



GOVERNMENT OF SIERRA LEONE

MINISTRY OF FINANCE

**Revised Spending Arrears Clearance Strategy and
Principles (2023-2028)**

October 2023

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1. Foreword

Domestic Arrears has been a thorn in the flesh affecting budget implementation in recent years. It constrained the implementation of the new initiatives and activities of Government and slowed public service delivery. Dealing with the Pre-April 2018 Stock of Arrears amounting to SLE3.2 billion (about USD320 million) whilst at the same time meeting the current fiscal needs of Government has been challenging especially when the adoption of the initial arrears clearance strategy by Cabinet coincided with the shocks of CoVID-19 in 2020 and the Russian-Ukraine war in 2022. Its implementation faced stiff resistance from Contractors, Suppliers, and Vendors (CSVs) who rejected the proposed deep discounts recommended in the strategy.

Nonetheless Government had to make tremendous strides to reduce some of the stock of arrears to help minimize the risk of litigation. Instead of paying about SLE875.1 million of the verified as envisaged under the previous strategy, Government was only able to pay SLE536.19 million under difficult conditions.

This revised arrears clearance strategy (has been developed to ensure that it is accepted by CSVs and the actual implementation is brought in line with the approved directives of Government. Giving that the previous discounts were rejected by vendors, Government has revised the Arrears Clearance Strategy to ensure uniform treatment is applied and vendors would accept the new clearance approach.

This new strategy seeks to promote acceptance of the clearance option proposed. It gives an update on the implementation of the previous strategy, payments made, challenges encountered, financing assumptions, selection criteria and new measures proposed to prevent accumulation of arrears.

It is expected that the current stock of non-cheque-arrears will decline from its current level of SLE1,684.7 million at end-June 2023/Pre-July 2023 to Le1,498.7 million by end-December 2023 and reduce further to SLE1,068.7 million by 2025 before it is finally eliminated in 2026-2028. All verified cheques including NASSIT arrears would be cleared in 2023 and 2024.

The options proposed would support debt sustainability taking into consideration critical macroeconomic and financial sector conditions including prioritization of arrears that support economic growth, support redistribution and promotes SMEs, minimizes aggressive issuance of domestic bonds to finance clearance of arrears which may worsen debt sustainability or affect the balance sheet of commercial banks.

This new strategy considers the current level of inflation reaching over 50 percent (year-on-year) in August 2023, the revised strategy recommends no discount on account of the current inflation tax but elongated unequal repayment period up to 2028; with lower present value receipt to CSVs consistent with fiscal path.

Acceptance of the revised strategy and liquidation in line with proposed payment plan would also enable CSVs to pay up overdrafts and loans secured from commercial banks, thus improving NPLs and strengthening the capital base of the financial sector.

This new strategy will also consider promotion of national peace and stability as businesses receive cashflows, particularly SMEs, thus supporting commerce and improving their welfare, easing tensions and ensuring a stable and peaceful post-elections consolidation and development to support implementation of the Big-Five agenda of Government. The Big-Five priorities articulated in the Manifesto of Government include the following: 1. Feed Salone, 2. Human Capital Development, 3. Youth Employment Scheme, 4. Revamping Public Service, and 5. Technology and Infrastructure. Government will develop the next National Development Plan and publish it by end-March 2024. In the interim, the above Big-Five priorities would also be considered in the clearance of arrears. The financing of arrears would also be in line with the 2024 Budget, Statement of Economic and Financial Policies and Finance Act of 2023 and 2024.

Government will prioritize the payment of arrears owed to CSVs on the basis of first come, first served with preference given to in the security, energy, education, agriculture and health sectors thus facilitating continuous supplies of equipment and foodstuff to support the security sector in the performance of their state functions to ensure peaceful coexistence, protection of lives and properties, enhanced food security, deepening the achievements in Free Quality Education, Health sector and expansion of electricity supply across the country. We have proposed new measures to prevent the accumulation of including “Not in Budget, No Funding”, baseline budgeting, and linking procurement to the originally approved budget.

MINISTER OF FINANCE

2. Acknowledgement

We have been able to develop two arrears clearance strategies in three years because the experience in implementing the first arrears clearance strategy points to the need to rethink the approaches proposed in the previous strategy. Notably, the mix of large discounts without upfront payment was rejected by Contractors, Suppliers and Vendors (CSVs). It is apparent that these two could not easily go together—i.e., large discount and longer repayment period. We therefore acknowledge the effort of our development partners, especially IMF and World Bank, who provided tremendous technical support at the time of developing the previous strategy and for helping to shape the content of this revised version.

This work would not have been possible without the valuable support of some institutions and individuals. We express deep appreciation to the Audit Service Sierra Leone, Ministries, Department and Agencies of Government, the Bank of Sierra Leone and colleagues at the Ministry of Finance for their technical input in designing this strategy during the consultative meeting on this strategy. A special thanks to the Arrears Clearance Negotiation Committee and the Extended Cash and Debt Management Committee for validating the strategy and providing the platform to feed into the revised strategy critical issues of availability of liquidity to spend versus competing needs of Government including the demand for payment of long-outstanding verified domestic suppliers and contractors' arrears.

We also wish to thank the Minister of Finance, Deputy Ministers of Finance I and II, the Principal Deputy Financial Secretary, the Chief Economist, the Director and Staff of the Public Debt Management Division, the Director and Staff of the Macro-Fiscal Policy Division, Director and Staff of Legal Affairs Division, Director and Staff of Internal Audit Division, and the Accountant General and Staff, for their invaluable contributions in the completion of the Revised Domestic Suppliers and Contractors Arrears Clearance Strategy and Principles (2023-2028).

FINANCIAL SECRETARY

3. Executive Summary

Introduction

It has taken over three years since Cabinet approved the Arrears Clearance Strategy and Principles (2020-2025) on 15th July 2020 and the Ministry of Finance commenced payment of arrears as and when resources were available from domestic revenue and grants from development partners through the budget. The Audit Service Sierra Leone completed the final report on verification of Domestic Suppliers Arrears in July 2020 and an Arrears Clearance Negotiation Committee was set-up to negotiate with various contractors, suppliers and vendors (CSVs), especially for those whose arrears were above Le1 billion and verified by the Audit Service Sierra Leone.

Prior to the negotiations with various CSVs, letters were sent to them proposing the discount to be applied consistent with the strategy, but majority of the CSVs rejected the offer and demanded payment. The tight liquidity position of Government as a result of lower domestic revenue caused by the challenges of COVID-19 pandemic affected the ability of Government to fully implement the initial strategy.

Stock of Arrears

The total stock of Pre-April 2018 arrears excluding cheques and payables held at the Bank of Sierra Leone and Accountant General's Department declined from NLe2.062 billion at end-December 2020 to NLe1.684 billion at end-June 2023. The decline is as a result of gradual payment of verified arrears in line with the payment plans agreed with each vendor after meeting with the Arrears Clearance Negotiations Committee (ACNC). The payment of arrears was mainly supported by exceptional financing from the International Monetary Fund, the World Bank and domestic revenue.

Status on Measures Implemented to Prevent Accumulation of Arrears

Challenges were encountered to implement the measures announced in Section 7 of the initial Arrears Clearance Strategy and Principles 2020-2025 to prevent the accumulation of new arrears. The status of policy implementation to prevent the accumulation of arrears are outlined in Section 4 below including the following: i) **Electronic PETS forms**, with the aim of implementing the principle of "Not in budget no funding"; ii) **Electronics Fund Transfer (EFT)**: which went live in June 2022 at the Accountant General's Department (AGD) linking Ministries, Departments and Agencies (MDAs) allocations via the upgraded Web-based Version 7 IFMIS with their commitments so that MDAs can see their cash/bank balances at the Bank of Sierra Leone before processing expenditure; iii) improvement in **Public Investment Management Assessment (PIMA)**; and iv) **Enhance Revenue Mobilization Measures**. The plan to develop and deploy an arrears profiling system that will help Government

to track arrears payment across MDAs and integrate the information on arrears payment amongst MDAs, AGD and PDMD would help determine the correct stock of outstanding verified arrears at the CSVs level and total arrears at any point in times.

Status of Arrears Clearance

The implementation of the Arrears Clearance Strategy and Principles 2020-2025 faced three main challenges—financing, rejection of discount, and the effects of the CoVID-19 pandemic. The main challenge amongst these is rejection of the discounts by suppliers and the unavailability of sustainable financing to fully liquidate the annualised payments proposed in the strategy. Our engagement with majority of the large CSVs at the Arrears Clearance Negotiation Committee (ACNC) meetings confirmed that they were adverse to accept large discounts of 30 percent proposed in the initial strategy and given that the payment of the discounted arrears was not upfront because Government did not have the financing, implementation of the strategy stalled. The ASSL has continued to audit payments made in respect of accumulation of cheques payable vouchers during the annual audit of Public Accounts. These have been included in the new stock of outstanding spending payment arrears.

To address these challenges, payment plans were proposed to help minimise risk of litigation and to ensure the continuity of supplies to critical service delivery institution such as the Ministry of Health, Education and Defence. Most of the proposed payment plans were not fully implemented because of lack of adequate funds.

Another key challenge is the fact that the implementation of the Arrears Clearance Strategy and Principles 2020-2025 coincided with the CoVID-19 pandemic which affected the ability of firms to accept large discounts because their businesses were on the verge of collapsing and several people lost their jobs. It was challenging for contractors, suppliers and vendors (CSVs) to accept 30 percent haircut plus an extended repayment period of five years.

The New Arrears Clearance Strategy 2023-2028

This new Arrears Clearance Strategy is aimed at addressing outstanding verified claims and ensuring that the strategy adopted would be acceptable to the CSVs. It shows the complete list of creditors and a summary repayment schedule over the medium term.

A major consideration was given to the current exceptional level of inflation. With headline inflation of over 50 percent in August 2023, the real value of arrears is halved and has already increased significant discount on the stock of arrears. However, arrears denominated in foreign currency would increase the value of paydown in local currency when payments are approved. To take account of this, Government has categorized the foreign currency component of arrears in the updated Medium Term Debt Strategy (2023-2028).

General Selection Principles for Payment of Arrears

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

- (a) Promote economic growth,
- (b) First come, first served,
- (c) Debt sustainability considerations. Government will continue to minimize the issuance of domestic bonds to finance clearance of arrears. Bond issuances would be kept within the annual borrowing limit,
- (d) Ensure continuity of supplies to critical agencies of Government including the Ministries of Agriculture, Education, Health and Defense,
- (e) Finally, Governance and national stability condition: Given the need to minimize corruption, Government will prioritise arrears already cleared by the Anti-Corruption Commission and stop any payment to persons found guilty of corruption. To ensure stability and peace. Government will also prioritize the payment of arrears to the security sector specifically to ensure peaceful co-existence, protection of lives and properties, support critical service delivery of the Government, ensure good governance and stable socio-political environment.

In addition, consideration will be given to the impact of the arrears clearance in promoting peace, security, and the democratic process as well as the vintage of the arrears on a First-come First-serve basis and Paripassu principle.

Recommended strategy

The recommended strategy is to: i) paydown the Pre-April 2018 verified arrears based on this revised strategy, ii) Paydown the verified cheques payable of end 2022 and end-June/Pre-April 2023 through the budgeted in 2023 through 2028 approved by Parliament as summarized the table below, iii) Paydown the NASSIT Arrears through issuance of medium to Long-Term Bond, and iv) paydown other crystalized cheques in equal annual instalments of NLe46.2 million over the arrears clearance period and charged against the provisions of arrears paydown in the Budget.

Table 1. Summary of Verified Arrears Stock and Cheque Payable end June 2023

| Stock of Arrears as at Pre-July 2023 in New Leones | | | | |
|--|--|----------------------------------|------------------------------|---|
| No | Category | Balance as at 31st December 2022 | Balance as at 30th June 2023 | Clearance Strategy |
| 1 | Pre-April 2018 verified Stock of arrears | 1,684,672.72 | 1,684,672.72 | We paydown based on the revised Clearance Strategy. |
| 2 | Verified Cheques Payable end-2022 | 881,640.00 | 619,975.17 | Paydown based on payment plans proposed in the strategy and budgeted in 2023-2028. Financing through revenues and tax on MDA allocation to clear arrears. See item 3) in the Financing Table. |
| 3 | Verified Cheques Payable Pre-July, 2023 | 0.00 | 2,995.04 | Paydown in line with 2023 budget approved by Parliament. |
| 4 | Pre-2018 Crystallized Cheques (incl. 2021-2022 cheques) | 485,451.00 | 436,884.00 | |
| | a) NASSIT Cheques | 205,740.00 | 205,740.00 | Paydown by issuance of Medium to Long-Term Bond to NASSIT 2024-2027 |
| | b) Other Cheques | 279,711.00 | 231,144.00 | Paydown in equal annual instalment of NLe46.2 million over the arrears clearance period and charged against the provision for arrears paydown in the budget. |
| | Total Excluding NASSIT | 2,846,023.72 | 2,538,786.93 | |
| | Total Including NASSIT | 3,051,763.72 | 2,744,526.93 | |

Financing the Arrears Clearance

Financing options have been suggested to ensure that the challenges faced in the previous strategy is not repeated. Section 10.0 below provides the detailed projection of the financing proposed in the arrears clearance strategy. These are consistent with the recent IMF projections discussed during the 8th Review of the Extended Credit Facility Program.

Implications for Medium Term Debt Strategy (MTDS) and Debt Sustainability Analysis (DSA)

Both the national MTDS and DSA have been revised to include the assumptions of this revised Arrears Clearance Strategy and Principles 2023-2028. The key revision includes the incorporation of verified cheques up to end-June 2023/Pre-April 2018 (including the NASSIT arrears reconciled in June 2023). The Pre-April 2018 stock of arrears constitutes 37 percent foreign currency denominated contracts. These were therefore adjusted and included in FX Bond in the MTDS of 2023-2028 to capture the full impact of arrears in the strategy analysis. It is informative to note that the Exchange rate applied at the time of the initial MTDS was NLe10.2347 compared to the exchange rate USD/NLe18.9292 applied in the updated MTDS 2023-2028.

4.0. Status on the implementation of the Arrears Clearance Strategy and Principles 2020-2025

4.1. Background

Ministries, Departments and Agencies of Government accumulated significant arrears over the past fifteen years mainly on account of inadequate domestic revenue and higher expenditures which exceeded the budget originally approved of Parliament. The main sources of budgetary arrears come from medical supplies for hospitals in the Security Sector, Government hospitals, roads contracts, agriculture and others. Contract management challenges and inadequate controls in procurement relative to the approved budget resulted in budget execution problems which increased the amount of arrears to over NLe3,200 million by end-March 2018.

Government instituted a comprehensive audit of arrears accumulated up to Pre-April 2018 following change of Government. Audit Service Sierra Leone (ASSL) conducted the audit verification in 2020 and Government developed the first Arrears Clearance Strategy (2020-2025) which was adopted by Cabinet on 15th July 2020.

It has taken over three years since Cabinet approved the Arrears Clearance Strategy and Principles (2020-2025) on 15th July 2020 and the Ministry of Finance commenced payment of arrears as and when resources were available from domestic revenue and grants through the budget. The Arrears Clearance Negotiation Committee was set-up to implement the strategy and negotiate with various contractors, suppliers and vendors (CSVs), especially for those whose arrears are above Le1 billion and verified by the Audit Service Sierra Leone.

Prior to the negotiations with various CSVs, letters were sent to them proposing the discount to be applied consistent with the strategy but majority of the CSVs rejected the offer and demanded payment. The tight liquidity position of Government as a result of lower domestic revenue caused by the challenges of COVID-19 pandemic affected the ability of Government to fully implement the strategy.

Negotiations continued with various CSVs in 2021-2022 and Government continued payment of arrears focusing on clearance of cheques accumulated at the Bank of Sierra Leone and Accountant General's Department and verified non-cheques arrears below NLe1 million aimed at supporting vulnerable SMEs just when CoVID-19 commenced.

4.2 The First Arrears Clearance Principles

Prioritization of arrears payment was done in line with section 4.1.1 of the Arrears Clearance Strategy and Principles (2020-2025) to prevent discrimination. The arrears clearance decision considered key elements of the arrears, including the relevance of payment for 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 was given to vintage arrears. Other general principles considered include Net Present Value (NPV) reduction linked to the discounts proposed, minimization of securitization,

4.3 Key Challenges in the Implementation of the Initial Arrears Clearance Strategy and Principles 2020-2025

The implementation of the Arrears Clearance Strategy and Principles 2020-2025 faced three main challenges—financing, rejection of discount, and the effects of the CoVID-19 pandemic. The main challenge amongst these is the unavailability of sustainable financing of the repayment and rejection of the proposed discount by majority of the suppliers. Government did not have the liquidity to make upfront payment of the full discounted amount to contractors, suppliers and vendors.

To address these challenges, payment plans were proposed to help minimise risk of litigation. Most of the proposed payment plans were not fully implemented because of lack of funds.

Another key challenge is the fact that the implementation of the Arrears Clearance Strategy and Principles 2020-2025 coincided with the CoVID-19 pandemic which affected the ability of firms to accept large discounts because their businesses were on the verge of collapsing and several people lost their jobs. It was challenging for contractors, suppliers and vendors (CSVs) to accept 30 percent haircut without receiving the downpayment plus an extended repayment period of five years.

To avoid litigation, Government pursued section 4.1.1 of the Arrears Clearance Strategy 2020-2025 to make gradual payments under various payment plans for contractors who supported: i) economic growth, ii) response to CoVID-19, iii) Health-

related interventions, iv) agriculture and v) roads. Payments were then made for contractors according to the agreed payment plans. This worsened the exposure of CVSs to banks and posed challenge to the financial sector as outlined in Section 3.1.6 of the strategy.

4.4. Reasons for Updating the Arrears Clearance Strategy and Principles 2020-2025

The Arrears Clearance Strategy and Principles 2020-2025 is being updated in order to keep in perspectives both debt sustainability challenges and acceptance by creditors. The initial strategy was based on theoretical assumptions given the need to return to a sustainable debt level as fast as possible under normal economic conditions without shocks. It assumed large discounts (ranging between 30 percent for contract to 45 percent for LPOs and Sole Sourcing) and higher NPV reduction when the discounts are combined with five years amortization period. The initial strategy recommended by the Government was anchored on how competitive the procurement source was which then informed the level of discount applicable. The following discounting approaches were applied: (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 were proposed to be discounted in the same proportion for competitive bidding (30 percent), sole source (40 percent) and LPO/RFQs (45 percent).

The broad parameters of discounts and haircuts proposed under the initial arrears clearance option is summarized in the matrix below.

Table 2. Initial Discount Options

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 required a goodwill payment of Le267.9 million in 2020 and an equal annual payment of Le303.58 billion over the period 2021-25. Given this

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assumption that was adopted by Cabinet a total of Le875.33 million should have been paid to CSVs from 2020 to end-2022.

Table 3. Initially Adopted Arrears Strategy

| | Verified Arrears | | In New Leones | | | | | | | | | |
|--|-------------------------|----------|-----------------------|-------------------------|-----------------|-----------------------|--|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------|
| | Total in Leones | Discount | | Discounted Amount | Goodwill (2020) | | Equal annual payments starting in 2021 | 2022 | 2023 | 2024 | 2025 | Total Payment 2020 to 2025 |
| | | % | Amount (Le) | | % | Amount (Le) | | | | | | |
| Civil Works/I (A) | 1,779,240,369.01 | | 540,097,092.30 | 1,239,143,276.71 | | 247,828,655.34 | 198,262,924.27 | 198,262,924.27 | 198,262,924.27 | 198,262,924.27 | 198,262,924.27 | 1,239,143,276.71 |
| o/w: Competitive Bidding | 1,737,073,825.02 | 30% | 521,122,147.51 | 1,215,951,677.52 | 20% | 243,190,335.50 | 194,552,268.40 | 194,552,268.40 | 194,552,268.40 | 194,552,268.40 | 194,552,268.40 | 1,215,951,677.52 |
| Sole Source | 42,166,543.98 | 45% | 18,974,944.79 | 23,191,599.19 | 20% | 4,638,319.84 | 3,710,655.87 | 3,710,655.87 | 3,710,655.87 | 3,710,655.87 | 3,710,655.87 | 23,191,599.19 |
| Trade Credits/Supplies (B) | 923,032,376.57 | | 376,379,312.19 | 546,653,064.38 | | 109,330,612.88 | 87,464,490.30 | 87,464,490.30 | 87,464,490.30 | 87,464,490.30 | 87,464,490.30 | 546,653,064.38 |
| o/w: Competitive Bidding | 779,705,145.34 | 40% | 311,882,058.13 | 467,823,087.20 | 20% | 93,564,617.44 | 74,851,693.95 | 74,851,693.95 | 74,851,693.95 | 74,851,693.95 | 74,851,693.95 | 467,823,087.20 |
| Sole Source | 129,288,731.42 | 45% | 58,179,929.14 | 71,108,802.28 | 20% | 14,221,760.46 | 11,377,408.36 | 11,377,408.36 | 11,377,408.36 | 11,377,408.36 | 11,377,408.36 | 71,108,802.28 |
| RFP | 14,038,499.81 | 45% | 6,317,324.92 | 7,721,174.90 | 20% | 1,544,234.98 | 1,235,387.98 | 1,235,387.98 | 1,235,387.98 | 1,235,387.98 | 1,235,387.98 | 7,721,174.90 |
| Pre-April 2018 Crystallised Cheques (C) | 387,355,202.23 | | | | | | | | | | | |
| O/w: Crystallized Cheques (others) | 193,556,648.62 | | | | | | | | | | | |
| Nassit | 193,798,553.61 | | | | | | | | | | | |
| Total (A) + (B) + (C) | 3,089,627,947.80 | | 916,476,404.49 | 1,785,796,341.09 | | 357,159,268.22 | 285,727,414.57 | 285,727,414.57 | 285,727,414.57 | 285,727,414.57 | 285,727,414.57 | 1,785,796,341.09 |
| <i>Exchange Rate (Mid) as at August 13, 2019</i> | | | | | | | | | | | | |
| 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

5/ Pre-April 2018 cheques exclude part payment cheques

4.5 Reasons Why the Initial Strategy was not Implemented

Apparently, when the above strategy was presented to suppliers in a letter addressed to each vendor and followed by bilateral meetings at the Arrears Clearance Negotiations Committee (ACNC), the discount was rejected mainly because the downpayments or payment of the discounted arrears was not made upfront compared to the standard arrears settlement practice based on discounting. In addition, the implementation period coincided with CoVID-19 pandemic which affected the ability of firms to absorb large discounts in the midst of the challenging and uncertain economic conditions.

As indicated above, if adequate financing was available and the discounts accepted by CSVs a goodwill payment of NLE267.9 million and an annual payment of NLE303.6 million would have been made to the various vendors with a total payment of NLE875.33 million by end-December 2022 consistent with the initial strategy.

However, given the tight fiscal space, the payment of Pre-April 2018 legacy arrears amounted to NLE536.2 billion over 2020-to Pre-July/end June 2023 - was made with a lower discount compared to the one envisaged under the approved arrears clearance strategy. See Figure 2 below. This is because most of the payments made were part-

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payments and were made to CSVs to ensure continuity of supplies to critical entities of Government without which there would have been freeze in service delivery in some of these entities, particularly in the health and defence sectors.

In order to address the multitude of the CSVs using the meagre resources available, payments were initially made to clear those verified arrears below Le1 billion and some priority sector. Summarised below are the total payments made to clear arrears by sector and size during 2020-Pre-July/End-June 2023.

Table 4. Sector Summary of Non-Cheques Verified Arrears 2018-Pre-July 2023/End-June 2023

Sector Summary of Non-Cheques Verified Arrears Pre-April, 2018-End-June 2022 (In New Leones)

| Sector | Stock of Non-Cheques | | Actual Payment | | | | Stock of Non-Cheques | | Percent of total Pre-July/End-June 2023 stock |
|---------------------------------|--|-----------------------|-----------------------|-----------------------|---------------|-----------------------|-------------------------|--|---|
| | Verified Arrears (Pre-April 2018)/1 | | | | | | | Verified Arrears (Pre-July/End-June 2023) | |
| | | 2020 | 2021 | 2022 | Pre-July 2023 | 2020-Pre-July 2023 | | | |
| Security (Mainly medical items) | 1,035,378,416.35 | 62,000,766.26 | 141,287,695.19 | 60,186,135.84 | - | 263,474,597.28 | 771,903,819.07 | 45.82 | |
| Social | 288,044.90 | - | - | - | - | - | 288,044.90 | 0.02 | |
| Agriculture | 101,064,867.16 | 20,889,168.30 | 21,654,279.50 | 7,056,118.74 | - | 49,599,566.54 | 51,465,300.62 | 3.05 | |
| Roads | 653,734,356.95 | 17,073,116.01 | - | - | - | 17,073,116.01 | 636,661,240.94 | 37.79 | |
| Education | 14,748,232.62 | 493,738.88 | 2,424,357.67 | - | - | 2,918,096.55 | 11,830,136.07 | 0.70 | |
| Health | 5,385,778.07 | - | - | 9,450.00 | - | 9,450.00 | 5,376,328.07 | 0.32 | |
| Others | 410,259,182.29 | 58,494,225.45 | 91,183,756.11 | 53,433,350.16 | - | 203,111,331.72 | 207,147,850.57 | 12.30 | |
| Total | 2,220,858,878.33 | 158,951,014.89 | 256,550,088.47 | 120,685,054.74 | - | 536,186,158.09 | 1,684,672,720.24 | 100.00 | |

Memorandum item

Total Stock of Non-Cheques

Verified Domestic Arrears 2,220,858,878.33 2,061,907,863.45 1,805,357,774.98 1,684,672,720.24

Majority of the small volume of arrears have been paid but the bulk of the large volume verified arrears remain unpaid relative to the projected outlay under the original strategy.

5.0 The Scope of the New Arrears Clearance Strategy and Principles 2023-2028

The scope of domestic arrears covered in this update includes the unpaid balance of the stock of arrears verified by Audit Service Sierra Leone (i.e., Pre-April 2018 stock minus payments made so far under the initial Arrears Clearance Strategy and Principles (2020-2025) up to end-December 2022. It adds the verified cheques payable held at the Accountant General's Department for end-2022 and end-June 2023/Pre-July 2023. These are annually verified by the Audit Service Sierra Leone (ASSL). Verified cheques payable include transaction already approved for payment at the Ministry of Finance and held at the Accountant General's Department. Whilst domestic arrears are the stock of non-cheques arrears verified by ASSL in the Arrears Clearance Strategy and Principles (2020-2025).

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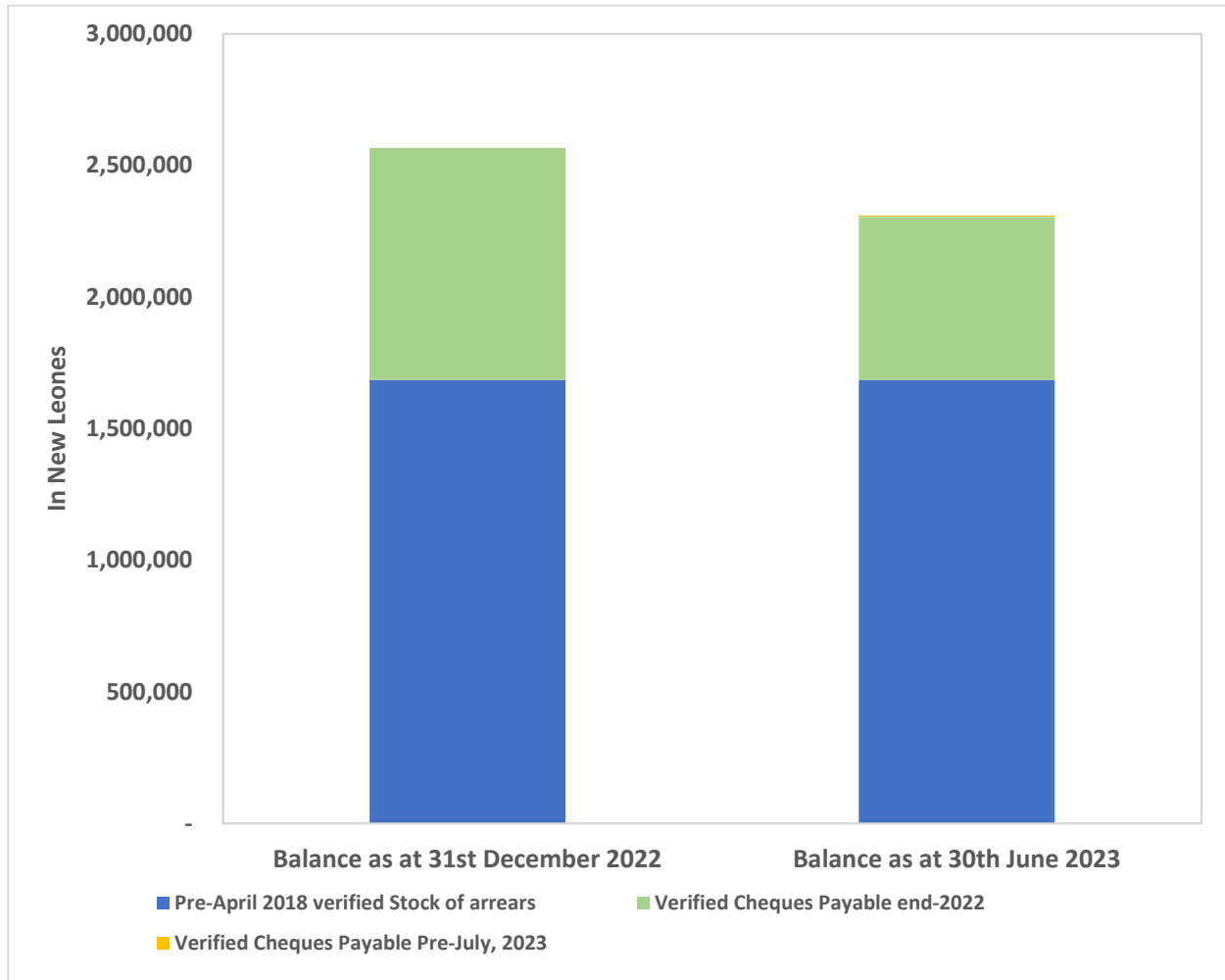
The total stock of Pre-July 2023 arrears (including the verified cheques payable) held at the Accountant General's Department declined from Le2.566 billion at end-December 2022 to NLe2.308 billion at end-June/Pre-July 2023. The decline is as a result of gradual payment of cheques payable in line with the budget in the First-Half of 2023. The reminder of the verified arrears including the accumulated cheques as at end-June2023/Pre-July 2023 is summarised in the Table 5 below.

Table 5: Stock of Verified Arrears and Cheques Payable

| No | Category | Balance as at 31st December 2022 | Balance as at 30th June 2023 |
|----------|--|-------------------------------------|---------------------------------|
| 1 | Pre-April 2018 verified Stock of arrears | 1,684,672.72 | 1,684,672.72 |
| 2 | Verified Cheques Payable end-2022 | 881,640.00 | 619,975.17 |
| 3 | Verified Cheques Payable Pre-July, 2023 | 0.00 | 2,995.04 |
| 4 | Pre-2018 Crystallized Cheques (incl. 2021-2022 cheques) | 485,451.00 | 436,884.00 |
| | a) NASSIT Cheques | 205,740.00 | 205,740.00 |
| | b) Other Cheques | 279,711.00 | 231,144.00 |
| | Total Excluding NASSIT | 2,846,023.72 | 2,538,786.93 |
| | Total Including NASSIT | 3,051,763.72 | 2,744,526.93 |

The new arrears clearance strategy is expected to address majority of verified claims above NLE1 million (Le1 billion old Leones) and ensuring that the strategy adopted would be acceptable to the CSVs. It shows an annex of the complete list of creditors and a summary repayment schedule over the medium term with the proposed clearance option. and with proposed discounts, based on the criteria to be set by management of the Ministry of Finance.

Figure 1: Composition of Verified Arrears: End-December 2022 and End-June 2023 (in New Leones)

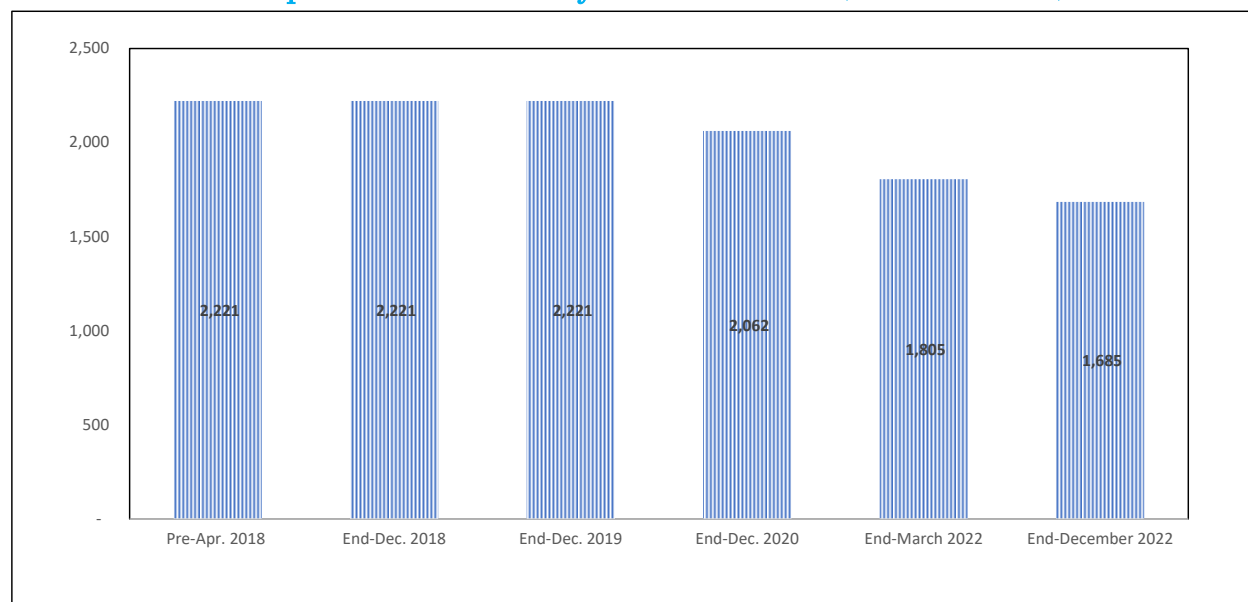


The payment of verified arrears for Pre-April 2018 halted in December 2022 up to Pre-July/end-June 2023. Prior to this the stock of Pre-April 2018 arrears (excluding cheques payable) declined from NLe2,062 million in 2020 to NLe1,685 million in December 2022. Implementation of the Arrears Clearance Strategy and Principles (2020-2025) was initially supported by exceptional financing from the World Bank and the International Monetary Fund in 2020-2021. Domestic revenue collection from the National Revenue Authority and domestic financing consistent with the fiscal framework agreed with the International Monetary Fund also supported most of the arrears paydown in 2022.

It is informative to note that despite the rejection of the initial discount proposed in the first Arrears Clearance Strategy and Principles 2020-2025, the recent increase in inflation to over 50 percent in August 2023 has reduced the real value of the stock of

arrears beyond the envisaged discounts. This is a self-fulfilling implicit discount already inflicted on the outstanding stock of arrears held by CSVs on account of the recent depreciation of the currency which pass-through into high inflation.

Figure 2. Sierra Leone. Stock of Non-Cheques Verified Domestic Suppliers Arrears, Pre-April-2018 to Pre-July/End-June 2023 (in Le' millions)



6.0. New Measures to Prevent Accumulation of Arrears

Measures were announced in section 7 of the initial Arrears Clearance Strategy and Principles 2020-2025 to prevent the accumulation of new arrears. The status of policy implementation to prevent the accumulation of arrears are outlined below and new measures have been proposed:

- a) **PETS forms used in IFMIS:** Government has upgraded the FreeBalance Financial Accountability/IFMIS software to the Web-based Version 7 including the use of PETS forms in IFMIS. In addition, to the steps taken by the Ministry of Finance has made it mandatory for all rolled out Ministries, Departments and Agencies (MDAs) to process their expenditures through the new Version 7 Web-based FreeBalance Financial Accountability System which is an integrated commitment control system. Hence, no MDA can process expenditures in the Web-based Financial Accountability/IFMIS without the availability of allotments/budget from the Budget Bureau, Ministry of Finance which has tightened controls from the allotment stage—the principle of “Not in budget no funding”.

New Measure 1: Budget Bureau would publish quarterly tables on total budget allotment against annual ceiling to ensure that processing of allotments is kept within the annual budget ceiling in line with the principle of “Not in budget no funding”.

- b) **Realism of Originally Approved Budget and getting Procurement Right:** The accuracy of Government budgeting has been a challenge and procurement has been delinked from budget ceilings which affects budget credibility. In particular, commitments entered into outside the IFMIS and the procurement procedures may not be fully complied with coupled with execution of procurement not linked to cash plan and the budget.

New Measure: Government will adopt baseline budgeting in 2024 to support the preparation of the budget for 2025 and beyond, linked all procurement thereafter to the appropriated budget ensuring that procurement plans are continuously linked to cash plans and the originally approved budget.

- c) **Electronics Fund Transfer (EFT):** a contract was 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) to prevent the accumulation of printed cheques at Accountant General’s Department (AGD) and BSL. The implementation of the EFT went live effective in June 2022 at the AGD which links Ministries, Departments and Agencies (MDAs) allocations via the upgraded Web-based Version 7 IFMIS with their commitments so that MDAs can see their cash/bank balances at the Bank of Sierra Leone before processing expenditures. Since its implementation, cheques held at the AGD and BSL has minimised drastically because cheques are mainly released by the AGD to the BSL when funds are available.

New Measure 2: Government will continue to rollout the implementation of the EFT across all MDAs to prevent the accumulation of printed cheques at AGD and BSL.

- d) **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 Public Investment Management Directorate of the Ministry of Planning and Economic Development is taking steps to implement some of the recommendations of the PIMA in collaboration with the Ministry of Finance. A National Public

Investment Management Policy has been developed and approved by Cabinet, the Public Investment Operational Manual is in an advanced draft and will be completed by the end of 2023 including validation by Government and relevant partners. The Ministry of Planning and Economic Development has also commenced the development of a public investment management regulation.

New Measures 3: Government will operationalise the Public Investment Operational Manual in 2024.

- e) **Integrated Financial Management Information Systems (IFMIS) rollout:** 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 (SLRA) and Road Maintenance Fund (RFMA)). So far IFMIS has been rolled out (and upgraded to the new Web-based Version 7) to over 70 MDAs including SLRA.

New Measure 4: Given that the IFMIS is now web-based, it is recommended that it is rolled out to all MDAs.

- f) **Enhance Revenue Measures:** The Ministry of Finance has completed interfacing with the National Revenue Authority since March 2021 to minimize the tax clearance process during budget execution. Furthermore, additional revenue mobilization measures including ASYCUDA World Customs Tax system, Integrated/Electronics Tax Administration System (ITAS) for domestic taxes, and Electronic Cash Register for GST taxes have commenced implementation the past three years—2021-2023—to help increase the revenue base of government, improve budget execution and reduce arrears. The Government of Sierra Leone has completed the Medium-Term Domestic Revenue Mobilization Strategy (MTRS).

New measure 5: the measures outlined in the MTRS will commence implementation in 2023 including both policy and administrative measures aimed at increasing revenue from 13 percent of GDP in 2023 to around 19-20 percent of GDP by 2028.

- g) **Develop an Arrears Profiling System and work with Personnel Deployed at MDAs to monitor budget execution and Arrears:** Development of a new arrears profiling system has been included as an activity in the UA1 million budget support project grant from AfDB on Enhancing Efficiency in Public Debt

Management. More Budget Officers, Economists, Internal Auditors, and Procurement Officers, have been recruited and deployed in the respective MDAs to ensure smoother implementation of sector budgets within the approved limit.

New measure 6: develop and deploy an arrears profiling system that will help Government to track arrears payment across MDAs and integrate the information on arrears payment amongst MDAs, AGD and PDMD to help determine the correct stock of outstanding verified arrears at the CSVs level and total arrears at any times. The new arrears profiling system would be used by officers of PDMD, Budget Bureau, Internal Audit, Procurement Officers and Accountants to update contracts and arrears across the stages from contracting up to payment status. The system would form the basis of verification of arrears annually by ASSL. As stated above, this measure is already included as an activity in the AfDB grant financing of reforms on debt management for PDMD.

h) **Resuscitate the arrears clearance negotiations committee (ACNC).**

Government established the Arrears Clearance Negotiations Committee (ACNC) consistent with section 3.1.5 of the initial Arrears Clearance Strategy and Principles 2020-2025. The committee continued its meetings in 2021 to negotiate with contractors, vendors and suppliers both virtually and in person. Terms of Reference were developed for the ACNC and members of the committee include representatives from the following divisions/departments: Office of the Chief Economist (Chairman) Accountant General's Department, Budget Bureau, Internal Audit Department, Legal Affairs Department, Procurement Department, Administrative Division, and Public Debt Management Division (technical secretariat).

New Measure: focus ACNC meetings on data integrity, reconciliation and implementation of the revised strategy.

7.0. Updated Arrears Clearance Principle

The updated Arrears Clearance Principles outlines the new approach agreed to clear the remaining verified stock of arrears including unpaid cheques. It is based on the current economic conditions and the projected trajectory of adjustments needed to return public debt to sustainability levels.

Recent development in inflation reaching over 50 percent in August 2023 points to an implicit discount already applied on the outstanding verified stock arrears denominated in domestic currency.

7.1.0 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”.

Whilst this strategy focusses on the stock of arrears verified by ASSL, an understanding was reached with partners to include unpaid cheques at the end of 2022 and Pre-July/End-June 2023 which would be amortized and paid through the annual budget in 2023 and 2024.

We further categorized arrears owed to statutory institutions like NASSIT in respect of unsettled contributions deducted at source in the payroll. With the introduction of the web-based IFMIS and the Electronic Fund Transfer, arrears now include all EFT payments held at AGD for recurrent and development expenditures that are yet to send to BSL for payment including those held in the settlement system at the Bank of Sierra Leone. Along these lines the defined categories of arrears include: 1) those verified by ASSL and remain unpaid as at Pre-July 2023, 2) EFT cheques held at Accountant General’s Department (in respect of other charges and capital expenditures) and 3) unpaid NASSIT obligations.

7.1.1 General Principles

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

- (a) Promote economic growth,
- (b) First come, first served,
- (c) Debt sustainability considerations. Government will continue to minimize the issuance of domestic bonds to finance clearance of arrears. Bond issuances would be kept within the annual borrowing limit,

(d) Ensure continuity of supplies to critical agencies of Government including the Ministries of Agriculture, Education, Health and Defense,

(e) Finally, Governance and national stability condition: Given the need to minimize corruption, Government will prioritise arrears already cleared by the Anti-Corruption Commission and stop any payment to persons found guilty of corruption. To ensure stability and peace. Government will also prioritize the payment of arrears to the security sector specifically to ensure peaceful co-existence, protection of lives and properties, support critical service delivery of the Government, ensure good governance and stable socio-political environment.

In addition, consideration will be given to the impact of the arrears clearance in promoting peace, security, and the democratic process as well as the vintage of the arrears on a First-come First-serve basis and Paripassu principle.

7.1.2 Time-bound commitment and annual budgetary outlay

The scope of the revised arrears clearance strategy and principles (2023-2028) is to address the remaining stock of verified Pre-April 2018 arrears plus the verified cheques payable as at end-June 2023/Pre-April 2018. The government is committed to clear this scope of arrears within six fiscal years 2023-2028 or earlier depending on the availability of fiscal space. For 2023, a preliminary allocation of SLE186 million was been approved by Parliament as part of the 2023 Supplementary 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.

7.1.3 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 continue and announced in the national budget.

The published resource envelope is based on the following parameters: i) baseline Government/IMF-program consistent fiscal anchor and indicators on domestic revenue mobilization and domestic borrowing limits, ii) exceptional resources expected from development partners, and iii) annual arrears reduction/payment allocation.

The actual payment of arrears will continue to be subjected to the highest fiduciary compliance tests. Specifically, claims that pass the fiduciary test of procurement, accountable document and verification of service delivery (with reference to the report from the Auditor General or Internal Audit Department of the Ministry of Finance) will be identified and prioritized.

A quarterly report on arrears payment would continue to be prepared and published on the website of the Ministry of Finance and as part of the Public Debt Bulletin, and included in the Budget report that is sent to Parliament annually.

7.1.4 Arrears payment principles—revealed preference of the government

The revealed preference of government in the initial strategy is maintained to ensure that arrears clearance results in an overall reduction in the Net Present Value (NPV) of the total debt stock. So far, the main channel of NPV reduction has been elongation of the amortization period mainly because of financing challenges and rejection of large discounts. Therefore, the use of domestic debt instruments will continue to be the very last option. If securitization is used to clear arrears, it will attract a penal rate of haircut and its volume should not compromise debt sustainability. The government will continue to negotiate with vendors to agree on the recommended arrears payment option. The government's revealed preferences are as follows:

Over 50 percent inflation in August 2023:

Already inflicted a significant real haircut on the local currency stock of arrears. Payment of arrears would be done over six years 2023-2028.

Net Present Value (NPV reduction):

NPV reduction is assumed by combining elongated unequal clearance options including payment plans options. Arrears payments would not be indexed to inflation. However, foreign exchange arrears would be paid at the prevailing exchange rate at the time of payment in line with PFM Act 2018 with an estimated NPV reduction of USD17 million.

Limit securitization:

Minimize the amount of arrears clearance allocated to ***securitization*** within the annual fiscal anchor of the government and domestic borrowing limit. ***Creditors that seek securitization of their arrears would need to agree with a 50 percent face value discount.***

The above principles have been updated relative to the initial strategy focusing on implementation of the recommended clearance option.

7.1.5 Negotiation principles with suppliers/contractors

The Arrears Clearance Negotiation Committee will continue 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. Two independent members would be added to the committee one from Civil Society and another from the Anti-Corruption Commission to improve on the integrity of the committee. The PDMD will continue to use the Disclaimer Forms and issue terminal letters to those who delay to submit their disclaimer forms that was approved in 2002 by the Law Officers Department, Attorney General and Ministry of Justice to legalize the arrears clearance process. This would be signed off and sealed by all suppliers and contractors disclaiming any further liability on Government upon full receipt of the discounted amount of their debts. The PDMD will issue terminal letters to vendors who delay to submit their disclaimer forms after payment of their final negotiated arrears. The terminal letter will disclose the amount paid after full settlement of the arrears.

7.1.6 General consideration of the financial sector

The government will continue to pursue an arrears clearance mechanism that will support the balance sheet of the financial sector. Whilst the government aims at a debt management objective that reduces cost and risk of existing debt portfolio it will collaborate with the Bank of Sierra Leone to 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. This

implies that the clearance of arrears using financing from a given bank should not make its liquidity condition to fall below the prudential requirements of the BSL. In addition, the mechanism used should be in line with the borrowing target approved in the budget and agreed under the program with IMF and other development partners.

7.1.7 The golden target

The golden target of government has been extended to clear the outstanding verified arrears over the next six years 2023-2028. 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.

8.0. The Revised/Recommended Strategy

The recommended strategy is to: i) paydown the Pre-April 2018 verified arrears based on this revised strategy, ii) Paydown the verified cheques payable of end 2022 and end-June/Pre-April 2023 through the budgeted in 2023 through 2028 approved by Parliament as summarized the table below, iii) Paydown the NASSIT Arrears through issuance of medium to Long-Term Bond, and iv) paydown other crystalized cheques in equal annual instalments of NLe46.2 million over the arrears clearance period and charged against the provisions of arrears paydown in the Budget.

Table 6: Summary Arrears Clearance methods

| Stock of Arrears as at Pre-July 2023 in New Leones | | | | |
|--|--|----------------------------------|------------------------------|---|
| No | Category | Balance as at 31st December 2022 | Balance as at 30th June 2023 | Clearance Strategy |
| 1 | Pre-April 2018 verified Stock of arrears | 1,684,672.72 | 1,684,672.72 | We paydown based on the revised Clearance Strategy. |
| 2 | Verified Cheques Payable end-2022 | 881,640.00 | 619,975.17 | Paydown based on payment plans proposed in the strategy and budgeted in 2023-2028. Financing through revenues and tax on MDA allocation to clear arrears. See item 3) in the Financing Table. |
| 3 | Verified Cheques Payable Pre-July, 2023 | 0.00 | 2,995.04 | Paydown in line with 2023 budget approved by Parliament. |
| 4 | Pre-2018 Crystallized Cheques (incl. 2021-2022 cheques) | 485,451.00 | 436,884.00 | |
| | a) NASSIT Cheques | 205,740.00 | 205,740.00 | Paydown by issuance of Medium to Long-Term Bond to NASSIT 2024-2027 |
| | b) Other Cheques | 279,711.00 | 231,144.00 | Paydown in equal annual instalment of NLe46.2 million over the arrears clearance period and charged against the provision for arrears paydown in the budget. |
| | Total Excluding NASSIT | 2,846,023.72 | 2,538,786.93 | |
| | Total Including NASSIT | 3,051,763.72 | 2,744,526.93 | |

The initial arrears clearance strategy was prepared in normal times without major economic shocks including the CoVID-19 pandemic and the Russian Ukraine war. In addition, some donor financing was available to accelerate the clearance. But soon after its adoption all of these challenges kicked-in which affected its implementation and minimized its impact on debt sustainability. As a result, the speed of arrears clearance was lower than projected and the desired level of discount was not met because CSVs rejected the discounts.

This new strategy considers the current level of inflation that reached over 50 percent in August 2023, and recommends no discount but elongated unequal repayment over six years period up to 2028; with lower present value receipt to CVSs consistent with the available baseline fiscal path, and

The above option also takes into consideration the macroeconomic and financial sector conditions needed to revert to a sustainable debt level.

8.1 Underlying Reason Behind the Recommended Strategy

The above strategy is recommended on account of the high inflation already inflicted on the real stock of arrears (over 50 percent (y-o-y) as at August 2023) and this is far above the highest level of discount proposed in the initial Arrears Clearance Strategy and Principles (2020-2025) but not achieved. Furthermore, unequal

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instalment over the amortization period up to 2028 within the Budget reduces the NPV of the arrears stock by US\$17 million.

While the adopted strategy eliminates discount burden on CSVs, the staggered repayment period of up to six years coupled with the high inflation in the first year significantly reduces the Net Present Value (NPV) burden on Government and promotes affordability to Government.

The table 7a and 7b below summarizes the recommended strategy.

Table 7a: Annual Pay down of Verified Arrears 2023-2028

| Sector | Stock of Non-Cheques Verified Arrears (Pre-April 2018)/1 | Actual Payment 2020-June 2023 | Stock of Non-Cheques Verified Arrears (End-June 2023) | No Discount on account of 50 percent of inflation | Year Annual Pay down | | | | | | Outstanding legacy arrears after 2028 |
|--|--|-------------------------------|---|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------------------------|
| | | | | | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | |
| Stock of Non-Cheques Verified Arrears (End-June 2023) | | | | | | | | | | | |
| Security (Mainly medical Items) | 1,035,378,416.35 | 263,474,597.28 | 771,903,819.07 | | 47,313,194.91 | 47,823,523.96 | 65,255,006.11 | 68,566,427.67 | 128,567,153.67 | 93,357,858 | 321,020,655 |
| Social | 288,044.90 | - | 288,044.90 | | 30,836.86 | 29,040.75 | 44,412.80 | 44,244.44 | 44,244.44 | 21,463 | 73,803 |
| Agriculture | 101,064,867.16 | 49,599,566.54 | 51,465,300.62 | | 5,186,096.02 | 5,188,743.67 | 7,935,725.61 | 7,905,203.59 | 7,905,203.59 | 3,907,609 | 13,436,719 |
| Roads | 653,734,356.95 | 17,073,116.01 | 636,661,240.94 | | 40,229,590.64 | 44,188,335.53 | 58,170,395.52 | 57,792,817.07 | 78,313,817.07 | 80,648,404 | 277,317,881 |
| Education | 14,748,232.62 | 2,918,096.55 | 11,830,136.07 | | 1,304,972.82 | 1,192,717.09 | 1,824,155.55 | 1,817,139.57 | 1,817,139.57 | 872,800 | 3,001,212 |
| Health | 5,385,778.07 | 9,450.00 | 5,376,328.07 | | 593,058.44 | 542,042.66 | 829,006.41 | 825,817.93 | 825,817.93 | 396,653 | 1,363,932 |
| Others | 410,259,182.29 | 203,111,331.72 | 207,147,850.57 | | 10,850,313.18 | 21,035,596.34 | 25,941,298.00 | 31,048,349.72 | 31,048,349.72 | 19,651,213 | 67,572,730 |
| Total | 2,220,858,878.34 | 536,186,158.10 | 1,684,672,720.24 | 0.00 | 105,508,062.87 | 120,000,000.00 | 160,000,000.00 | 167,999,999.99 | 248,521,725.99 | 198,856,000.00 | 683,786,931.39 |

Table 7b: Financing of Arrears 2023-2028

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Arrears Payment | | | | | | | |
| (1) Non-Cheques Verified Arrears (End-June 2023) | 105,508,062.87 | 120,000,000.00 | 160,000,000.00 | 167,999,999.99 | 248,521,725.99 | 198,856,000.00 | 1,000,885,788.85 |
| (2) Pre-2022 Crystallized Cheques | 0.00 | 149,098,800.00 | 149,098,800.00 | 46,228,800.00 | 50,000,000.00 | 42,457,600.00 | 436,884,000.00 |
| a) NASSIT Cheques | | 102,870,000.00 | 102,870,000.00 | - | | | 205,740,000.00 |
| (Payment through issuance of medium to long term bonds) | | | | | | | |
| b) Other Cheques | | 46,228,800.00 | 46,228,800.00 | 46,228,800.00 | 46,228,800.00 | 46,228,800.00 | 231,144,000.00 |
| (3) Verified Cheques Payable end-2022 | 77,496,896.00 | 53,771,200.00 | 123,771,200.00 | 164,771,200.01 | 61,478,273.99 | 138,686,400.00 | 619,975,170.00 |
| (4) Verified Cheques Payable Pre-July, 2023 | 2,995,041.15 | | | | | | 2,995,041.15 |
| Total | 186,000,000.02 | 322,870,000.00 | 432,870,000.00 | 379,000,000.00 | 359,999,999.98 | 380,000,000.00 | 2,060,740,000.00 |
| Financing | | | | | | | |
| Cash Payment (1) + (2.b) | 186,000,000.00 | 170,000,000.00 | 260,000,000.00 | 259,000,000.00 | 260,000,000.00 | 250,000,000.00 | 1,385,000,000.00 |
| Issuance of medium to long term bonds (NASSIT cheques) (2.a) | 0.00 | 102,870,000.00 | 102,870,000.00 | - | 0.00 | 0.00 | 205,740,000.00 |
| Expenditure Rationalization (3) + (4) | | 50,000,000.00 | 70,000,000.00 | 120,000,000.00 | 100,000,000.00 | 130,000,000.00 | 470,000,000.00 |
| Total | 186,000,000.00 | 322,870,000.00 | 432,870,000.00 | 379,000,000.00 | 360,000,000.00 | 380,000,000.00 | 2,060,740,000.00 |
| Financing (gap) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 |

9.0. Implication of the New Strategy for the DSA and MTDS

The assumptions in the revised arrears clearance strategy have been incorporated in the Medium-Term Debt Strategy (MTDS) 2023-2028 and the 2023 National Debt

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Sustainability Analysis (DSA) that was updated in September 2023. Both the MTDS and DSA used the assumptions in the updated Arrears Clearance Strategy 2023-2025 which is revised to reflect the two big shocks of CoVID-19 and the Russian Ukraine war. The National MTDS Team extensively discussed the MTDS and DSA with the IMF and World Bank during the 8th Review of the Extended Credit Facility in September/October 2023.

Specifically, the updated MTDS 2023-2028 incorporated the new stock of arrears as at Pre-July 2023 including verified cheques and NASSIT arrears. The redemption profile of the adopted Strategy was included in the MTDS analytical framework.

Table 8. Linking Arrears Clearance to the MTDS 2023-2028

| Domestic Arrears Redemption Profile for MTDS 2023-2028 | | | | | | | | |
|---|-------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| In millions of US\$ except as stated | | | | | | | | |
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2023-2028 |
| Domestic Arrears | 89.0 | 9.83 | 8.98 | 13.74 | 13.68 | 42.77 | - | 89 |
| Cheques | 32.9 | 4.25 | 2.84 | 6.54 | 8.70 | 3.25 | 7.33 | 26 |
| NASSIT cheques | 23.08 | | 11.54 | 11.54 | | | | 23 |
| | 145.0 | | | | | | | 0 |
| Dom Arrears plus Cheques | 121.9 | 14.1 | 11.8 | 20.3 | 22.4 | 46.0 | | 115 |
| MTDS Arrears | 33.7 | 8.75 | 23.36 | 31.81 | 22.39 | 46.02 | | 132 |
| | 37.9% | | | | | | | |
| Arrears in FX | 33.7 | 3.7 | 3.4 | 5.2 | 5.2 | 16.2 | | 34 |
| FX Bond before arrears | 25.0 | 8.3 | 8.3 | 8.3 | | | | 25 |
| New FX Bond (Input in FX Bond) | 58.7 | 12.06 | 11.74 | 13.54 | 5.18 | 16.20 | | 59 |
| Dom. Arrears less FX | | 6.10 | 5.58 | 8.53 | 8.50 | 26.57 | | 55 |
| Total non-NASSIT Arrears | | 14.08 | 11.82 | 20.27 | 22.39 | 46.02 | | 115 |
| New Total Arrears Stock | | 14.08 | 23.36 | 31.81 | 22.39 | 46.02 | 7.33 | 145 |
| Total Non-FX Arrears plus NASSIT (input in MTDS) | | 10.36 | 19.96 | 26.61 | 17.21 | 29.82 | | 104 |

In this section we estimated that 37.9 percent of domestic arrears are in FX. We therefore adjusted the domestic arrears stock downwards by 37.9 percent and increase the FX bond component in the external debt to reflect domestic instruments issued in Foreign Currency (mainly in USD)

10.0. Financing and Implementation of the New Strategy

The resource envelope needed to finance the implementation of the Arrears Clearance Strategy include the following: cash payment from the budget (annual arrears reduction/payment allocation), domestic borrowing, disposal of assets or privatization receipt, and exceptional resources expected from development partners.

The baseline financing projection for redemption of arrears is in line with the 8th Review of the Extended Credit Facility Program with the International Monetary Fund in October 2023.

The revised Arrears Clearance Strategy and Principles 2023-2028 would be implemented by the Arrears Clearance Committee Negotiation Committee made up of the official specified in section 7.1.5 above.

Revised Spending Arrears Clearance Strategy and Principles 2023-2028

Table 9. Financing the Revised Arrears Clearance Strategy 2022-2028 in Millions of New Leones

| Policy Handles | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | SLE | SLE | SLE | SLE | SLE | SLE |
| Total Revenues and Grants | 10,796.00 | 13,766.00 | 20,693.00 | 24,991.00 | 28,403.00 | 32,700.00 |
| Total Domestic Revenue | 7,046.00 | 10,257.00 | 14,826.00 | 19,085.00 | 22,725.00 | 26,698.00 |
| Total Exceptional Inflows from P: | 222.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Proceeds from asset disposal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Grants | 3,528.00 | 3,509.00 | 5,867.00 | 5,906.00 | 5,678.00 | 6,002.00 |
| Total Expenditures and Net Lendin | 16,722.00 | 18,003.00 | 23,412.00 | 27,896.00 | 31,740.00 | 36,060.00 |
| Overall Deficit including grants | -5,926.00 | -4,237.00 | -2,719.00 | -2,905.00 | -3,337.00 | -3,360.00 |
| Total Financing | 5,929.00 | 4,238.00 | 2,718.00 | 2,903.00 | 3,337.00 | 3,360.00 |
| Domestic Banking sector Financi | 4,928.00 | 2,964.00 | 3,615.00 | 3,146.00 | 2,180.00 | 955.00 |
| <i>O/w: Issuance of Treasury Securities for Arrears</i> | <i>14.00</i> | <i>-49.00</i> | <i>49.00</i> | <i>49.00</i> | <i>49.00</i> | <i>0.00</i> |
| Domestic Non-Bank Financing | 204.00 | 421.00 | 279.00 | 176.00 | 258.00 | 152.00 |
| Others including SDR Allocations | 1,233.00 | 1,866.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Foreign Financing | -232.00 | -592.00 | -897.00 | -243.00 | 1,157.00 | 2,405.00 |
| Cash Pay down of Arrears | 549.00 | 186.00 | 260.00 | 260.00 | 228.00 | 322.36 |
| Projected stock of non-cheques arrears | 1,256.36 | 1,070.36 | 810.36 | 550.36 | 322.36 | 0.00 |

Source: Government of Sierra Leone and IMF Article IV engagement 2022.

Table 10. Financing the Revised Arrears Clearance Strategy 2022-2028 in Percent of GDP

| Policy Handles | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---------------|--------------|--------------|--------------|--------------|--------------|
| | SLE | SLE | SLE | SLE | SLE | SLE |
| Total Revenues and Grants | 19.32 | 17.68 | 20.74 | 20.72 | 20.22 | 20.42 |
| Total Domestic Revenue | 12.61 | 13.18 | 14.86 | 15.82 | 16.18 | 16.67 |
| Total Exceptional Inflows from P: | 0.40 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Proceeds from asset disposal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Grants | 6.31 | 4.51 | 5.88 | 4.90 | 4.04 | 3.75 |
| Total Expenditures and Net Lendin | 29.93 | 23.13 | 23.46 | 23.12 | 22.59 | 22.52 |
| Overall Deficit including grants | -10.61 | -5.44 | -2.72 | -2.41 | -2.38 | -2.10 |
| Total Financing | 10.98 | 5.98 | 3.00 | 2.55 | 2.56 | 2.19 |
| Domestic Banking sector Financi | 8.82 | 3.81 | 3.62 | 2.61 | 1.55 | 0.60 |
| <i>O/w: Issuance of Treasury Securities for Arrears</i> | <i>0.03</i> | <i>-0.06</i> | <i>0.05</i> | <i>0.04</i> | <i>0.03</i> | <i>0.00</i> |
| Domestic Non-Bank Financing | 0.37 | 0.54 | 0.28 | 0.15 | 0.18 | 0.09 |
| Others including SDR Allocations | 2.21 | 2.40 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Foreign Financing | -0.42 | -0.76 | -0.90 | -0.20 | 0.82 | 1.50 |
| Cash Pay down of Arrears | 0.98 | 0.24 | 0.26 | 0.22 | 0.16 | 0.20 |
| Projected stock of non-cheques arrears | 2.25 | 1.37 | 0.81 | 0.46 | 0.23 | 0.00 |

11.0. Fiscal Responsibility Commitment

Government maintains the fiscal responsibility commitment to prevent further accumulation of arrears. The Secretariats of the Expanded Cash and Debt Management Committee and the Arrears Clearance Negotiation Committee are now based at the Public Debt Management Division where arrears are managed in addition to the total public debt and cash management of the budget. Government will continue to set ceiling on accumulation of domestic arrears and include its adjustor in the computation of Net Domestic Credit to the Central Government. In the event of higher than programmed accumulation or lower than programmed reduction in arrears, the ceiling on domestic financing would be revised downwards or upwards respectively.

All new accumulation of domestic arrears should be cleared in the first quarter of the subsequent fiscal year.

In the event of shocks or disaster or pandemic CSVs who continue to support the response of Government to the shocks or disaster would be prioritized in terms of payment of arrears.

12.0. Risks to implementing the Revised Strategy

There are several risk factors that could derail the smooth implementation of the revised arrears strategy like the initial strategy. Some of these risks could be mitigated by the deployment of appropriate actions by Government while others are global in dimension. These risks are described below.

- i. **Rejection of the elongated unequal payment proposed in the revised strategy:** some creditors may want full payment upfront on account of the high inflation whilst others may find the others options (50 percent or 35% discount) burdensome. To mitigate against this risk, Government has fully budgeted the payment of arrears for the next four years. Government would also employ moral suasion to ensure the buy-in of creditors.
- ii. **Drop in revenue performance:** drop in revenue performance could forestall the smooth implementation of the revised strategy as liquidity would not be available to address priority programmes of Government and arrears liquidation at the same time. To minimize this risk, Government has developed the revenue mobilization strategy to sure revenue performance in the short to medium term.
- iii. **Weakening exchange rate environment:** the continuous depreciation of the Leone against the United States Dollars would increase the burden of foreign currency verified domestic suppliers' arrears. All foreign currency obligations have been converted into leones in the strategy keeping it at the stock of the original verified arrears. Acceptance of the strategy by creditors or CSVs would significantly reduce this risk. Foreign exchange differences would be addressed after clearance of the initial stock. This would minimize the redemption burden on Government and limit reconciliation challenges with Auditors on frequent revision of the arrears stock due to exchange rate.
- iv. **Russia -Ukraine War:** the on-going war between Russia and Ukraine continue to pose global risks for economies around the world. If the conflict goes unabated, this would continue to impact on revenue performance and

adversely affect the exchange rate with implications for the smooth implementation of the revised strategy. Government should develop a special fund for the treatment of verified arrears. When revenues out-performs, some amount could be put in the Arrears Management Fund (AMF) to ensure the continuous liquidation of arrears in line with the approved strategy which is also aligned with the approved annual budget.

13.0. Conclusions

This updated strategy recognizes the challenges of applying large and uncertain discount acceptable by CSVs coupled with long amortization periods for clearance of the discounted arrears that was proposed in the previous strategy of (2020-2025).

Whilst the initial strategy also met difficult global economic conditions which affected the financing of the strategy and changed the debt dynamics mainly on account of subdued macroeconomic environment. This revised arrears clearance strategy has taken into consideration the experiences of the first implementation and proposed measures to promote acceptance of the strategy by Contractors, Suppliers and Vendors (CSVs) whilst at the same time gauging the clearance to meet sustainable levels.

New measures have also been proposed to prevent the accumulation of arrears in the revised Arrears Clearance Strategy and Principles (2023-2028) including “Not in Budget, No Funding”, baseline budgeting and linking procurement to the originally approved budget.