PD-ABP634 95270

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 636-K-601 (636-0172)

2. Country: Sierra Leone

3. Category: Economic Support Fund

4. Date: June 1, 1992

5. To: Alison Rosenberg

6. OYB Change Number:

7. From: Myron Golden, Director, AFR/CCWA

8. OYB Increase: $1,000,000

9. Approval Requested for Commitment of $ 1,000,000

10. Appropriation Budget Plan Code: 72-111/21037 GES-1-92-31636-KG31

11. Type Funding: ☐ Loan ☒ Grant

12. Local Currency Arrangement: ☐ Informal ☐ Formal ☒ None

13. Estimated Delivery Period: 9/30/92-3/31/93

14. Transaction Eligibility Date:

15. Commodities Financed: N/A

16. Permitted Source		17. Estimated Source	
U.S. only	Cash: $1,000,000	U.S.	
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash		Other	

18. Summary Description

A cash transfer in the amount of one million dollars ($1,000,000) will be made to the Government of Sierra Leone (GOSL) to support the GOSL's macro-economic stabilization program. It constitutes the principal U.S. bilateral contribution to filling a financing gap and allowing the formalization of a Rights Accumulation Program (RAP) with the International Monetary Fund.

In order to sustain a difficult and comprehensive reform program, Sierra Leone must remain eligible for financing from the international financial community by clearing its arrearages to the International Monetary Fund. Service of this debt, therefore, is the most appropriate use of assistance resources at this time. This cash transfer will be reserved exclusively for debt service payments to multilateral institutions and will be made in one tranche directly to the identified institutions. No local currency will be generated.

AID/W Controller concurs with the proposed methods of financing and certification as summarized in Sections III.D. and IV. A&B of this document.

(continued)

19. Clearances	Date
GC/AFR:ESpriggs	9/30/92
AFR/CCWA:MGolden	9/29/92
AFR/DP:MBonner	9/29/92
FA/FM/A:RBonnaffon	9/30/92
DAA/AFR:RCobb	
AFR/MRP/RC:LGrizzard	9/30/92

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: Alison P. Rosenberg

Date: 9/30/92

Title: Assistant Administrator for Africa

AID 1120-1 (5-82)

Classification:

<u>Conditionality</u>: The program grant agreement will contain the usual conditions precedent regarding a legal opinion, specimen signatures, designation of authorized representative and appropriate covenants, and another requiring the GOSL to furnish A.I.D. with a list of proposed debt payments. In addition, a specific condition precedent will require that:

> Prior to the disbursement under the grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. . . .
>
> (d) Either (i) an accounting for the deposit and use of the proceeds of sale of United States PL 480 Title I food assistance received by Sierra Leone during the period 1987 through 1990, or, in the event records do not exist to support such an accounting;
>
> (ii) a letter signed by a senior official certifying that records do not in fact exist to support such an accounting and specifying that the Grantee will (1) provide A.I.D. with all records that are available, including deposit receipts and bank records, (2) conduct a full review of all the facts and circumstances, (3) following such review, provide to A.I.D, to the best of its ability, a written reconstruction of the records relating to the deposit and use of the aforementioned sales proceeds and a narrative description of the pertinent events, and (4) complete items (1) through (3) within 60 days from the date of the submission to A.I.D. of such letter.

<u>Covenant</u>: The program grant agreement will also include a covenant indicating that "the GOSL is in full agreement with the need to (a) comply with the reporting requirements of the PL-480 Agreements; and (b) cooperate fully in the audit of sales proceeds and uses of those proceeds."

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: Myron Golden, AFR/CCWA

SUBJECT: The Sierra Leone Economic Support Program (636-0172; 636-K-601)

I. Problem

Your approval is requested to: 1) authorize a grant of $1 million from the ESF account to the Government of Sierra Leone (GOSL) to implement an economic support program as described below; and 2) sign the program grant agreement to obligate the funds. The planned obligation for FY 1992 and total life of program funding herein authorized is $1 million.

II. Discussion

A. Background

Following an economic nadir in which relations with the International Monetary Fund (IMF) were suspended, the GOSL began implementation of a significant set of economic reforms in mid-1989. The reforms included the introduction of a market-determined exchange rate, a reorganization of the banking system, the elimination of most import and export licenses, the abolition of price controls, and the privatization of coffee and cocoa trade. In recognition of the strength of these reforms, the IMF agreed to negotiate an agreement that would allow Sierra Leone to clear its arrears to the Fund and thereby reestablish its eligibility for new resources.

The agreement, a Rights Accumulation Program (RAP), proposes a series of further reforms designed to stabilize the Sierra Leonean economy and build a foundation for economic growth. It includes measures to reduce inflation by strengthening discipline in monetary policy, a reduction of the budget deficit through decreased government expenditures and increased revenues, and improved incentives for the effective management and development of Sierra Leone's economic assets.

The IMF Board voted to approve the RAP for Sierra Leone on April 3, 1992. At that meeting, the United States joined a group of donors expressing support for the GOSL's reform efforts with a pledge of $1 million in balance of payments support. Because the first priority for the continuation of the reform program is the clearance of Sierra Leone's arrearages to the IMF, the most appropriate use of this $1 million is for the service of debt to the Fund.

Shortly after this approval of the RAP, the Government of President Joseph Momoh collapsed, weakened by years of economic decline, the escalating military confrontation with rebels in neighboring Liberia, and popular distrust of its commitment to democratic reforms. A new government was formed under the leadership of Captain Valentine Strasser-King, and pledged to respect the agreement negotiated with the IMF. The new cabinet retained the highly respected Finance Minister and Central Bank Governor, two bulwarks of the economic reform program. The IMF and the World Bank have reviewed the economic situation with the new government, and are moving ahead with their respective programs.

B. Project Description

The Sierra Leone Economic Support Program provides a modest but essential contribution to closing an exceptional financing gap and thereby enabling the GOSL to pursue economic stabilization with the support of the IMF.

Under the proposed terms of the program, a cash transfer in the amount of $1 million will be made on behalf of the GOSL directly to an international financial institution for service of a debt owed by the GOSL. The transfer of funds will be made in one tranche of $1 million, and the disbursement of funds will be subject to the review and approval by A.I.D. of the debt service payment(s) proposed by the GOSL. The first priority for payment will be arrearages to the IMF.

The program grant agreement for the Sierra Leone Economic Support Program also contains a condition precedent and a covenant relating to problems with the P.L. 480 Title I Program which came to light after the drafting of the Program Assistance Approval Document (PAAD). Following reports of mismanagement in the implementation of the Title I program by the previous Government and at the request of AFR/CCWA, A.I.D.'s Regional Inspector General's office in Dakar (RIG/A/Dakar) directed a pre-audit survey of $17 million disbursed under the program during 1987-90. During this survey, conducted in August 1992, the auditors found that the GOSL officials within the National Aid Coordinating Secretariat (NACS) were able to identify little to no auditable records.

In response to a request from A.I.D./Washington for its preliminary views, RIG/A/Dakar sent via fax its "draft recommendation to be included in the subject draft audit report," which stated:

3

Recommendation No. 1: We recommend that the Assistant Administrator for the Africa Bureau require the Government of Sierra Leone to account for the deposit of the sales proceeds and use of those proceeds for the 1987 through 1990 P.L. 480 Title I program years as a condition precedent to any future A.I.D. assistance to Sierra Leone.

A.I.D./Washington agreed in principle to the recommendation for a condition precedent. In light of RIG/A/Dakar's own conclusion that full accounts may not exist, the condition was drafted to require full accountability as well as to require specific steps to resolve accountability in the absence of records. It was agreed that the wording of the condition precedent would be as follows:

Prior to the disbursement under the grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. . . .

(d) Either (i) an accounting for the deposit and use of the proceeds of sale of United States PL 480 Title I food assistance received by Sierra Leone during the period 1987 through 1990, or, in the event records do not exist to support such an accounting;

(ii) a letter signed by a senior official certifying that records do not in fact exist to support such an accounting and specifying that the Grantee will (1) provide A.I.D. with all records that are available, including deposit receipts and bank records, (2) conduct a full review of all the facts and circumstances, (3) following such review, provide to A.I.D, to the best of its ability, a written reconstruction of the records relating to the deposit and use of the aforementioned sales proceeds and a narrative description of the pertinent events, and (4) complete items (1) through (3) within 60 days from the date of the submission to A.I.D. of such letter.

In addition, a covenant has been included in the grant agreement indicating the GOSL's agreement with the need to comply with the reporting requirements and cooperate fully in any audit of the program.

C. Financial Plan

1. Financial Summary - Total funding will be $1,000,000 of ESF, 100 percent of which will be authorized and obligated in FY 1992. No contribution from the host country government will be sought.

4

2. Funding Mechanism - Disbursements will be made by AID/FA/FM against a valid financing request received from the GOSL and approved by AFR/CCWA. This financing arrangement allows A.I.D. to track its cash disbursements directly to each creditor against specific payment documents. In this way, the requirements of Sec. 575(b) for separate dollar accounts and dollar tracking will be met.

D. Committee Findings. The ECPR is superseded by clearances in the PAAD document.

E. Special Concerns.

1. Human Rights - No human rights clearance is required for this program.

2. Initial Environmental Examination (IEE) - A categorical exclusion was proposed based on Sections 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(1)(vi). The Bureau Environmental Officer concurred; the documentation is included in the PAAD.

3. Payment Verification - AID/W Controller concurs with the proposed methods of financing and certification as summarized in Sections III.D. and IV. B of the PAAD document.

4. 611(a) Requirements - The requirements of 611(a) will be met by ensuring funds are disbursed against a valid, binding payment request which totals $1,000,000.

5. Conditionality: The program grant agreement will contain the usual conditions precedent regarding a legal opinion, specimen signatures, designation of authorized representative and appropriate covenants, and another requiring the GOSL to furnish A.I.D. with a list of proposed debt payments. In addition, as stated in the Project Description above, a specific condition precedent will require an accounting for the deposit and use of the proceeds of sale of United States P.L. 480 Title I food assistance received by Sierra Leone during the period 1987 through 1990.

6. Covenant: The program grant agreement will also include a covenant indicating that "the GOSL is in full agreement with the need to (a) comply with the reporting requirements of the PL-480 Agreements; and (b) cooperate fully in the audit of sales proceeds and uses of those proceeds."

7. Cash Transfer Justification: A memorandum justifying the use of a cash transfer mechanism has been prepared for the Associate Administrator for Operations and is included in this package. This memorandum should be signed prior to your authorization of the program.

5

III. Waivers: No waivers are anticipated.

IV. Congressional Notification: A Congressional Notification was prepared and sent to the Hill on June 25, 1992. It expired without objection on July 11, 1992.

V. Recommendation: That you: 1) sign the attached PAAD facesheet, thereby authorizing ESF program financing of $1,000,000 for the Sierra Leone Economic Support Program (636-0172; 636-K-601) to be provided as cash transfer assistance; and 2) sign the attached Program Grant Agreement, thereby obligating these funds.

Attachments: PAAD
AA/OPS Memo
Program Grant Agreement (6 originals)

Clearances:

AFR/CCWA:CRozell [draft] date 9/29/92
GC/AFR:ESpriggs [draft] date 9/30/92
AFR/DP:MBonner [draft] date 9/29/92

Drafted by: AFR/CCWA:JNotkin:7-9069

6

V. <u>Recommendation</u>: That you: 1) sign the attached PAAD facesheet, thereby authorizing ESF program financing of $1,000,000 for the Sierra Leone Economic Support Program (636-0172; 636-K-601) to be provided as cash transfer assistance; and 2) sign the attached Program Grant Agreement, thereby obligating these funds.

Attachments: PAAD
AA/OPS Memo
Program Grant Agreement (6 originals)

<u>Clearances</u>:

AFR/CCWA:CRozell [draft] date 9/29/92
GC/AFR:ESpriggs ______ date 9/30/92
AFR/DP:MBonner [draft] date 9/29/92

Drafted by: AFR/CCWA:JNotkin:7-9069

Sierra Leone Economic Support Program
(636-0172; 636 K 601)

Table of Contents

I. Executive Summary

A. Amount and Purpose of Program

A cash transfer for debt payment in the amount of one million dollars ($1,000,000) will be made to the Government of Sierra Leone (GOSL) in support of the GOSL's economic stabilization program. This cash transfer constitutes the U.S. bilateral contribution pledged as part of a multi-donor effort to close a financing gap in the GOSL budget for calendar year 1992, and allow for the formalization of Sierra Leone's Rights Accumulation Program (RAP) with the International Monetary Fund (IMF). The other contributing donors include the United Kingdom, Japan, the World Bank and members of the Paris Club.

The purpose of the Sierra Leone Economic Support Program as presented in the Logical Framework, Annex 1, is to reduce the current accounts deficit.

B. Policy Reforms and Expected Impact

The GOSL and the IMF have agreed upon a reform agenda under the RAP, including measures to reform the public enterprise sector, liberalize the foreign exchange regime, restrain fiscal and monetary policies, ensure positive real interest rates, strengthen revenue collection, and rationalize policies in key economic sectors, notably diamonds, fisheries and other natural resource sectors. The RAP is designed to set the foundation for economic growth in Sierra Leone by reducing inflation through strengthened discipline in monetary policy, reducing the budget deficit through decreased government expenditures and increased revenues, and improving incentives for the effective management and development of the country's economic assets.

The Sierra Leone Economic Support Program will not impose any conditions for policy reform beyond that of complying with the requirements of the RAP.

C. Program Mechanism

Sierra Leone must keep its arrearage payments to the IMF current in order to maintain its recently reestablished formal relations with the Fund and the rest of the international financial community. The country's eligibility for external financing are essential to economic stabilization and growth. The most appropriate use of assistance resources at this time, therefore, is for the service of debt to the IMF. Sierra Leone has no outstanding debt to the United States.

D. Dollar Uses

Under the proposed terms of the program, the disbursement of the $1 million will be made at one time directly into the bank account(s) of the creditor financial institution for the debt service payment identified by the GOSL and approved by A.I.D.

E. Local Currency Uses

As the assistance will be used for direct servicing of Sierra Leone's external debt, no local currency will be generated.

II. Economic Setting

A. Country Background

1. Society, History and Politics

Sierra Leone is a small country situated on the coast of West Africa between Guinea and Liberia, with a land mass of 27,699 square miles and a population estimated to be 4.4 million based on the current growth rate of 2.6 percent. The population of Sierra Leone is ethnically diverse, dominated by the Temne in the north and the Mende in the south, who together comprise about 60 percent of the population. Another important group is the Creoles, the descendants of freed British slaves who founded Freetown in 1787 and formed an economic and political elite. The influence of the Creoles has been moderated in recent decades by political and social reforms which have extended opportunities to members of Sierra Leone's other ethnic groups. In addition to the Temne and Mende, these include the Sherbro, Kono, Koranko, Kissi, Limba, Susu, Loko, and Fula peoples.

A British Crown Colony from 1908 to 1961, Sierra Leone was administered through "indirect rule," which had the effect of strengthening the influence of local chiefs, an importance they retain today. Most of the colonial rule was peaceful, and the transition to independence occurred without violence. Sierra Leone received more modest colonial investments than did its more strategic neighbors, the Gold Coast (Ghana) and Nigeria, but was endowed with a well-trained civil service.

U.S.-Sierra Leone relations have been cordial, but without many close economic or political ties. Following Iraq's invasion of Kuwait in August of 1990, Sierra Leone contributed 200 troops to the multilateral force deployed to the Persian Gulf. The country also recently supported the United States by co-sponsoring the repeal of the "Zionism is Racism" resolution at the United Nations.

One notable historical link between the two nations dates back to the 1700s. As American colonists in South Carolina and Georgia were struggling to introduce rice cultivation to their coastal plantations, they discovered Sierra Leone was a valuable source of slaves with a tradition of growing rice. Slave traders found that slaves from the "Rice Coast" of Africa sold at higher prices and they developed a thriving trade along this axis. In the United States, these slaves formed a distinct group called the Gullahs, recreating and preserving much of the language and culture of their African origins. There remains today a striking resemblance between the Gullah and Sierra Leonean cultures.

For the first two decades after independence, Sierra Leone had a shaky multi-party democracy. In 1978, asserting that the country risked disintegration into tribal factions, then-President Siaka Stevens ushered through a constitutional amendment to create a one-party state. In 1985, Stevens chose the head of Sierra Leone's armed forces, Major-General Joseph Momoh, to succeed him as Head of State.

In 1983, following a profound economic decline, the United Nations reclassified Sierra Leone as a Least Developed Country. The deterioration has continued. At 270 per 1000, Sierra Leone's infant mortality rate is the fourth highest in the world, while the life expectancy of 42 is one of the lowest. Between 75 and 85 percent of the population remains illiterate. In 1990, per capita GDP was $240, which represents a decline in real terms by one half since 1980.

The civil war in Liberia, which began in 1989, has had a profound impact on Sierra Leone. It has driven an estimated 125,000 Liberian refugees into Sierra Leone, displaced some 236,000 Sierra Leoneans within the country, and driven almost as many Sierra Leoneans to flee to Guinea. Sierra Leone contributed 500 troops to the Economic Community of West African States' (ECOWAS) monitoring force, ECOMOG, which was organized to help stabilize the situation in Liberia. In March, 1991, the Sierra Leone army was forced to deploy another 2,150 troops to the Liberian border as Liberian rebels led by Charles Taylor began incursions into the eastern province of Sierra Leone.

In 1990, in response to popular pressures, the Momoh government pledged to restore multiparty democracy in Sierra Leone. A national constitutional review commission was formed to draft a new constitution, and its proposals included a significant restructuring of the political system. A draft constitution was approved by the Parliament in July, 1991, and endorsed by the electorate in a referendum held in August.

The new constitution permits the formation of an unlimited number of political parties, while prohibiting parties based exclusively on ethnic, religious or community affiliations. It limits the president's tenure to two terms of five years, and establishes new controls on the powers of the president. At least six parties officially registered by April 1992, and Parliamentary and Presidential elections were scheduled to take place by the end of the year.

11

At the end of April, 1992, what began as a protest by unpaid middle-ranking army officers soldiers developed into a full-fledged coup d'état. Weakened by the years of economic decline, popular distrust of its commitment to democratic reform, and the military confrontation with Liberia, the Momoh Government collapsed precipitously, and the President fled the country. A National Provisional Ruling Council (NPRC) was formed under the leadership of Captain Valentine Strasser-King, a young, previously unknown figure. The NPRC has pledged to conclude the war with Liberian rebels, eradicate corruption, continue the economic reform programs designed in collaboration with the World Bank and IMF, and organize early multiparty elections. The new regime appears to have significant popular support, but its leaders are clearly neophytes.

2. U.S.A.I.D. in Sierra Leone

The United States has provided economic assistance to Sierra Leone since the country gained its independence in 1961. The Peace Corps has maintained a significant presence since 1962, and the P.L. 480 Food for Peace program began in the mid-1960s. USAID and Peace Corps have collaborated closely in Sierra Leone. From 1961-1976, total U.S. assistance was $50 million, and has averaged between $5 and $10 million annually since then. Programs have focused on agricultural research and extension, but have included, over the years, rural road construction, family planning, education, human rights, small enterprise and rural credit development, technical assistance and participant training. A major contribution of the U.S. program was the establishment of a viable adaptive food crop research facility within Sierra Leone's agricultural university.

As part of a wider program consolidation, A.I.D.'s budget and presence in Sierra Leone was scaled back in 1988. U.S. direct hires are no longer resident in Sierra Leone, and management of the program is now the responsibility of AID/Washington. It is part of the small country program portfolio of the Office of Central and Coastal West Africa.

In FY 1992, the United States provided Sierra Leone with emergency assistance in response to the crisis in Liberia. The supplementary aid included a total of $17.6 million in P.L. 480 Titles I and II, a consignment of military trucks and radios, and a grant of $500,000 in Foreign Military Financing (FMF) to support the country's contribution to the ECOMOG peacekeeping force. The remainder of the bilateral program was limited to $500,000 in Development Fund for Africa (DFA) financing for a Small Enterprise Development and Training project. The budget proposed for FY 1993 includes $450,000 in DFA to continue this micro-enterprise development project, and $1.4 million from the P.L. 480 Title II program.

3. Other Donors

Sierra Leone's foreign policy since independence has been officially non-aligned, although its relations with the West have always been strong. In recent years, Germany has been the major bilateral donor, followed by the United States, the United Kingdom, Italy, and, lately, Japan. Multilateral donors include the African Development Bank, UNDP and the EEC. The IMF and the World Bank have reached tentative agreements to resume lending to Sierra Leone.

B. Macroeconomic Overview

1. Background

Sierra Leone is richly endowed with natural resources and has considerable agricultural potential. The economy is dominated by small-scale, subsistence agriculture. Altogether, the agricultural sector accounts for about 30 percent of GDP, 40 percent of total exports, and provides employment to more than 65 percent of the labor force. The major cash crops are cocoa, coffee and palm kernels. The major domestic crop and staple of the Sierra Leonean diet is rice. Industry contributes 23 percent of GDP, about half of this from mineral production (diamonds, gold, rutile and bauxite). Services contribute approximately 36 percent of GDP, including transport, communications, insurance, tourism, finance and government services.

From independence in 1961 through 1973, Sierra Leone's GDP grew at a healthy rate, averaging 3.7 percent per year, while fiscal and foreign exchange positions were strong. A serious economic decline began in the mid-1970s, due primarily to internal economic and financial mismanagement which were exacerbated by external shocks and the depletion of certain mineral resources, notably alluvial diamonds. Economic woes were exacerbated by uncontrolled government spending, an accumulation of public debt and consequent recurrent liquidity crises. Restrictive regulations have stifled official economic activity and driven it into the parallel market. World prices for many of Sierra Leone's major exports have fallen, compounding the losses and contributing to a significant decline in Sierra Leone's terms of trade. As a result, GDP growth averaged 1.8 percent between 1973 and 1984, and has been at a virtual standstill since 1985.

The government's periodic efforts to address the economic problems have been poorly timed and not sustained. In June 1986, the newly-installed Momoh Government introduced a comprehensive set of economic reforms, including flotation of the currency, reduction of subsidies on key commodities (rice and petrol), and a liberalized import regime. The program was the basis for an IMF stand-by arrangement, which was approved in November 1986 and was supplemented by Structural Adjustment Facility resources. A total of SDR 19 million was disbursed under these programs, until it became clear that the government would be unable to meet the fiscal and monetary targets. The stand-by was suspended in March of 1987, and in April of 1988, Sierra Leone was declared ineligible to use Fund resources. Shortly thereafter, the World Bank and African Development Bank (AfDB) also suspended lending.

In late 1987, President Momoh launched a National Economic Emergency Program, which aimed to restore economic stability by further tightening controls on the currency, trade and prices. This strategy only drove more economic activity into the unofficial sector and also had to be abandoned.

Because so much of the country's economic activity has been diverted to the informal sector, government tax revenues needed for investment in physical infrastructure and social services have been seriously limited. The power, water and transport sectors are currently in a state of collapse, along with the entire educational system from the primary level to the country's once renowned university, Forah Bay College. Schools and hospitals are currently without even the most basic supplies.

The war in Liberia has exacerbated the economic crisis, increasing the burden on the budget. While international relief has been provided, it has not been sufficient to meet the needs of refugees and displaced persons or to cover the losses in agricultural production and the increases in defense costs.

The Momoh government resumed its dialogue with the IMF and the World Bank in the summer of 1989, and subsequently began a new reform program developed in consultation with both institutions. The result has been a substantial liberalization and restructuring of the economy, and has paved the way to the impending resumption of formal relations with the international financial community. A market-determined exchange rate was introduced, all import and export licenses (with the exception of gold and diamond exports) were eliminated, price controls abolished, and coffee and cocoa trade was opened to the private sector. Nevertheless, the government's capacity to implement and manage economic policies has seriously eroded over the past 15-20 years, and is extremely weak. Government expenditures have continued to be high, due in large part to security and refugee problems generated by the conflict in Liberia. Inflation has remained close to 90 percent, and foreign exchange shortages have continued.

The NPRC has pledged its commitment to honoring the programs negotiated by the Momoh regime with the Bank and the Fund. It has retained the highly respected Finance Minister from the Momoh Government, James Funna, and the Governor of the Central Bank, Abdul Touré, who together constitute the bulwark of the economic reform program. After in-country assessments and consultations with the new leadership, the IMF and the World Bank are convinced that the NPRC is committed to continuing to implement the stabilization and structural adjustment programs. Nevertheless, it should be noted that it is still early to determine with certainty the sincerity or capabilities of this new regime.

2. Balance of Payments

In 1990/91, the current account deficit was estimated at 15.2 percent of GDP (compared to 15.3 percent in 1989/90, 12 percent in 1988/89 and 7.5 percent in 1987/88). The deterioration since 1987 has been due primarily to increased debt service payments, reflecting higher scheduled interest payments. Exports grew by 30 percent in 1989/90, the result of an increase in rutile production. Imports showed almost no growth, reflecting the continued severe shortage of foreign exchange in the economy. Virtually all of the balance of payments deficits have been financed by the accumulation of external payments arrears.

The Government of Sierra Leone has relied heavily on foreign borrowing to finance its capital expenditures. By the end of 1991, external debt was estimated to be $1.3 billion, equal to 163 percent of GDP. Of this, about $600 million was official medium and long-term debt. Payment arrears were estimated at about $800 million, including $450 million in interest arrears. The debt service ratio was 60.7 percent in 1990 and 59.7 percent in 1991, but is projected to decrease to 56.5 percent and 52.8 percent in 1992 and 1993, respectively.

Balance of payments projections for 1992 show a rapid growth of imports (31 percent increase over 1991 levels), reflecting the need to relieve critical shortages of essential goods and the resumption of project lending by multilateral organizations; in 1993, imports are expected to grow by a more modest 4 percent. Exports are projected to decline in 1992, the result of a weak demand for diamonds and the temporary interruption of rutile mining, but to grow by 18 percent in 1993, owing to the anticipated increase of diamonds exported through official channels and an expansion of rutile mining.

The current account deficit is projected to grow from about $120 million (15.2 percent of GDP) in 1991 to $159 million (20.9 percent of GDP) in 1992, before declining to an estimated $143 million (17.1 percent of GDP) in 1993.

3. Monetary Policy

Monetary policy over the last decade has been highly expansionary, mainly due to a rapid expansion in credit to the government. Broad money growth was 126 percent in 1986/87, decelerated sharply in 1987/88 to 37 percent, then grew by 53

15

percent in 1988/89 and 63 percent in 1989/90. By June 1990, credit to the government accounted for 74 percent of total domestic credit outstanding, leading to a significant crowding out of private sector credit. Inflation peaked at 167 percent in 1986/87, but decreased to about 83 percent for the twelve month period ending February, 1992.

Since January, 1990, a number of actions have been taken to raise interest rates and tighten the liquidity conditions of the banking system. For example, commercial banks are now free to buy and sell foreign exchange at any price agreed upon by the parties involved. The Bank of Sierra Leone raised the minimum interest rates on bank deposits to an effective yield of 69 percent per annum in nominal terms, and bank lending rates are now free from controls. In addition, Treasury bills are being sold to the nonbank public at an annual yield of 102 percent. As a result, the commercial banking system, which was on the verge of collapse in mid-1989, is becoming more competitive and has begun to mobilize domestic savings.

4. Fiscal Policy

From 1981 to 1986, revenues as a share of GDP declined from 12 percent to 5.5 percent, but were restored to 9.2 percent in 1989/90. The decline was due to the fact that, as the leone grew increasingly overvalued and restrictive economic measures were taken, a larger share of transactions were diverted to the parallel economy. Tax evasion also became widespread. Meanwhile, government expenditures rose steadily through the decade to 25 percent of GDP by 1986/87, as interest payment obligations and subsidies to state enterprises grew. Extra-budgetary expenditures continued to grow, reducing the transparency of the budget and hindering implementation of rational fiscal policy.

The fiscal deficit reached 18 percent of GDP on a commitment basis in 1986/87, then declined to 11.3 percent by 1989/90, and 9.5 percent in 1990/91 (compared to the target of 4.5 percent for this last year). The deficit has mostly been financed by domestic bank borrowing and a build-up of both domestic and external payments arrears. Current fiscal policy aims to reduce the deficit to 7.3 percent of GDP in 1992/93, by freezing expenditures on goods and services and boosting revenues. Expenditures should decline despite a planned increase in civil service pay as interest obligations and emergency defense expenditures fall. The revenue measures to be introduced are: a) an increase in excise and import duties on petroleum products; b) an increase in the sales tax rate; and c) a broadening of the domestic sales tax base.

5. Exceptional Financing Requirements

Substantial external resources will be required to finance the imports needed to restore Sierra Leone's severely deteriorated infrastructure and social services and, eventually, encourage the resumption of economic growth. The first step is for Sierra Leone to re-establish formal relations with the IMF. This Economic Support Program is an integral part of a multidonor effort to this end, by filling a remaining financing gap and thereby making Sierra Leone eligible for the Rights Accumulation Program with the IMF.

The World Bank estimates Sierra Leone's gross external financing requirements for 1992 to be $496 million.[1] Inflows from grants, project loans, and private capital are anticipated to be $93 million. In addition, about $323 million is expected to be provided through debt relief. The remaining financing requirements would thus be $81 million. Of this, $72 million of balance of payments support has been pledged from multilateral and bilateral sources, including the World Bank Reconstruction Import Credit (RIC) program, the AfDB, the EEC, the U.K., Japan and the United States. The Bank, Fund and Sierra Leonean authorities have agreed that an estimated $9.0 million that is expected to remain after this assistance will be rolled over into 1993 and 1994.

III. Program Description

A. Program Goal and Purpose

In recognition of the significant reform measures the Government of Sierra Leone (GOSL) has taken since December 1989 to stabilize and restructure the economy, the IMF approved a Rights Accumulation Program (RAP) with Sierra Leone. The program will buttress Sierra Leone's macroeconomic stabilization measures (exchange rate, trade, fiscal and monetary reforms) and enable the country to clear its arrears to the IMF and thereby reestablish its eligibility for new resources from the Fund. Formal program approval by the Fund will also help restore Sierra Leone's credibility with the rest of the international financial and donor communities.

The World Bank will support the GOSL's reform program with a quick-disbursing Reconstruction Import Credit (RIC) program. The RIC concentrates on structural reforms, including improved expenditure controls, revenue enhancement, civil service and public enterprise reforms. Together these two programs will help Sierra Leone get back on the road towards sustainable economic growth. It is clear, however, that Sierra Leone will need

---

[1] Estimate as of March 23, 1992, before the coup d'etat.

substantial external financial as well as technical and managerial support to implement these reforms.

The IMF Board voted its approval of the RAP on April 3, 1992. Formalization of the program was conditioned upon the closing of the country's financing gap for 1992. Following a $7 million contribution from Britain, the Fund estimated Sierra Leone's exceptional financing requirements to be $16.5 million. A group of donors pledged to fill this gap on the condition that the United States show support and approval. The World Bank promised $3.5 million of front-loaded financing, the Paris Club $9 million in exceptional deferrals (primarily from France and Italy), and Japan $3 million. The United States pledge of $1 million thus represents the United States contribution to a multi-donor effort to support Sierra Leone's economic stabilization and adjustment program.

The goal to which this Sierra Leone Economic Support program contributes is to stabilize the Sierra Leonean economy through the successful implementation of the RAP. <u>The purpose of the program is to reduce the current accounts deficit.</u> This ESF cash transfer to the Government of Sierra Leone will be reserved exclusively for debt service payments to multilateral institutions.

B. <u>Policy Framework and Assumptions</u>

The Sierra Leone Economic Support Program supports the policy framework and conditionalities set out by the IMF Rights Accumulation Program (RAP). Following an examination of the situation in Sierra Leone at the end of June, 1992, the IMF staff determined that the new government's performance under the RAP is satisfactory, and that no significant revisions of the targets would be required in light of the coup d'état. An IMF team will return to the country in July to review performance again, and to make any adjustments deemed necessary in the performance criteria.

The RAP is designed to stabilize the Sierra Leonean economy by strengthening discipline in monetary policy, decreasing government expenditures and increasing revenues, reinforcing the newly established market-determined foreign exchange system, and rationalizing policies in key economic sectors. Perhaps most importantly, the reforms should help draw economic activities back into official channels and improve the environment for the private sector.

The objectives of the RAP are as follows:

- The <u>structural objectives</u> of the RAP are: 1) to create a predictable, transparent, and fair regulatory environment conducive to the effective management and development of the

18

diamond, fisheries, and other natural resource sectors; and 2) to implement a comprehensive reform of the public enterprise sector so that enterprises operate on commercial principles and their role is redefined in accordance with the principles of a market-based economy.

- With regard to the external sector, the overall policy objective is to develop a fully functioning and fully liberalized foreign trade and exchange system and a more stable foreign exchange market through: 1) the pursuit of restrained fiscal and monetary policies; 2) the removal of all restrictions on current account transactions; and 3) the establishment of foreign exchange bureaus. While the Fund anticipates that Sierra Leone's current account deficit will widen to 20.9 percent of GDP in 1992, the program aims to reduce this deficit to 14 percent of GDP by 1994. The program aims to increase usable international reserves of the Bank of Sierra Leone (BSL) from $5.1 million at the end of 1991 to $13.1 million at the end of 1992 and $35.7 million by the end of 1994.

- In fiscal policy, the program will further reduce the budget deficit through: 1) new revenue measures, a broadening of the tax base and a strengthening of tax administration, which, together, should yield additional revenues of 2.8 percent of GDP in 1991/92 and another 1 percent of GDP in 1992/93; 2) a reduction of outlays on goods and services by 2 percent of GDP, thereby reducing recurrent expenditures by 1.1 percent of GDP in 1992/93; 3) a reduction in the size of the civil service by 10,000 by June 1992 and a further 5,000 by December 1992 and a revision of the structure of remuneration; and 4) a significant net repayment of credit to the banking system in 1992/93.

- In monetary policy, the program calls for the Bank of Sierra Leone to: 1) achieve and maintain positive real interest rates through active open market operations; 2) contain the growth of its net domestic assets so as to reduce sharply reserve money growth; 3) strictly enforce reserve and liquidity requirements through automatic debiting of penalties on deficiencies; and 4) clarify its accounts and improve the timeliness and accuracy of its accounting system. As a result, the program should narrow money growth to 25.8 percent in 1992 and 19.9 percent in 1993 (from 69.1 percent in 1991).

- The sectoral measures include: 1) the transparent and uniform application of a diamond export policy combined with effective sanctions against exporters without valid licenses; 2) implementation of a surveillance of the diamond trade by an international security firm; 3) a comprehensive revision of the mining act to ensure greater transparency and efficiency and attract potential investors; 4) conclusion of negotiations with Maritime Protection Services of Sierra Leone (MPSSL) to ensure the effective surveillance and management of the fisheries sector and generate significant foreign exchange flows to the budget; 5) the enactment of an amendment of the Fisheries Act authorizing a system of administrative fines; and 6) an adjustment of retail petroleum prices to ensure full pass-through of any changes in the exchange rate and world market prices.

- Finally, the <u>public enterprise reform</u> component entails: 1) eliminating all tax exemptions for public enterprises; 2) adjusting utility rates to avoid losses and ensure appropriate dividends to the government; 3) privatization of the National Insurance Company; and 4) the transformation of the Sierra Leone Produce Marketing Board (SLPMB) from a buying agency to a promotional body.

The World Bank's Reconstruction Import Credit (RIC) program, which is to be implemented simultaneously, is designed to complement and reinforce the reform agenda of the RAP.

The RAP will allow Sierra Leone to accumulate rights through February 28, 1994 for a maximum equivalent to SDR 87.330 million (equal to Sierra Leone's current arrears to the Fund). The program will be suspended if, at any time, data indicate that Sierra Leone has failed to meet the agreed upon performance targets. Upon successful completion of this program and the clearance of its arrears to the Fund, Sierra Leone would be eligible to receive new resources under successor programs with the IMF.

C. Program Activities, Conditions Precedent and Covenant

The Sierra Leone Economic Support Program will consist of a cash transfer of $1 million on behalf of the Government of Sierra Leone as the U.S. bilateral contribution to closing the financing gap estimated by the World Bank to remain for calendar year 1992.

Debts owed to the United States Government are ordinarily given first priority for repayment under ESF programs. In this case, however, it is recommended that arrearage payments to the IMF be given precedence. Only if IMF arrearages remain cleared will the RAP continue, and this reform program is crucial to Sierra Leone's economic stabilization and eventual recovery. The payment schedule of Government of Sierra Leone (GOSL) to the IMF is approximately $1 million per month.

The GOSL has no outstanding debt to the U.S. Government which requires repayment under Section 620 (q) of the Foreign Assistance Act; namely, debts incurred under the Development Assistance (DA) or, Economic Support Fund (ESF) programs. As of

20

March 31, 1992, the GOSL did have $1.6 million in arrears to the Commodity Credit Corporation (CCC) for P.L. 480 programs. The Export-Import Bank has an outstanding claim against a private Sierra Leonean company, Sierra Rutile.

Under the proposed terms of the Sierra Leone Economic Support Program, the transfer of the $1 million will be made at one time. The disbursement of funds will be subject to the review and approval by A.I.D. of the GOSL's list of proposed debt service payments to multilateral institutions.

In addition to the standard conditions to disbursement contained in the Program Agreement (legal opinion, specimen of signatures, and designation of authorized representatives), the GOSL will submit to A.I.D. prior to the disbursement of the $1 million:

> A list of the Grantee's proposed debt service payments which will be made under this program, designating the creditor or creditors, bank, account number, payment due dates and amounts due; and
>
> Either (i) an accounting for the deposit and use of the proceeds of sale of United States PL 480 Title I food assistance received by Sierra Leone during the period 1987 through 1990, or, in the event records do not exist to support such an accounting;
>
> (ii) a letter signed by a senior official certifying that records do not in fact exist to support such an accounting and specifying that the Grantee will (1) provide A.I.D. with all records that are available, including deposit receipts and bank records, (2) conduct a full review of all the facts and circumstances, (3) following such review, provide to A.I.D, to the best of its ability, a written reconstruction of the records relating to the deposit and use of the aforementioned sales proceeds and a narrative description of the pertinent events, and (4) complete items (1) through (3) within 60 days from the date of the submission to A.I.D. of such letter.

The Program Agreement will also include a covenant indicating that "the GOSL is in full agreement with the need to (a) comply with the reporting requirements of the PL-480 Agreements; and (b) cooperate fully in the audit of sales proceeds and uses of those proceeds."

Section 575(b)(4) of the Foreign Operations, Export Financing and Related Programs Appropriations, 1991 (made applicable to FY 1992 by P.L. 102-266, the current continuing resolution) requires that countries receiving cash transfers or cash disbursing non-project sector assistance, whether DA, DFA, or ESF-financed, set up separate accounts for receipt of such funds and prohibit commingling them with other funds. The intent of this statutory requirement is to improve accountability for dollar resources provided to host governments. For this program, the statutory intent of Section 575(b)(4) will be met by a direct disbursement by the U.S. Treasury on behalf of the GOSL into the accounts of the identified multilateral creditor institutions. A.I.D. will track the dollars disbursed to receipt by the creditor institution, the end use of the funds as required by cash transfer policy guidance.

D. Financial Plan

All debt payments under this program will be made via direct disbursement by A.I.D. to the identified bank accounts of approved multilateral institutions. The Office of Central and Coastal West Africa (CCWA) of the A.I.D./W Africa Bureau will be responsible for negotiations with the authorized representative of the GOSL, including the review and approval of the proposed debt payments and the verification of account information provided by the GOSL representative as part of the conditions precedent to disbursement. Actual disbursement of the funds will be made by the Office of Financial Management within the A.I.D./W Directorate for Finance and Administration (FA/FM/A). The disbursement will be made into the bank accounts according to information furnished to FA/FM/A by the SCP officer of CCWA.

E. Program Impact

The Sierra Leone Economic Support Program will fill a financing gap that will enable the GOSL to formalize a Rights Accumulation Program with the IMF. The RAP is designed to reverse the economic decline by creating more responsible monetary and fiscal policies and institutions and strengthening the incentives for formal sector economic activities. This, in turn, should increase government revenues available for investments in social services and physical infrastructure, both of which have deteriorated severely over the past two decades.

The impact of the RAP will be measured by the extent to which it achieves eight quantitative objectives: 1) GDP growth is restored to 4.7 percent in 1993 from negative 3.1 percent in 1991; 2) inflation is reduced from 115 percent in 1991 to 50 percent by the end of 1992 and 25 percent by 1993; 3) the GOSL budget deficit is reduced from 9.5 percent of GDP to 5.7 percent in 1993/94; 4) the current account deficit is reduced from 21 percent in 1992 to 17.1 percent in 1993; 5) usable international reserves increase from 0.4 months of imports in 1991 to 1.4 months of imports in 1993; 6) domestic savings increase from 2.9 percent of GDP in 1992 to 8.0 percent in 1993; and 7) money growth is narrowed from 69 percent in 1991 to 19.9 percent in 1993.

22

The success of this A.I.D. ESF program will be measured by a reduction in Sierra Leone's 1992 current account deficit from 26 to 21 percent of GDP as envisioned by the RAP.

F. Monitoring and Evaluation Plan

The objectives of this project will be achieved upon disbursement of the dollars and the concommitant reduction in the current accounts deficit. The formal signing of the Rights Accumulation Program with the International Monetary Fund was also an intended impact of the U.S. pledge. The responsible officer form A.I.D.'s Office of Central and Coastal West Africa (see following section) will request notification from officials of the World Bank and IMF when this program has been signed.

IV. Implementation Arrangements

A. Management of the Program

The program will be managed and implemented by A.I.D./Washington, through the Africa Bureau's Office of Central and Coastal West Africa (AFR/CCWA). This includes the arrangements from the reapportionment of FY 1991 ESF and all necessary Congressional Notifications. The financing and tracking mechanisms will be implemented in coordination with the Directorate for Finance and Administration (FA). The A.I.D. General Counsel will also provide guidance. The Program Agreement will be signed in Washington. AFR/CCWA will be responsible for verifying that the conditions precedent to disbursement have been met and for approving the debt service payments to be made with the cash transfer resources.

B. Proposed Financial Management Arrangements

Within ninety (90) days following the signing of the cash transfer grant, the GOSL will submit to A.I.D./Washington, Africa Bureau, Office of Central and Coastal West Africa, the proposed debt(s) owed to multilateral institution(s) which are to be paid with the program funds. Following AFR/CCWA verification (with FA concurrence) that the conditions precedent to the disbursement have been met and approval of the proposed debt service payment to be made, AFR/CCWA will request FA/FM to issue the appropriate instructions to the U.S. Treasury to disburse the dollars via electronic wire directly to the multilateral institution for the approved debt payment.

1. Justification for Cash Transfer

Para 5C of State 325792 of Oct. 24, 1987, which provides amplified policy guidance for ESF Cash Transfer Assistance, states, "In certain instances where recipient country debt service is a significant barrier to growth and development, or where institutional arrangements may preclude the traceable use of cash transfer dollars otherwise, cash transfer assistance may be used to effect debt service payments." Both conditions apply to Sierra Leone. In order for the country to resume formal relations with the IMF and the World Bank and receive support of its difficult and essential reform program, Sierra Leone's outstanding financing gap for 1992 must be filled. This gap is directly related to the GOSL's debt service payments. A commodity import program (CIP) could not accomplish this objective. More importantly, a central element of the RAP is the liberalization of Sierra Leone's foreign exchange system; a CIP would interfere with this liberalization. Finally, institutional weaknesses in Sierra Leone and the lack of resident direct hire A.I.D. staff in the country make it impossible to attempt a commodity import program.

2. Dollar Management Procedures

Acknowledgement of receipt by the multilateral creditor institution will be used to verify that the cash transfer dollars have been duly deposited into the account(s) identified for the intended debt service payments. As the dollars will not enter the Sierra Leonean treasury and no local currency accounts will be generated, no further oversight will be required.

3. Local Currency

As per Policy Determination 18 of July 30, 1991, Para 4.3, because the assistance will be used to service external public debt, local currency need not be generated or deposited in a separate account. In light of the severity of Sierra Leone's current economic crisis and its lack of auditable accounting systems the option of requesting the GOSL to deposit and budget an equivalent amount of local currency is not advisable.

V. Program Analysis

A. Political Analysis

The Fund and the Bank are persuaded that the newly-installed National Provisional Ruling Council, under the leadership of Captain Strasser, is determined to persevere with the reforms outlined in the RAP and the RIC. Both institutions sent missions to Sierra Leone in June of 1992, to revise the targets of the two reform programs to take into account the disruption caused by the coup d'etat. Both teams approved the new government's performance to date on the two reform programs.

Nevertheless, there remain substantial risks that the NPRC will prove unable to meet the conditionalities of these programs. Most notable is the inexperience of many members of the new cabinet and the fact that there is no record of performance on which to base an assessment of its abilities. These weaknesses may be outweighed by what appear thus far to be higher levels of integrity and honesty, although these, too, remain uncertain. The temptations to take advantage of the weak state will be great. On the other hand, the Bank and Fund staffs are justifiably encouraged that two pivotal and respected figures, the Finance Minister and the Central Bank Governor, were retained from the previous regime.

The situation in Sierra Leone is further complicated by persisting security and refugee problems stemming from the conflict in Liberia, extremely fragile social conditions, and the virtual collapse of the country's infrastructure. Moreover, inflation remains high, shortages of petroleum, food and other essential products are severe, external imbalances are considerable, and GDP growth is weak. As a consequence, the pressures on the NPRC to derail the reform program will be intense. Although the leadership is new, it is probably nonetheless fair to take heed of the experiences of the 1980s, when reform programs remained tentative and incomplete even with the proclaimed firm commitment of the Government.

The Fund staff also points out that even with the full cooperation and discipline of the government, the country will require exceptional external technical and financial support for several years to come.

B. Economic Analysis

In addition to the fluid security and political situation, one of the most significant unknown variables in calculating the potential for the RAP to achieve its objectives is whether the GOSL has the necessary economic management capacity to formulate and implement the proposed economic policy framework. Indeed, previous IMF programs have failed due to major slippages by the government in the implementation of policy reforms, especially those aimed at controlling expenditures. Strengthening the government's technical and managerial capacity, therefore, will be fundamental to the success of the reform program. These risks are partially addressed by the World Bank Reconstruction Import Credit (RIC) program, which is designed to complement the RAP. Most notably, the RIC includes the following measures: 1) requirements that most of the policy and structural reforms be implemented early in the program; 2) the disbursal of the credit in three separate tranches, each with performance requirements; 3) concentrating the credit on activities to improve fiscal management (the weakest element under previous programs); 4) the provision of substantial technical assistance; and 5) the introduction of flexibility in the financing plan.

The Fund staff correctly asserts that the medium-term outlook for Sierra Leone's balance of payments prospects is

25

clouded by uncertainty. Economic performance will depend on the authorities' ability to maintain fiscal and monetary restraint and apply in a consistent and evenhanded manner policies that will generate domestic and foreign confidence and encourage a productive exploitation of the country's rich natural resource base.

The RAP assumes that total exports will grow at an average annual rate of 13 percent, and that import growth will be contained at an average annual rate of 6 percent during 1993-1996. Based on these assumptions, the trade deficit is projected to narrow from $66 million in 1992 to $23 million by 1996. The surplus in the services account is expected to improve substantially on the strength of tourism and in revenues from the fisheries sector. The reliance on increased revenues from tourism could be highly problematic if the security situation in the region does not stabilize.

Interest payments are assumed to fall by $20 million beginning in 1994. This is predicated on the completion of a commercial bank debt buy-back operation. This will require additional concessional financing which has not yet been identified or secured.

The new diamond policy is expected to yield a significant increase in the amount of diamond exports that flow through official channels (from 25 percent of the total estimated diamond sales in 1992 to 65 percent in 1996). One element of the new policy allows diamond traders to transact entirely in foreign exchange and eliminates the requirement that they sell a portion of their foreign exchange to the Bank of Sierra Leone. Government authorities also plan more to create more effective sanctions against smuggling, including the contracting of a foreign company to carry out surveillance operations.

It is not clear, however, that the incentives offered to diamond exporters described above will be strong enough to induce them into the formal sector. Moreover, in order to increase revenues, the government recently raised the diamond export fee from 2 percent to 3 percent, while export licensing fees remain sizeable. These measures could diminish incentives for official exports. Finally, surveillance of the diamond trade will not be easy, given the considerable size of informal sector activity.

In short, the target for increased official diamond exports may be difficult to reach. If diamond traders shift only 45 (rather than the projected 65) percent of their exports to official channels by 1996, export earnings over the 1992-1996 period would decrease by approximately $24 million. This would adversely affect Sierra Leone's balance of payments position and undermine achievement of important targets of the RAP.

A significant decline in diamond prices in 1992-1996, would also have an adverse impact on Sierra Leone's balance of payments. For example, a 10 percent decrease in diamond prices could reduce export earnings by approximately $27 million. A significant increase in oil prices could also derail the economic reform program. For example, a 30 percent increase in oil prices would raise the import bill by approximately $70 million over the 1992-1996 period.

International reserves are programmed to increase by $66 million over the 1992-1996 period. To provide some protection against the above balance of payments risks, the RAP contains a built-in contingency mechanism to bring about an automatic adjustment upward in the floor for net international reserves of the Bank of Sierra Leone and a corresponding downward adjustment in the ceiling on net domestic assets if foreign exchange earnings exceed projections. This will allow the GOSL to control inflation and maintain adequate foreign exchange for essential imports.

Also on the positive side, if a proposed kimberlite diamond project finds the necessary foreign backers, production of diamonds for export could increase by $20 million annually in a few years. The $71 million IFC-financed rehabilitation and expansion project for rutile (which is expected to begin soon) could raise the value of rutile exports from $70 million in 1992 to $93 million by 1996.

The proposed monetary policy under the RAP is sound, but realizing some of its objectives might be problematic. In particular, achieving and maintaining positive real interest rates will be difficult if inflation continues at 90 percent. Confidence in the banking system is low in light of Sierra Leone's history of high inflation and economic mismanagement, and there remains a strong reluctance to save through the official banking sector. The liberalized foreign exchange market is not yet working as well as expected, and banks have had little success in attracting foreign exchange from the diamond sector (the main source of foreign exchange available in the market). Even the larger expatriate diamond traders continue to find it more lucrative and convenient to export diamonds through the informal sector due to high export taxes, bank fees, and onerous administrative requirements. A persistent shortage of foreign exchange in the banking system could jeopardize economic recovery.

Fiscal policy under the RAP aims to reduce the fiscal deficit by 0.2 percentage points to 9.3 percent of GDP in 1991/92, and by a further 2 percent, to 7.3 percent of GDP, in 1992/93. These objectives are to be achieved by boosting revenues and by cutting expenditures on goods and services. Among the revenue measures to be applied in 1992 are: a) an

27

increase in the minimum chargeable income for company tax from 3.5 percent to 10 percent of turnover; b) the taxation of diamond and other miners on the basis of standard assessments and an increase in the diamond export levy to 3.0 percent; c) introduction of a 30 percent import and 50 percent excise duty on tobacco products; d) the taxation of rental income based on newly performed assessments; and e) a further increase in the excise duty on petroleum products from 70 to 75 percent of landed cost. Expenditures will be reduced primarily through reductions in the civil service.

The fiscal targets are reasonable and appear achievable. They are far more realistic than targets proposed under past agreements. However, the new government will have to be able to resist popular pressures -- particularly from the military and those affected by the situation in Liberia -- to increase expenditures. As part of its efforts to broaden the tax base, the GOSL would do well to explore mechanisms for capturing taxes from the very dynamic informal sector. Clearly, however, such initiatives will require innovative strategies and implementation capacity, two elements that are in limited supply in Sierra Leone.

In the wake of the coup d'état, the NPRC is unlikely to achieve the targets of reducing the size of the civil service by 10,000 by June 1992, and a further 5,000 by December 1992. However, the IMF staff is expected to revise these targets following the mission to Sierra Leone in June. The government will also have to develop comprehensive early retirement strategies for those who will be forced to retire, another task that will require scarce skills and resources.

Finally, success of the program will require timely disbursements from donors, which is beyond the control of the Government of Sierra Leone.

LOGICAL FRAMEWORK: SIERRA LEONE ECONOMIC SUPPORT PROGRAM
Program/PAAD: 636-0172/636-K-601

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: To stabilize the Sierra Leonean economy.	• Inflation reduced from 115% to 50% by 1992; 25% by 1993 • GOSL budget deficit reduced from 9.5% to 5.7% of GDP in 1993/94 • BSL usable international reserves increase from $5.1 million to $13.1 million by end 1992 • Arrearages to IMF of SDR 87.5 million ($120 million) cleared by 3/1994 • Trade deficit narrowed from $66 million to $23 million by 1996	• IMF/WB reports	• Situation in Liberia stabilizes • Political stability in SL • Future democratically elected govt continues commitment to broad-based, sustainable economic reforms
Purpose: To reduce the current accounts deficit.	EOPS: • Current account deficit reduced from 26 to 21% GDP in 1992	• IMF/WB reports	• New govt (National Provisional Ruling Council - NPRC) adheres to IMF/WB conditionalities • Donors provide pledged contributions in a timely manner and Japan adds $1 million • Terms of trade do not decline dramatically (in particular petroleum imports, diamond exports)
Outputs: Payment of GOSL arrearages to the IMF.	• Payment made in the name of the GOSL into account with the IMF.	• Accounting records	
Inputs: Cash transfer	• $1 million ESF (reprogrammed FY 1991 African ESF)	• Accounting records	

ANNEX 1

29

Initial Environmental Examination

Country: Sierra Leone

Program Title: Sierra Leone Economic Support Program

Funding: $1 million (FY 1992)

IEE Prepared by: Jennifer Notkin, AFR/CCWA/PSEA

Environmental Action Recommended:

Positive Determination	
Negative Determination	
Categorical Exclusion	XXX

Program Description:

The Sierra Leone Economic Support Program is designed to support the Government of Sierra Leone's economic stabilization program. The program consists of budgetary support to be used for debt service payments to multilateral institutions. It constitutes the principal U.S. bilateral contribution to filling a financing gap of the Government of Sierra Leone and thereby allowing the formalization of a Rights Accumulation Program (RAP) with the International Monetary Fund (IMF).

Summary Findings:

All of the activities to be undertaken under this program are categorically excludable pursuant to the provisions of 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi). The activities will not have an effect on the natural or physical environment. On the basis of the above, a categorical exclusion is recommended.

Approval:

Africa Bureau
Environmental Officer: John Gaudet

Approved: ✓

Disapproved:

Date: 16/7/92

Clearances:

GC/AFR: ESpriggs Date: 7/21/92
AFR/CCWA: Robert Hellyer Date: July 17, 1992

0363K

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

1. **Narcotics**

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct

N/A

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? N/A

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance? N/A

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress N/A listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by

No

N/A

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? N/A

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? No

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? No (b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A

8. **Loan Default** (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): **(a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA?** No **(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?** No

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the Administrator at time of approval of OYB.

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

N/A

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

As of 2/29/92, Sierra Leone was in arrears to the UN in the amount of $326,003.00. This was taken into acco by the Administrato in determining the Agency OYB.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No

No

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President?

No

Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device?

No

If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Sierra Leone was represented at the meeting and has yet to enter a reservation. The Administrator has taken this matter into account at the time of approval of the Agency OYB.

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

The previous government of President Momoh was overthrowr in April 1992; however, the US Government considers tl President Momoh was not democratically elected.

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes

Yes

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

No

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

N/A; no commodities

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

No; no local currenc will be generated.

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

No. Payment will be made by USG directly into account of approved creditor.

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A. No local currencies will be generated.

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A.

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Notification was se[nt] to the authorizing and appropriating committees on 6/26/92. The waiting period expired, without an objection being expressed, on 7/11/92

5C(2) - ASSISTANCE CHECKLIST

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	These goals will be accomplished in the long-term through the stabilization of Sierra Leone's economy, which is the purpose of this project.
2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	US investment in the rutile mining sector will be indirectly assisted by this project.

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Notification was se[illegible] to the authorizing and appropriating committees on 6/26/92. The waiting period expired, without an objection being expressed, on 7/11/92.

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A.

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

Yes.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A.

N/A.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

No legislative acti[illegible] is required.

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, _et seq_.)? (See A.I.D. Handbook 3 for guidelines.)

N/A.

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes, via a direct payment into the account of an approved creditor.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (_e.g._, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

These goals will be accomplished in the long-term through the stabilization of the Sierra Leonean economy, which is th purpose of this project.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This project will indirectly assist a US company to expan(operations in the rutile mining secto)

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A. No contractua or other services are required.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A. No local currency will be generated.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? N/A.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? N/A.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? N/A.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A.

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of N/A.

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No.

No.

14. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A.

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A.

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

N/A.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? No.

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? No.

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? No.

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? N/A.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. The program focuses on country-specific policies. It is, however, supportive of IMF policies and goals.

19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. **Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?** — No.

b. Will any funds be used to lobby for abortion? — No.

20. **Cooperatives** (FAA Sec. 111): **Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?** — N/A.

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): **Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.** — N/A. No contractual or other services required.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — N/A.

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): **Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?** — N/A.

b. **U.S. procurement** (FAA Sec. 604(a)): **Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?** — N/A.

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A. No shipping is required.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

N/A.

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N/A.

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A.

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

N/A.

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

N/A.

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A.

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A.

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes.

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

Yes.

32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

Yes.

33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Assistance is provi as quick-disbursing infusion of funds t support Sierra Leon balance of payments

34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes.

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

SV

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

N/A.

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

13

ANNEX 4

MINISTRY OF FINANCE
DEVELOPMENT AND ECONOMIC PLANNING

SECRETARIAT BUILDING,
GEORGE STREET,
FREETOWN,
REPUBLIC OF SIERRA LEONE
PHONE: 224142

July 15, 1992

The Department of State and AID
"C" Street, N.W.
Washington, DC

Attention Mr. Karl Olson, Desk Officer for Sierra Leone

Dear Sir:

I am writing to you in my capacity as Minister of Finance and Economic Development of the Republic of Sierra Leone to request the assistance of the United States of America in providing one million United States dollars (USD 1 million) to support the International Monetary Fund (IMF) Rights Accumulation Program (RAP) for the Republic of Sierra Leone. As you are aware, this amount would be paid directly to the IMF with respect to the obligations of the Republic of Sierra Leone to the IMF.

I would like on behalf of the Government of Sierra Leone to express our deep gratitude and appreciation to the Government of the United States for this timely and generous assistance.

Yours sincerely,

J.S.A. Funna
Minister of Finance,
Development & Economic Planning