Discussions with men and women, civil society activists, farmers, teachers and college students indicates bitter complaints about the current economic hardship wrecked on them by the GST and the fuel and food price .The *Awareness Times* newspaper displayed the cost of feeding a household of six (6) in 2004 and 2008 and was quick to explain that that cost has risen by 205%. Transportation cost has increased alongside the increase in petroleum price. However, the government was able to negotiate a reduction in the cost of a bag of rice by foregoing import duty on rice.

Since implementation the operation of the GST has proceeded reasonably smoothly, the revenue collection in the first half of 2010 significantly exceeded revenue targets, and 70% of registered firms submitted tax returns during the second quarter of the year. The tax led to latent public unhappiness, as the GST is blamed for high prices. Another major problem is the understanding of the tax among many taxpayers remains limited, despite some public education efforts by the NRA prior to implementing the tax. Participants in Makeni pointed out that the sensitization for the GST was not effective and clear to the poor people. Following the implementation of the GST the government has maintained an ambitious agenda for policy and administrative reform, given that the removal of barriers to trade was high on DfID's agenda. On April 1st, 2010 the government officially launched the ASYCUDA system, which is a widely used IT system for automating core customs operations. Unfortunately, unlike the relatively smooth implementation of the GST, the implementation of ASYCUDA has faced significant challenges. Currently, there are announcements and adverts for business units and all other stakeholders in import/export to register and to be part of the database and be accustomed to the operations of ASYCUDA ++.

While critics may justifiably argue that this reform agenda appears to reflect international priorities, especially the IMF and the World Bank, the reforms hold significant potential and do appear to enjoy significant support at the highest levels of the NRA. Moreover, the fact that significant reforms have been achieved over the past two years points towards a measure of political commitment to taxation; the implementation of the GST and of ASYCUDA is not likely to have succeeded without the resolute commitment of the government leadership, but the pace of policy and administrative reform has far outpaced growth in revenue. While tax revenue grew at a modest but steady rate in 2008 and 2009, customs revenue has fallen dramatically below targeted levels in the first half of 2010 amidst broader evidence of the creeping politicization of the revenue authority (the Graph below: Figure5.3).

Figure 3: Actual vs. Targeted Revenue Collection in First-Half of 2010



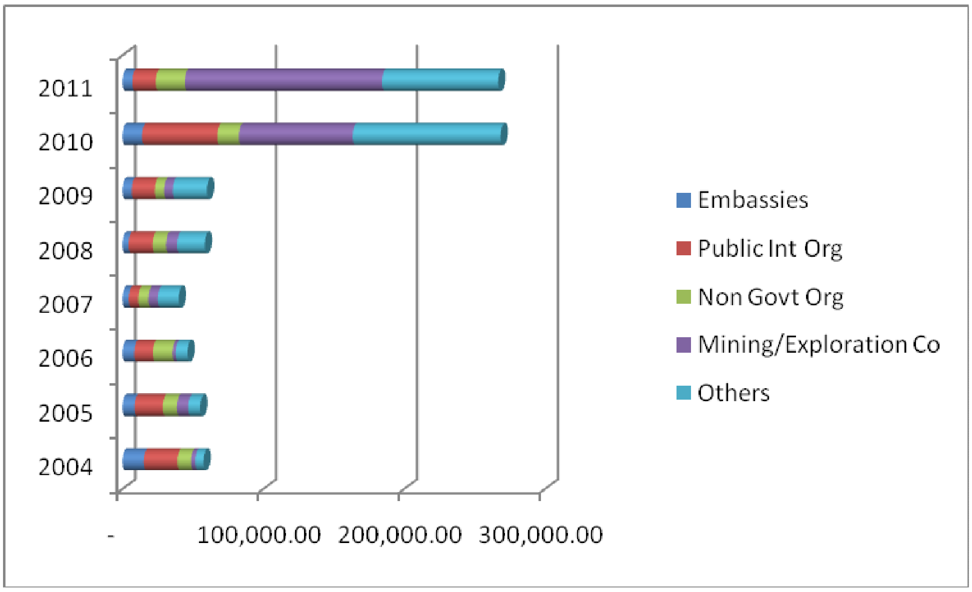
Source: NRA revenue performance chart

Note: The classification of taxes employed by local authorities has changed with the implementation of the GST, and thus differs from those used earlier. During the first half of 2010 both revenue categories exceeded revenue targets, while plans for the creation of a Domestic Tax Department continue to progress. By contrast, there are clear signs of deeper problems in customs administration. The first half of the 2010 has been devoted to the implementation of the ASYCUDA automation system, which is the most commonly used system in low-income countries around the world. Preparation for the implementation of ASYCUDA began in 2008, active piloting of the system began at the beginning of the year, and the system was put fully into operation on April 1, 2010.

The implementation of ASYCUDA was expected to yield relatively immediate gains by improving record keeping and transparency and thus reducing the scope for 'negotiation' and corruption at the port. However, in practice revenue has fallen sharply, achieving only 80% of the half-yearly target. This appears to reflect aggressive resistance to implementation among customs officials at all levels. The historical weakness of the tax system reflects these patterns, as supporters are permitted to enrich themselves through administrative corruption, while political allies are similarly permitted, informally, to escape their fair share of taxation. The use of the tax system as a tool for delivering political patronage has a long history, and is difficult to change. Powerful vested interests have incentives to block or undermine reform, while those who seek reform risk losing political support among those who benefit from existing arrangements.

Figure 4: Duty Free Exemption by Official Category 2004-2011

DUTY-FREE BY CATEGORY OF EXEMPTIONS - 2004 THROUGH 2011
(IN MILLIONS OF LEONES)



Source: NRA statistical data

Finally, the experience of the NRA in attempting to tax professionals including lawyers, doctors and consultants, is equally telling. Taxing professionals poses a particularly acute challenge to governments around the world, as it is extremely difficult to monitor their incomes and professionals are thus able to vastly understate their incomes (Bird and Zolt 2005). As a result professionals are only likely to pay significant taxes if there is a clear commitment from the highest levels of government that tax evasion will be aggressively pursued. Unfortunately, the evidence suggests that such commitment has been largely or entirely lacking in Sierra Leone. Only a single case of tax evasion was made public, that of the State vs Ibrahim Moshen, a Lebanese business magnate.

In practice this tax met major opposition from lawyers in particular, and was never effectively implemented, with revenue in 2009 (the only year in which the tax was enforced at all) reaching only 37 million Leones (about US$9000, thus implying total reported income of US$90000 for all professionals in the country). The professional tax has now been subsumed by the GST, with GST payments to professionals intended to furnish the tax administration with income information. However, in practice it seems likely that in the short-term professionals will only be effectively taxed when the government also demonstrates a willingness to aggressively pursue individuals whose assets are clearly inconsistent with their extremely low tax declarations.

The weakness of income taxation presents further evidence of the relative inability of the tax system to effectively capture elite incomes. While aggregate data is only indicative, it is notable that withholding taxes account for almost 40% of total corporate tax collection, suggesting a striking inability to monitor the independent economic activities of large firms.[15]

A telling provision of the corporate tax system in Sierra Leone is that tax returns are to be verified and certified by professional accounting companies. In the absence of significant audit capacity within the NRA, the goal has been to rely on the professionalism of external auditors to ensure tax compliance. However, in a context in which the declared salary payments and incomes of many large firms are clearly under-stated there is a strong suspicion that these accounting firms, many of them with international ties, are complicit in this tax evasion by willingly certifying highly questionable accounts.

Finally, as in most low-income countries, large firms and wealthy individuals are primarily affected by central government taxes (income tax, the GST, customs duties), while lower-

[15] Withholding taxes are withheld by government ministries, departments and agencies, as well as certain non-governmental entities, at a rate of 5% of value of contracts.

income taxpayers are most affected by local government taxes (local tax, market dues, business licenses etc…). As such, it is at least somewhat telling that since 2007 the government has made a strong commitment to strengthening local tax collection (discussed in the next section), while a similar commitment has not been apparent at the central government level. The overall impact is to shift a greater share of the tax burden to the middle and lower classes, while the stagnation of central government revenue suggests that formal and informal exemptions for elites appear to have been largely unaffected. The onus rests on the government to capitalise on recent policy and administrative reforms to curb leakages at the central government level. Given that those who benefit from the current system represent strong vested interests working to undermine reform, progress demands genuine and broad based public demands in curbing corruption, exemptions and unpunished evasion.

5.2 Recent Suggestions/Pro-Poor alternatives and Conclusions

- Expand revenue base by tapping into new sectors of taxpayers and reducing exemptions, deductions and incentives;.
- Minimize leakage and other revenue losses by reducing discretion, curbing, smuggling ,and instituting systems and controls.
- Automate Tax Administration operations, especially key activities at the Income Tax Department, Customs and Excise and Non-Tax Revenue.
- Strengthen Institutional and Human resource capacity for revenue administration.
- Minimize administrative barriers to trade and investment.

According to Stotsky (1995) a prescribed “ideal” tax system for a developing country, that is acceptable as pro-poor should be as follows:

- Heavy reliance on a broadly-based sales tax, and excise taxes on petroleum products, alcohol, tobacco and perhaps a few luxury items.
- No reliance on export duties, except possibly as a proxy for income tax for hard-to-tax sectors such as agriculture.

- Reliance on import taxation for protective purposes only-since the domestic sales tax is assigned the revenue raising function with a low average rate and a limited dispersion of rates to minimise effective rates of protection.
- An administratively simple form of personal income tax, with exemptions limited, if possible, to personal dependents' allowances, a moderate top marginal rate, an exemption limit large enough to exclude persons with modest incomes, and a substantial reliance on withholding;
- A corporate income tax levied at only moderate to-low rate, with depreciation & other non-cash expenditure provisions uniform across sectors & minimal recourse to incentive schemes for new ventures. Use such resources for roads construction and, or rehabilitation, construction of medical centres/clinics, build agro-processing houses, etc,

To summarise all of these, we follow Gillis et al (1992), to say, by far the most effective tax incentive is lower tax rates for all firms. Historically popular engagement with tax issues has been largely limited to resisting taxation by governments that are perceived to be unaccountable and unresponsive. Noticeably, Sierra Leone has provided too many tax incentives for the mining companies and the populace is asking for a review of the mining agreements and a harmonization of procedures and levies, and, or royalties.

In conclusion CSOs should animate tax issues, give them life and voice to protect the consumers and, surely they will be protecting the poor.[16]

There is dire need for CSOs to trumpet the need for information sharing on Tax issues, IMF prescriptions and be able to engage the IMF mission, Civic rights and responsibilities, government policies and reforms and issues hinging on economic governance and management.

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APPENDIX A1.

Table A1. Quantitative Performance Criteria, 2005–09 1

	June 2005	June 2006	Dec 2006	June 2007	Dec 2007	June 2008	Dec 2008	J une 2009	Dec 2009
Performance criteria									
Net domestic bank credit to government (ceiling)	Not Met	Met	Not Met	Met	Met	Met	Met	Met	Met
Net domestic assets of the central bank (ceiling)	Met	Met	Not Met	Met	Met	Met	Met	Met	Met
Domestic primary balance (floor)	Not Met	Met	Not Met	Met	Met	Not Met	Met	Met	Not Met
Gross foreign exchange reserves of the central bank (floor)	Met	Met	Met	Met	Met	Met	Met	Met	Met
Total domestic government revenue (floor)	…	…	…	…	…	Not Met	Not Met	Met	Met
Indicative targets									
Total domestic government revenue (floor)	Not Met	Met	Not Met	Not Met	Not Met	…	…	…	…
Government wage bill (ceiling)	Not Met	Not Met	Not Met	Met	Met	…	…	…	…
Poverty-related expenditures (floor)	Not Met	Not Met	Not Met	Not Met	Not Met	Met	Met	Not Met	Met

Box 1: Implementation of Past Fund Policy Recommendations

Advice	Status
• Increase the domestic revenue-to-GDP ratio and rationalise public expenditure to create fiscal space for poverty reduction	• A three-year modernisation plan for the (NRA) is being implemented, and preparation to introduce a Goods and Services Tax (GST) is well advanced. An action plan on public financial management reform is being implemented, with assistance from budget support donors**.**
• Reform the civil service to improve the quality of public services and bring the wage bill under control.	• The civil service reform has been launched recently, and progress has been made in controlling the wage bill, the conditionality on it has been removed
• Adopt and implement a time-bound comprehensive strategy to strengthen the financial system and carry through with implementation of the Anti-Money Laundering (AML) Act.	• The strategy was adopted in June 2008 and the authorities are reviewing the AML Act 2005 and drawing up regulations in line with international standards to enhance AML compliance. A Financial Intelligence Unit has been established at BSL
• Pursue a flexible exchange rate policy to facilitate economic adjustment to exogenous shocks.	• The nominal exchange rate of the Leone against vis à- vis the U.S. dollar has been relatively stable by the last Review, partly due to the BSL's de facto management through auctions as the only seller of forex.
• Accelerate governance and other structural reforms to enhance transparency and accountability, and improve the regulatory framework**.**	• A number of laws were amended to strengthen institutions, (i) the Anti-Corruption Act (ACA), which now gives the (ACC) more investigative and prosecutorial powers; (ii) the Companies Act; and (iii) the Bankruptcy Bill.
• Avoid using tax incentives to stimulate activity, instead adopt a rules-based and predictable fiscal regime that applies uniformly to all companies.	• No cases of tax incentives to stimulate activity were reported in 2007–08.Recently, there have been large amounts of duty waivers in Millions of dollars

APPENDIX 1 B

A SUMMARY OF THE FOCUS GROUP DISCUSSIONS (in Makeni Town - Local Council Wards, Teachers and Civil Society Activists- in Freetown-8 participants ,mostly College students)

FOCUS GROUP DISCUSSION on the economic crises and IMF –

Many of us are ignorant, we lack knowledge about IMF activities in Sierra Leone, however we are sure they are contributing to the poverty and making money finding for government difficult. Information comes that IMF is here but the next day you hear they are gone. So we cannot understand why the government listens to IMF. The economic crises has reduced the visit of our brothers and even the transfers are not as before.

We are slightly lucky because our banks are small and the Leone is not recognized outside, so the effect of the economic meltdown is indirect. One thing we have not mentioned is this GST. Was the GST to help us poor citizens or to punish us? because the business community is adding the tax to the price we used to pay.

We hear many things we don't understand. They say they are improving the Customs with ASYCUDA, which should bring prices down but instead prices are going up. Is this also the responsibility of IMF?

Now because of ECOWAS we have these Nigerian Banks proliferating the financial landscape of our country, the BSL should be very vigilant to avoid bank failure and they should be strict over capitalization.

Sierra Leone is donor driven so our economy is vulnerable to external shocks, this is where IMF is important, but they should not be dictating to the government about policies of expenditure cuts, retrenchment of workers and the like. Sometimes delay in donor disbursements affects the government badly.

Corruption is a problem in our country and they delay in prosecuting these cases .political Interventions are not helping situation. Uniformed forces/personnel are also contributing to the corruption. Sometimes the Groups that did sensitizing about GST are not too effective. Those to do the sensitizing must have the convincing power. The group must compose of elders, women, youth, since they are seriously active.

We are only starting to plan for a stock exchange in Sierra Leone so we are not knowledgeable about market crash, but what has happened in the first world will affect us badly. We sell our raw materials to them, diamonds, bauxite, rutile, cocoa and coffee.

Topic: Economic crisis, GST and the IMF in SL

There are instances when government announces the arrival of the IMF mission but we do not get to know what they discuss with government. However, we are told they provide loans for Sierra Leone with strict rules but because our government is broke they take the loan and they sometimes attempt to pursue the policies set out.

As a social science student I know if we do not go to them crying they will not tell us what to do. Yes they preach austerity because we display financial indiscipline. Particularly when they know our governments are corrupt so they serve as checks.

For the economic crisis we know CEOs eat monies before they are seen, getting big bonuses and even the Fanny Mae thing, you sometimes keep wondering. However, we will suffer just because we depend on them, but we have a little cushion. In fact they should be investing in Africa, which is relatively safer.

Our tax system is bad. People are paid low salaries and the GST made things worse. You know whenever there is a crisis in Middle East, and, or Europe/America, Africa will suffer, especially Sierra Leone and the Sub-Saharan Africa. The credit crunch reduced remittances to households and reduced export value and our country depends on donor funds. So if the Donor is facing a difficult time the donor will leave you out for a while to solve domestic problems. That is where Sierra Leone comes in to the economic crises. The increases in oil, fuel and food prices caused inflation in Sierra Leone and the GST made things worse.GST was for the business people and not the poor.

IMF and WB are to blame for the economic hardship in SL because they advice the government to increase electricity tariff for NPA to get more money failing to notice that the poor men cannot afford to pay. They know our government is broke so they dictate and we accept-a beggar has no choice, as they say.

Informal Discussions about GST-(Enterpreneurs/ Shop owners, customers.buyers and other people along the streets of Freetown)

The confusion was clearly evident in the explanations of the shop owners, many of whom did not seem to understand how GST works.

One shop owner said he shut his shop because he was told by other business people to do so. Other shop owners in the building materials and Provisions shops recounted similar explanation. With some clarity however one stationery shop owner along Rawdon street who asked not to be named told Awoko: ''initially NRA told us that if you are selling for example an item that costs Le 100, 000, you should take 15% tax which will be Le115, 000 to be paid by the consumer at the end of the day.

But now, the new understanding is that the consumer will pay Le 100,000 for the goods and the businessman pays Le 15,000 as the GST.
That is the bone of contention''.

He went on ''we had understood the information communicated to us during earlier meetings held with us businessmen. Now what they say is that the percentages we pay will be given to us at the end of the year.

That we do not agree with, because we believe they lack the ability and capacity to do that".
The owner of Cafe de la Rose restaurant, Rose Mary Cole pointed out that she was not

against paying taxes but argued that placing 15% on foods was too high and it will hinder business.

The earlier tax which was 10% and which did not go down well with the people was very difficult to be implemented she further noted.

Hassan Lahai, a tax and auditing Lecturer for CAT and ACCA Students said his own understanding of the GST is that it should be a fiscal policy in which government collects revenue for the development of the country.

He cautioned that even though it is government's fiscal policy yet they should be mindful of its implications, the effectiveness and the impact it will have on the lives of the people. Lahai noted that the economy is not going on well at the moment and considering the fact that poverty is widespread .the GST is not good. ''Cleaning of the whole system should have first been done to bolster the income generation''.

Apportioning 15% will only add more burdens to the consumer. It is the ultimate consumer that will bear the brunt.
I do not think it is a wise decision, he said.

NRA Official said the GST takes on board seven taxes that the seven taxes have not been paid by institutions.

''You have people that will only pay the 5% sales tax. So if they can use it as an excuse then it is misleading." He acknowledged that "yes people should pay tax but this type of tax will only create more burden added to the poverty.
It will further create loop holes for people to make money''.

What he thinks government should have or should do is, ''the whole set up needs lots of cleaning up so that government will be able to get lost revenue and with that success they will come with GST. Also time was needed to sensitize people''.

ACTION AID INTERNATIONAL-SIERRA LEONE(AAISL): CRISIS SOLUTION
IMF AND SIERRA LEONE

INTERVIEW GUIDE FOR KEY INFORMANTS & FOCUS GROUP DISCUSSIONS (FGDS)

I**. Introduction**:
The researcher starts off the discussion by self-introduction and a short brief on the focus of the study. The brief on the study should emphasize that the study is keen to document what the informants know about first, **the status of youth unemployment**: causes, nature, consequences of unemployment, and intervention programmes to curb the problem. Second, **involvement of the youth in recent civil war** in the country: motives for involvement, actual role of youth during the war, impact of war on the youth, **youth reintegration programmes**, etc. Third, the **nature of one's country** as defined by selected characteristics that include: socio-economic and political stability, dependency on foreign aid/assistance, vulnerability to external influence; safety situation, likelihood of civil war, presence of good governance as exemplified by free and fair elections, etc. The following themes should guide the discussions.

II. Thematic Areas for Discussion

Demographic Attributes of the Informant: Through self introduction of the Informant capture demographics e.g., level of education, occupation, position at work, experience, etc.

Challenges faced by the country? While there many challenges that will be identified focus on, nature, magnitude, and impact. How serious is the problem? What are its leading causes and manifestations in the country? What evidence is there to capture seriousness of the problem? Why is this situation prevailing?

Government's Intervention Programmes: How has the government responded? What government programmes/projects are there to tackle the economic problem? How successful are they?

Interventions by IMF and other Agencies and communities to tackle Sierra Leone's economic problems: Any programmes by donors and private sector. How effective are such programmes? Which interventions have worked and failed and why?

Role of Government in Policy alternatives to salvage the economy: What has been the role of government in implementing programmes based on laid out policy framework? What programmes have succeeded and failed.

Role of Other Donors/Actors & Communities in helping during the Economic meltdown: What donor funded programmes have been implemented during the crisis? To what extent have they succeeded or failed? Are there community-based programmes?

Nature of the Country/Society: How stable is the country; socially, economically and politically? How dependent is the country on foreign assistance from donors? Can the country do without external technical and financial assistance from the IMF and WB?

The Way Forward: Suggestions/recommendations on how to address the economic problems of Sierra Leone? Who should do what? What are the anticipated obstacles in solving these economic and social problems?