



**GOVERNMENT OF SIERRA LEONE**  
**MINISTRY OF FINANCE**

**SIERRA LEONE ARREARS CLEARANCE STRATEGY AND PRINCIPLES 2020-25**

**JUNE 2020**

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# SIERRA LEONE ARREARS CLEARANCE STRATEGY AND PRINCIPLES (2020-2025)

JUNE, 2020

## 1. PREAMBLE

**The Government of Sierra Leone is faced with a huge stock of domestic suppliers and contractors' arrears accumulated prior to April 2018.** The total stock of arrears, recently verified by the Audit Service Sierra Leone in collaboration with the Internal Audit Department of the Ministry of Finance, amounted to Le3.3 trillion (US\$360.6 million) or 8.8 percent of GDP by end of April 2018. Despite efforts to stabilize the economy and promote sound public financial management reforms, the stock of the arrears poses serious macroeconomic risks. Attempts to address the arrears situation without a sound and sustainable clearance strategy and principles anchored on improved revenue generation, significant grant resources, and deep discounting or haircuts—NPV reduction—, would compound debt sustainability and financial sector risks. Following the IMF Article IV and Second Review Mission of the ECF-Supported Program in September 2019 to support Government is designing an affordable clearance strategy to treat the huge stock of domestic arrears, several clearance options were considered by the team in conjunction with the Ministry of Finance.

**The arrears clearance options highlighted significant risks to debt sustainability and financial sector stability.** The mix of options considered, ranged from front-loading payment of arrears, to securitization. Consideration as also given to the impact of arrears clearance on economic growth, revenue collection of the Government, liquidity to the financial sector, continuation of service delivery of the Government, and good governance. All of these options were considered to be challenging given the state of the financial sector and the high stock of domestic debt.

**It was recommended that without the combination of: (i) significant grant resources; (ii) increased revenue mobilization; (iii) deep discount or haircut; and (iv) and extended payment plan, Government would be constrained to clear these arrears.** It was also highlighted that the arrears strategy should be devoid of securitization, inclusive of interest costs, or securitization should be the last financing option. In this regard, following the IMF arrears Mission, Government has calibrated several options, drawing from the recommendations from the IMF Mission, which form the basis of this Arrears Clearance Strategy and Principles (2020-2025).

## 2. STATUS OF ARREARS AND METHODOLOGY

**The total stock of arrears amounted to about Le3.3 trillion as at end-April 2018.** Further work was done to reclassify the stock of verified arrears by method of procurement - competitive tender, local purchase order (request for quotation), sole sourcing etc. – to inform the competitiveness of the procurement method employed by the Ministries, Departments and Agencies (MDAs). Appropriate discounting or haircuts were proposed based on the procurement methods deployed with higher discounts applied to the less competitive methods of procurement.

## Sierra Leone. Composition of Arrears as at end-April 2018

	<b>Amount In Leones</b>
Arrears Accumulated since 2010-Pre-April 2018	
O/w: MDAs	1,459,115,119,034
Roads	1,347,904,746,141
Outstanding Cheques	286,789,326,792
Securitization in progress	193,798,553,608
o/w: NASSIT	193,798,553,608
<b>Total as at end-April 2018</b>	<b>3,287,607,745,574</b>

The above stock was also re-classified by nature of the arrears, defined by civil works (which included road works, water projects and energy contracts) and trade credits or supplies. This is to allow for appropriate discount or haircut to be applied.

The Bank of Sierra Leone exchange rate as at 13<sup>th</sup> August 2019 was applied to covert foreign currency components of the arrears into Leones to ensure consistency with figures already presented to the IMF. When adjusted to reflect exchange rate as at 11<sup>th</sup> October 2019 (US\$1 to Le9,506.66, Euro1 to Le10,469.24) the total stock of verified arrears amounted to Le3.3 trillion or US\$354.0 million.

### 3. STOCK OF VERIFIED ARREARS BY PROCUREMENT METHOD

The total stock of arrears as at end-April 2018 is estimated at 3.3 trillion. Majority of the procurements in the verified stock of arrears were done by competitive bidding (76.6 percent). Sole sourcing accounted for only 5.2 percent of the total stock of arrears. See Table 1 below. Table 1. below summarize the audited vintage arrears as at end-April 2018.

Table 1: Summary of Verified Arrears by Procurement and Other Sources

Procurement Source	MDAs		Roads (Excluding Cheques)		Euro	Cheques Le	Total		% Share
	In Leones	In USD	In Leones	In USD			In Le	In USD	
Competitive Bidding 1/	825,550,578,172.67	125,070,262.13	19,085,896,159.00	57,975,742.92	313,239.09	-	2,516,778,970,359.13	276,034,339.01	76.6%
RFQ/LPO	14,038,499,813.13	-	-	-	-	-	14,038,499,813.13	1,539,709.31	0.4%
Sole Sourcing	26,558,668,240.00	11,486,915.68	-	4,405,000.00	-	-	171,455,275,401.44	18,804,807.32	5.2%
NASSIT	-	-	-	-	-	193,798,553,607.65	193,798,553,607.65	21,255,365.00	5.9%
Transfer/Imprest/Grant	-	-	-	-	-	29,810,447,973.00	29,810,447,973.00	3,269,539.12	0.9%
International Subscriptions	-	-	-	-	-	5,294,789,044.00	5,294,789,044.00	580,719.88	0.2%
Supplier/Contractor	-	-	-	-	-	356,431,209,375.35	356,431,209,375.35	39,092,528.36	10.8%
<b>Total</b>	<b>866,147,746,225.80</b>	<b>136,557,177.81</b>	<b>19,085,896,159.00</b>	<b>62,380,742.92</b>	<b>-</b>	<b>585,335,000,000.00</b>	<b>3,287,607,745,573.70</b>	<b>360,577,008.01</b>	<b>100%</b>

Exchange Rate (Mid) as at August 13, 2019

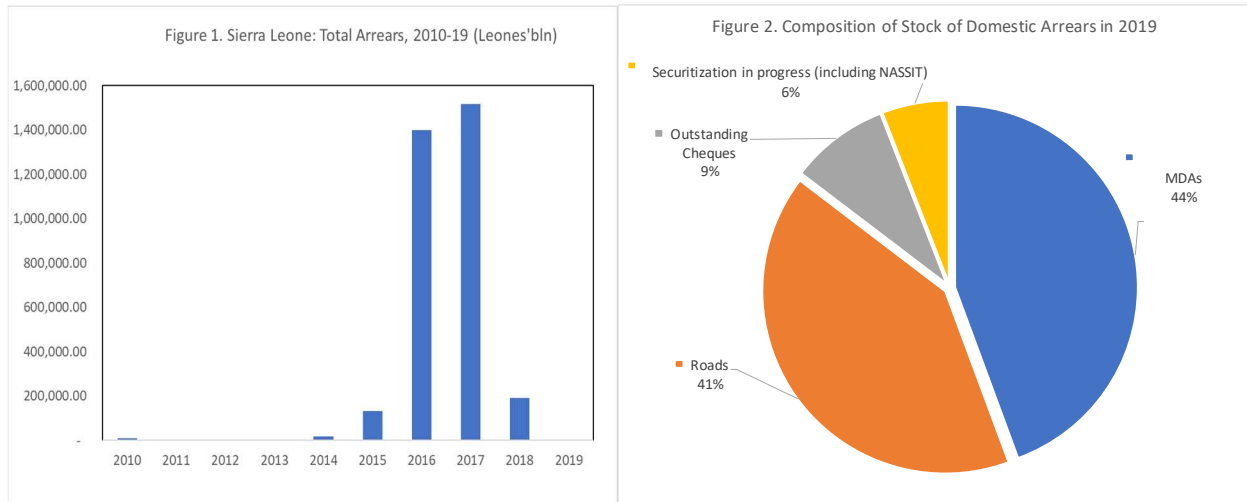
Leones/US Dollars	9,117.63
Leones/Euros	10,205.46

Note:

1/ Competitive Bidding is defined by National Competitive Bidding (NCB) or International Competitive Bidding (ICB) or Restrictive Bidding (RB)

As noted above, majority of the arrears were accumulated during 2015-end-April 2018 as shown in Figure 1 below and concentrated in roads as shown as shown in Figure 2 below. About 41 percent of the total arrears is concentrated in the roads sector, 44 percent is distributed across

MDAs, 9 percent are outstanding cheques and 6 percent relates to outstanding obligations to NASSIT.



#### 4. ARREARS CLEARANCE PRINCIPLES

**The Arrears Clearance Principles outlines the approach government will take to clear the verified stock of arrears.** It outlines the commitment of Government to the principles of fiscal consolidation, fiscal discipline, economic growth and financial sector stability. Specifically, it outlines the following guiding principles: i) Paripassu principle combined with growth poverty nexus ii) time-bound commitment, iii) fiduciary principle and transparency, iii) arrears payment principles—revealed preference of government, iv) negotiation principles, v) general consideration on the impact of arrears on the financial sector, vi) the golden target of government—no further accumulation of arrears beyond 2025.

The Ministry of Finance in collaboration with the IMF have taken further steps to include these arrears in the public debt stock and medium-term fiscal projections for 2020-2023 during the Article IV and Second Review Mission of the Extended Credit Facility Program. The Government will annually include arrears clearance expenditure outlays in the medium-term budget (2020-2023) and present it to Parliament for ratification.

##### 4.1.0 Definition of arrears

**Arrears are defined in accordance with Part I, Section 1(1) of the Public Financial Management (PFM) Act 2016** as follows: “expenditure arrears” means payables which have remained unpaid—(a) for 30 days or more after the due date specified under the relevant contract or agreement; or (b) if there is no specific due date, for 90 days or more after the date of the relevant invoice or of satisfaction of the terms of the relevant contract”.

##### 4.1.1 Paripassu principle combined with growth-poverty and financial sector nexus

**To prevent discriminatory treatment of vendors and contractors, the arrears clearance process will capture key elements of arrears, including the relevance of the arrears clearance to:**

- (a) economic growth,
- (b) provision of liquidity to the financial sector,
- (c) service delivery of the Government, and
- (d) good governance.

In addition, consideration will be made of vintage arrears on a First-come First-serve basis and Paripassu principle.

### **3.1.2 Time-bound commitment and annual budgetary outlay**

**The scope of the arrears clearance strategy and principles (2020-2025) is to address the stock of arrears for the period 2010-April 2018.** The government is committed to clear this scope of arrears within five fiscal years 2020-2025 or earlier depending on the availability of fiscal space. For 2020, a preliminary allocation of US\$30 million has been approved by Parliament as part of the 2020 Budget. The Government is also committed to annually allocate resources for arrears clearance in the medium-term budget that will be presented to Parliament for ratification annually.

### **3.1.3 Fiduciary principles and transparency**

**A clear fiduciary principle will help anchor the expectation of suppliers, contractors and the public.** Annual publication of the resource envelope dedicated to arrears clearance would be announced in the national budget starting with the 2020 budget. As noted above, a total of US\$30 million was allocated and approved in the 2020 budget for arrears clearance. The published resource envelope is based on the following parameters: i) baseline Government/IMF-program consistent fiscal anchor and indicators on domestic borrowing limits. ii) exceptional resources expected from development partners, and iii) annual arrears reduction/payment allocation. A supplementary budget will be presented to Parliament as an when the government mobilize additional domestic and external funds to clear arrears in line with the PFM Act 2016.

**The actual paydown of arrears will be subjected to the highest fiduciary compliance tests.** Specifically, claims that pass the fiduciary test on procurement, accountable document and verification of service delivery (with reference to the report from the Auditor General) will be identified and prioritized.

A quarterly report on arrears payment will be prepared and published on the website of the Ministry of Finance.

### **3.1.4 Arrears payment principles—revealed preference of the government**

**The revealed preference of government is to ensure that arrears clearance results in an overall reduction in the Net Present Value (NPV) of the total debt stock.** Hence, the use of domestic debt instruments will be the very last option. If securitization is used to clear arrears, it will attract a penal rate of haircut. The government will negotiate with vendors to agree on the following arrears payment options. The government's revealed preferences are as follows:

**First arrears clearance mechanism:** A significant negotiated *haircut* of arrears combined with upfront cash payment.

**Second arrears clearance mechanism:** Significant *NPV reduction* when combining haircut with other clearance options.

**Last arrears clearance option:** Minimize the amount of arrears clearance allocated to *securitization* within the annual fiscal anchor of the government and on domestic borrowing limit. Creditors that seek this option will be levied *the highest level of haircut*.

### 3.1.5 Negotiation principles with suppliers/contractors

**An arrears negotiation committee will be set up** in the Ministry of Finance (with Public Debt Management Division providing the technical and secretariat support) and representation drawn from relevant Ministries, Departments and Agencies MDAs. The PDMD will use the Disclaimer Form that was approved in 2002 by the Laws Officers Department, Attorney General and Ministry of Justice to legalize the arrears clearance process. This would be signed off and sealed by all supplies and contractors disclaiming any further liability on Government upon full receipt of the discounted amount of their debts.

### 3.1.6 General consideration of the impact on the financial sector

**The government will pursue an arrears clearance mechanism that will support the balance sheet of the financial sector.** Whilst the government desires to pursue policies that result in decline of interest cost, the government, in collaboration with the Bank of Sierra Leone, will gauge the impact of arrears clearance mechanism on the liquidity and balance sheet of exposed commercial banks and ensure that the principle of balance sheet neutrality or enhancement is met. In addition, the mechanism used will be in line with the borrowing target agreed under the program with the IMF.

### 3.1.7 The golden target

**The golden target of government is to clear this scope of arrears over the next five to six years 2020-2025.** The ultimate target is to clear vintage arrears and decentralize any further arrears within the budgetary allocation of MDAs as a public financial management ‘tax’ on MDAs budget to enhance behavioral change at the MDA level.

Where necessary, government will enhance the PFM regulations to help prevent steep accumulation of arrears during election cycles and political transitions by introducing provisions on Fiscal Responsibility.

## 5. ARREARS CLEARANCE OPTIONS

**Six arrears clearance options were assessed in respect of the Pre-April 2018 stock of arrears as follows**—two options by procurement method, and three options by sectors, and one option that combines both procurement and sector. The arrears in printed cheques were reclassified by social security obligations; suppliers and contractors’ arrears (and these will be the first to be paid/cleared); while transfers, grants, imprest to MDAs grouped as one (and these will be repudiated or cancelled given that the financial years had already lapsed).



**A payment plan will be set-up over 5 to 6 years based on the fiscal anchor of the Government, consistent with the ECF supported program of the IMF and payments will be made in Leones** to guard against foreign currency risks. Holders of foreign currency debt would have to be persuaded or provided with sweetener in the form of reduced discount or higher goodwill payment which will slightly increase the cost of the strategy.

Arrears of Social Security Contributions to NASSIT which are in printed cheques will be cleared by issuance of a 10-year treasury bond at zero interest to be amortized equally on annual basis to avoid bunching up risks or bullet repayment risks.

Obligations in respect of international subscriptions or contributions already in printed cheques will be removed; and treated under a separate arrangement as these would be renegotiated over a longer-term period with the respective International Organizations.

### **Option 1: Stock of Arrear by Combination of Sector and Procurement Methods**

**A total of Le2.7 trillion of the Le3.3 trillion arrears can be categorized by a combination of procurement method and sector.** Not all arrears can be classified under this grouping. The above categorization will be subjected to the following discounts: (i) 30 percent discount for civil works sector based on competitive bidding procurement method, (ii) 40 percent discount for civil works based on sole source procurement method, and (iii) 45 percent discount for civil works based on LPO/FRQ procurement method. Similarly, trade credits and suppliers are discounted in the same proportion for competitive bidding (30 percent), sole source (40 percent) and LPO/RFQs (45 percent). The Ministry of Finance developed this option that combines sector and methods of procurement to negotiate with different categories of vendors. The broad parameters of discounts and haircuts proposed under this arrears clearance option is summarized in the matrix below.

**Arrears Clearance Negotiation Options: Haircuts/sector and procurement methods**

		Type of procurement		
		Competitive Bidding	Sole Source	RFQs/LPOs
Sector	Civil works	Low discount 30 percent	High discount of 40 percent	Highest discount of 45 percent
	Trade suppliers	Low discount 30 percent	High discount of 40 percent	Highest discount of 45 percent

The result of the above option will require a goodwill payment of Le267.9 billion in 2020 and an equal annual payment of Le303.58 billion over the period 2021-25.

Proposed Payment Plan of Verified Arrears by Function excluding Crystallized Cheques including Pre-April 2018 Cheques by Function or Sector

	Verified Arrears	In Leones							
		Total in Leones	Discount		Discounted Amount	Goodwill (2020)		Equal annual payments starting in 2021	Total Payment 2020 to 2025
			%	Amount (Le)		%	Amount (Le)		
Civil Works /1 (A)	1,779,240,369,006.17		540,097,092,299.30	1,239,143,276,706.87	185,871,491,506.03	210,654,357,040.17	1,239,143,276,706.87		
o/w: Competitive Bidding	1,737,073,825,023.17	30%	521,122,147,506.95	1,215,951,677,516.22	15%	182,392,751,627.43	1,215,951,677,516.22		
Sole Source	42,166,543,983.00	45%	18,974,944,792.35	23,191,599,190.65	15%	3,478,739,878.60	23,191,599,190.65		
Trade Credits/Supplies /2 (B)	923,032,376,567.53		376,379,312,188.59	546,653,064,378.94	81,997,959,656.84	92,931,020,944.42	546,653,064,378.94		
o/w: Competitive Bidding	779,705,145,335.96	40%	311,882,058,134.39	467,823,087,201.58	15%	70,173,463,080.24	467,823,087,201.58		
Sole Source	129,288,731,418.44	45%	58,179,929,138.30	71,108,802,280.14	15%	10,666,320,342.02	71,108,802,280.14		
RFP	14,038,499,813.13	45%	6,317,324,915.91	7,721,174,897.22	15%	1,158,176,234.58	7,721,174,897.22		
Pre-April 2018 Crystallized Cheques (C)	387,355,202,228.65								
o/w: Nassit	193,798,553,607.65								
Crystallized Cheques	193,556,648,621.00								
<b>Total (A) + (B) + (C)</b>	<b>3,089,627,947,802.35</b>		<b>916,476,404,487.89</b>	<b>1,785,796,341,085.81</b>		<b>267,869,451,162.87</b>	<b>1,785,796,341,085.81</b>		

Exchange Rate (Mid) as at August 13, 2019

Leones/US Dollars

Leones/Euros

Note:

1/ Civil Works include roads, energy and water projects

2/ Trade Credits/supplies include the supply of goods and services to MDAs such as office supplies, diets, drugs, arms, and consultancy services

3/ NASSIT will be issued with a 10 year amortised bond - equally amortised on annual basis

4/ Pre-April 2018 cheques exclude part payment cheques

## Option 2: Stock of Arrears by Procurement Method

- (i) **Option 2a. Discounts/hairecuts:** Competitive Bidding—50 percent; Local Purchase Order (LPO)—70 percent; Sole Source—70 percent; NASSIT—0 percent; Imprest and International Subscriptions—100 percent; Supplier/ Contractor’s cheques—30 percent.

Procurement Source	Verified Amount	Discount	Payment Plan (in billion Le)								Total Payment
			Discounted Amount	2020	2021	2022	2023	2024	2025	2026 to 2029	
Competitive Bidding 1/	2,516.78	50%	1,258.39	119.57	227.76	227.76	227.76	227.76	227.76	-	1,258.39
RFQ/LPO	14.04	70%	4.21	2.11	2.11	-	-	-	-	-	4.21
Sole Sourcing	171.46	70%	51.44	12.86	12.86	12.86	12.86	-	-	-	51.44
NASSIT	193.80	0%	193.80	19.38	19.38	19.38	19.38	19.38	19.38	19.38	193.80
Transfer/Imprest/Grant	29.81	100%	-	-	-	-	-	-	-	-	-
International Subscriptions	5.29	100%	-	-	-	-	-	-	-	-	-
Supplier/Contractor (Cheques)	356.43	30%	249.50	41.58	41.58	41.58	41.58	41.58	41.58	-	249.50
	<b>3,287.61</b>		<b>1,757.34</b>	<b>195.50</b>	<b>303.69</b>	<b>301.59</b>	<b>301.59</b>	<b>288.73</b>	<b>288.73</b>	<b>77.52</b>	<b>1,757.34</b>
% of GDP	8.75%		4.68%	0.44%	0.60%	0.52%	0.46%	0.39%	0.35%		
Non Iron Ore GDP	37574		37,574	43,944	50,642	57,658	65,135	73,581.61	83,123.55		

Arrears accumulated from Sole Sourcing and Request for Quotation (RFQs)/Local Purchase Orders (LPOs) attract a deeper discount of 70 percent each compared to a lower discount of 50 percent applied to Competitive Bidding. The analysis shows that the verified amount following the various discounts will amount to Le1.76 trillion to be paid substantially over six years excluding the bond issued to NASSIT. The payment in 2020 (including outlays for redemption of prior bond issuances to arrears-related vendors) will amount to Le300 billion (about US\$30 million dollars). The average annual payment will amount to Le296.86 billion or 0.45 percent of GDP between 2021 and 2025 inclusive. The analysis under 1a assumes that a 10-year bond will be issued at zero interest to NASSIT and amortised equally over a 10-year period. Imprest/transfers to MDAs will be cancelled as well as obligations in respect of international subscriptions.

- (ii) **Option 2b. Discounts/hairecut:** Competitive Bidding—40 percent; LPO—60 percent; Sole Source—70 percent; NASSIT—0 percent; Imprest and International Subscriptions—100 percent; Supplier/ Contractor’s cheques—30 percent.

Payment Plan (in billion Le)											
Procurement Source	Verified Amount	Discount	Discounted Amount	2020	2021	2022	2023	2024	2025	2026 to 2029	Total Payment
Competitive Bidding 1/ RFQ/LPO	2,516.78	40%	1,510.07	251.68	251.68	251.68	251.68	251.68	251.68	-	1,510.07
	14.04	60%	5.62	5.62	-	-	-	-	-	-	5.62
Sole Sourcing	171.46	70%	51.44	17.15	17.15	17.15	-	-	-	-	51.44
NASSIT	193.80	0%	193.80	19.38	19.38	19.38	19.38	19.38	19.38	77.52	193.80
Transfer/Imprest/Grant	29.81	100%	-	1.00	-	-	1.00	-	-	-	2.00
International Subscriptions	5.29	100%	-	1.00	-	-	1.00	-	-	-	2.00
Supplier/Contractor (Cheques)	356.43	30%	249.50	49.90	49.90	49.90	49.90	49.90	-	-	249.50
	<b>3,287.61</b>		<b>2,010.42</b>	<b>345.72</b>	<b>338.10</b>	<b>338.10</b>	<b>322.96</b>	<b>320.96</b>	<b>271.06</b>	<b>77.52</b>	<b>2,014.42</b>
% of GDP	8.93%		5.35%	0.79%	0.67%	0.59%	0.50%	0.44%	0.33%		
Non Iron Ore GDP	36835		37,574	43,944	50,642	57,658	65,135	73,581.6	83,123.6		

**Arrears accumulated from Sole Sourcing and RFQs procurement attract a deeper discount of 70 percent and 60 percent respectively compared to a lower discount of 40 percent applied to Competitive Bidding.** This option reduces the level of discounts compared to option 1a. The analysis shows that the verified amount following the various discounts will amount to Le2.0 trillion to be paid substantially over six years excluding the bond issued to NASSIT. The payment in 2020 will amount to Le345.72 billion (about US\$36.4 million). Average annual payment under this option will amount to Le318.24 billion or 0.5 percent of GDP between 2021 and 2025 inclusive. This option, similar to 1a, assumes that a 10-year bond will be issued at zero interest to NASSIT and amortised equally over the 10-years period. Imprest/transfers to MDAs will be cancelled as well as obligations in respect of international subscriptions.

### (iii) Option 3: Stock of verified Arrears by Sector and Related Categorization

Table 2 below present the verified arrears by function or sector such as works contracts, suppliers or trade credits.

**Table 2: Verified Arrears including Pre-April 2018 Cheques by Function or Sector**

	Le	USD	Euro	Total in Leones	Total in USD
Civil Works /1	927,657,599,144.95	114,622,482.98	313239.09	1,975,939,737,641.32	216,716,376.69
Trade Credits/Supplies /2	314,007,252,615.20	84,315,437.75	-	1,082,764,217,307.73	118,755,007.31
Social Security	193,798,553,607.65	-	-	193,798,553,607.65	21,255,365.00
Grants and Transfers	29,810,447,973.00	-	-	29,810,447,973.00	3,269,539.12
International Subscriptions	5,294,789,044.00	-	-	5,294,789,044.00	580,719.88
	<b>1,470,568,642,384.80</b>	<b>198,937,920.73</b>	<b>313,239.09</b>	<b>3,287,607,745,573.70</b>	<b>360,577,008.01</b>

Exchange Rate (Mid) as at August 13, 2019	
Leones/US Dollars	9,117.63
Leones/Euros	10,205.46

**Note:**

1/ Civil Works include roads, energy and water projects

2/ Trade Credits/supplies include the supply of goods and services to MDAs such as office supplies, diets, drugs, arms, and consultancy services

3/ NASSIT will be issued with a 10 year amortised bond - equally amortised on annual basis

Civil works includes works and major development projects in the roads, energy and water sectors with huge obligations. Trade or suppliers’ credits include supplies of goods and services such as diets, rice, office supplies, fuel, drugs, consultancy services and so on.

- (iv) **Option 3a. Discounts/Haircut:** Civil works—60 percent; Trade Credits—70 percent; Social Security—0 percent; Grants and International Subscriptions 100 percent. Goodwill payment

as a percent of discounted amount in 2020: Civil works 20 percent; Trade credits 40 percent and Social security 10 percent.

Payment Plan (in billion Le)											
Procurement Source	Verified Amount	Discount	Discounted Amount	2020	2021	2022	2023	2024	2025	2026 to 2029	Total Payment
				Competitive Bidding 1/	2,516.78	50%	1,258.39	119.57	227.76	227.76	227.76
RFQ/LPO	14.04	70%	4.21	2.11	2.11	-	-	-	-	-	4.21
Sole Sourcing	171.46	70%	51.44	12.86	12.86	12.86	12.86	-	-	-	51.44
NASSIT	193.80	0%	193.80	19.38	19.38	19.38	19.38	19.38	19.38	77.52	193.80
Transfer/Imprest/Grant	29.81	100%	-	-	-	-	-	-	-	-	-
International Subscriptions	5.29	100%	-	-	-	-	-	-	-	-	-
Supplier/Contractor (Cheques)	356.43	30%	249.50	41.58	41.58	41.58	41.58	41.58	41.58	-	249.50
	<b>3,287.61</b>		<b>1,757.34</b>	<b>195.50</b>	<b>303.69</b>	<b>301.59</b>	<b>301.59</b>	<b>288.73</b>	<b>288.73</b>	<b>77.52</b>	<b>1,757.34</b>
% of GDP	8.75%		4.68%	0.44%	0.60%	0.52%	0.46%	0.39%	0.35%		
Non Iron Ore GDP	37574		37,574	43,944	50,642	57,658	65,135	73,581.61	83,123.55		
Annual Payment as a % of Discounted Amount			100.0%	11.1%	17.3%	17.2%	17.2%	16.4%	16.4%	4.4%	

Civils works attract less discounts and lower goodwill payments as some of the contracts in this category are on-going and are huge. Trade and suppliers credit attract deeper discounts and higher goodwill payment in 2020 to allow the suppliers which are many to defray bridging finance from banks as well as to demonstrate support for Small and Medium Enterprises (SMEs).

Option 3a will result in a discounted verified arrears of Le1.31 trillion (or 3.5 percent of GDP) and a goodwill payment of Le307.4 billion or 0.7 percent of GDP in 2020. Annual payment from 2021 to 2025 will average Le184.2 billion or 0.4 percent of GDP.

(v) **Option 3b. Discounts/Haircut:** Civil works—50 percent; Trade Credits—60 percent; Social Security—0 percent; Grants and International Subscriptions 100 percent. Goodwill payment as a percent of discounted amount in 2020: Civil works 20 percent; Trade credits 30 percent and Social Security 10 percent.

Payment Plan after Discount and Goodwill (in billion Le)												
Arrears Category	Total in Leones	Discount	Discounted Amounted	2020		2021	2022	2023	2024	2025	2026 to 2029	Total Discounted Payment
				Goodwill (%)	Goodwill Amount							
				Payment after Discount								
Civil Works /1	1,975.94	50%	987.97	20%	197.59	158.08	158.08	158.08	158.08	158.08	-	987.97
Trade Credits/Supplies /2	1,082.76	60%	433.11	30%	129.93	75.79	75.79	75.79	75.79	-	-	433.11
Social Security	193.80	0%	193.80	10%	19.38	19.38	19.38	19.38	19.38	19.38	77.52	193.80
Grants and Transfers	29.81	100%	-	-	-	-	-	-	-	-	-	-
International Subscriptions	5.29	100%	-	-	-	-	-	-	-	-	-	-
	<b>3,287.61</b>		<b>1,614.87</b>		<b>346.91</b>	<b>253.25</b>	<b>253.25</b>	<b>253.25</b>	<b>253.25</b>	<b>177.46</b>	<b>77.52</b>	<b>1,614.87</b>
% of GDP	8.7%		4.3%	0.8%	0.5%	0.4%	0.4%	0.3%	0.2%	0.1%		
Non Iron Ore GDP	37574		37574		43944	50642	57658	65135	73582	83124	85171	

**Civils works attract less discounts and lower goodwill payments as some of the contracts in this category are on-going and are huge.** Trade and suppliers credit attract deeper discounts and higher goodwill payment in 2020 to allow the suppliers which are many to defray bridging finance from banks as well as to demonstrate support for SMEs.

Option 3b will result in a discounted verified arrears of Le1.61 trillion (or 4.3 percent of GDP) and a goodwill payment of Le346.9 billion or 0.8 percent of GDP in 2020. Annual payment from 2021 to 2025 will average Le238.1 billion or 0.4 percent of GDP.

(vi) **Option 3c. Discounts/Haircut:** Civil works—40 percent; Trade Credits—50 percent; Social Security—0 percent; Grants and International Subscriptions 100 percent. Goodwill payment

as a percent of discounted amount in 2020: Civil works 20 percent; Trade credits 30 percent and Social security 10 percent.

Payment Plan after Discount and Goodwill (in billion Le)												
Arrears Category	Total in Leones	Discount	Discounted Amounted	2020		2021	2022	2023	2024	2025	2026 to 2029	Total Discounted Payment
				Goodwill (%)	Goodwill Amount							
Civil Works /1	1,975.94	40%	1,185.56	0.20	237.11	189.69	189.69	189.69	189.69	189.69	-	1,185.56
Trade Credits/Supplies /2	1,082.76	50%	541.38	0.30	162.41	94.74	94.74	94.74	94.74	-	-	541.38
Social Security	193.80	0%	193.80	0.10	19.38	19.38	19.38	19.38	19.38	19.38	77.52	193.80
Grants and Transfers	29.81	100%	-	-	-	-	-	-	-	-	-	-
International Subscriptions	5.29	100%	-	-	-	-	-	-	-	-	-	-
	<b>3,287.61</b>		<b>1,920.74</b>		<b>418.91</b>	<b>303.81</b>	<b>303.81</b>	<b>303.81</b>	<b>303.81</b>	<b>209.07</b>	<b>77.52</b>	<b>1,920.74</b>
% of GDP	8.7%		5.1%		1.0%	0.6%	0.5%	0.5%	0.4%	0.3%	0.1%	
Non Iron Ore GDP	37574		37574		43944	50642	57658	65135	73581.61	83123.55	85170.7	

Civils works arrears will attract less discounts and lower goodwill payments as some of the contracts in this category are on-going and are huge. Trade and suppliers credit attract deeper discounts and higher goodwill payment in 2020 to allow the suppliers which are many to defray bridge finance from banks as well as to demonstrate support for SMEs.

Option 3c will result in a discounted verified arrears of Le1.92 trillion (or 5.1 percent of GDP) and a goodwill payment of Le418.9 billion or 1.0 percent of GDP in 2020. Annual payment from 2021 to 2025 will average Le284.9 billion or 0.5 percent of GDP.

## 6. RECOMMENDED OPTION/STRATEGY

**The strategy recommended by the Ministry of Finance is Strategy/Option 1. This option proposed the following discounts:** (i) 30 percent discount for civil works sector based on competitive bidding procurement method, (ii) 40 percent discount for civil works based on sole source procurement method, and (iii) 45 percent discount for civil works based on LPO/FRQ procurement method. Similarly, trade credits and suppliers are discounted in the same proportion for competitive bidding (30 percent), sole source (40 percent) and LPO/RFQs (45 percent).

## 7. MEASURES TO PREVENT FUTURE ARREARS

**The publication of this arrears strategy and principles commits government to prevent further accumulation of arrears going forward.** Government has taken the following measures, drawing from the recommendation of the Fiscal Affairs Department to prevent further accumulation of arrears:

- a) Electronics fund transfer: a contract has been signed in January 2020 to facilitate implementation of electronic funds transfer between the Accountant General's Department (AGD) and the Bank of Sierra Leone (BSL). This will facilitate the prevention of printed cheques with AGD and BSL.
- b) Electronic PETS forms: The Ministry of Finance and the Directorate for Science Technology and Innovation have developed and implemented a web-based electronics Public Expenditure Tracking Survey (PETS) forms and rolled out to all MDAs in January 2020. Going forward MDAs are mandated to process all commitment requests through the E-PETS forms. Requests submitted via paper-based PETS forms must be processed

through the E-PETS forms to prevent processing of unapproved and unbudgeted expenditures.

- c) Public Investment Management Assessment (PIMA) was conducted in early 2020 which highlighted the key challenges in public investment management and proposed measures to address these challenges. The Planning Department of the Ministry of Planning and Economic Development is taking steps to implement the findings of the PIMA in collaboration with the Ministry of Finance.
- d) The PFM Unit of the Ministry of Finance continues to reinforce the rollout of IFMIS to key MDAs including those recommended by the IMF FAD report (Sierra Leone Roads Authority and Road Maintenance Fund).
- e) The Ministry of Finance is also interfacing with the National Revenue Authority to minimize the tax clearance process during budget execution. In addition, additional revenue mobilization measures have been implemented to help increase the revenue base of government and improve budget execution.
- f) More Budget Officer, Economists, Internal Auditors, and Procurement Officer, have been recruited and deployed in the respective MDAs to ensure smoother implementation of sector budget. In addition, the Ministry of Finance plans to deploy sector economists to help advance sectoral analysis and accelerate budget execution and report writing.

## **8. FISCAL RESPONSIBILITY COMMITMENT**

**Government endorsed a fiscal responsibility commitment to prevent further accumulation of arrears.** In addition, the Ministry of Finance has approved the new institutional set-up of the Public Debt Management Division to include front office, middle office, back office and a new innovative financing section to manage public debt including fiduciary management of arrears. Government has set a tight ceiling on accumulation of domestic arrears. All new accumulation of domestic arrears should be cleared in the first quarter of the subsequent fiscal year. This implies that going forward all new arrears will be cleared in the first quarter of the subsequent fiscal year.

**Despite the recent outbreak of CoVID-19 Global Public Health Pandemic which coincided with the Post-Ebola challenges, Government remain committed to the arrears clearance process.** Vendors/Contractors who continue to support the response of Government to the recent CoVID-19 Global Public Health Pandemic that started in early 2020. Payment of arrears to vendors that support the supply chain of Government in the response to the Ebola Outbreak in 2014-15 and the recent CoVID-19 will be prioritized.

**Public Debt Management Division**

**Ministry of Finance**