

Bank of Sierra Leone

Annual Report

and

Statement of Accounts

for the year ended 31 December 2002

A. Annual Report 2002

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A. ANNUAL REPORT 2002

1. Review of the Economy

(a) Overview

The symbolic burning of arms and the official declaration of the end of fighting by the Head of State Dr Ahmad Tejan Kabbah in January 2002 marked the end of the eleven-year civil war in Sierra Leone. This was the outcome of a successful completion of the disarmament programme and was followed by the return of refugees, the massive resettlement of internally displaced persons and resurgence in economic activities. The scene was now set for the peaceful conduct and conclusion of the May 2002 Presidential and Parliamentary Elections. The Government's focus changed from emergency relief to post-war rehabilitation, economic development and growth.

Sierra Leone, in March, reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and became eligible for debt relief. The Executive Boards of the International Monetary Fund (IMF) and World Bank approved support for a comprehensive debt reduction package for the country under the initiative. Total debt relief from all of Sierra Leone's creditors is about US\$950.00mn, a reduction of nearly 80 per cent of the country's external stock of debt. This necessitated the presentation to Parliament of a supplementary budget in July 2002 for the utilisation of the additional resources from the debt relief. These funds were to enhance government expenditure in the social sectors, in line with Sierra Leone's Interim Poverty Reduction Strategy Paper (I-PRSP). The Executive Board of the International Monetary Fund (IMF) in September 2002, on the

completion of the second review of Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement, approved a disbursement of SDR18.66mn (US\$25mn) and this led to Sierra Leone receiving disbursements from the World Bank and African Development Bank (ADB) and British Department for International Development (DFID). A Donors Meeting was arranged for Sierra Leone in November 2002 in Paris with the help of the World Bank and the United Nations Development Programme (UNDP). The government received US\$ 650 million in pledges for development projects over a four-year period exclusive of HIPC relief and other flows. This was followed by a Private Sector Forum inviting investors to take advantage of the improved business climate and opportunities.

The conducive atmosphere in 2002 with no security threats improved business confidence, expanded domestic production and was reflected in the impressive performance of the real sector. GDP growth is estimated at 6.3 percent. Diamond production continued to register steady increases as did output for most of the manufacturing industries. Agricultural production though weak, showed signs of strong revival in the sector. Budgetary performance was impressive with revenue being higher than projected and budgetary outlays within targets. However, though HIPC funds were made available in April, there were delays in setting up the mechanism for use of the funds such that the bulk of expenditures were made between October and December. Most of the disbursements of critical loans and grants were also made during that period

and this made monetary management both difficult and challenging. Monetary Aggregates expanded during the year with Broad Money increasing by 29.56%; the bulk of this expansion being between October and December. Commercial banks also increased their lending to the private sector to support economic growth. Inflation was contained within single digit, though the exchange rate depreciated with the pressures from the increase in liquidity towards the end of the year.

(b) Real Sector Developments

Strong growth was recorded in the real sector in 2002, especially the manufacturing, mining and agricultural sub-sectors. Real GDP at Le69.27bn is estimated to have grown by 6.3 per cent. This to a large extent was due to the improvement in the security situation, re-establishment of government's control all over the country, the resettlement of refugees and internally displaced in the rural areas, the availability of raw materials and international donor support. The authorities have maintained their commitment to the development of the sector. To this end an Investment Code to encourage local and foreign investment is being prepared and a pledge made to boost agricultural production and to provide food for all Sierra Leoneans by 2007.

Production of beer and stout, maltina and soft drinks rose by 144.06 thousand cartons (18.70%) to 914.49 thousand cartons, 51.85 thousand cartons (34.76%) to 201.00 thousand cartons and 160.25 thousand crates (9.36%) to 1,872 thousand crates respectively, over the previous period. There was also an increase of 764.61 thousand pounds (34.94%) of confectionery in 2002 to 2,952 thousand pounds. The increase in food and beverages production was due to the introduction

of two new brands of soft drinks and the pick up in demand with the opening up of provincial markets.

Performance by the manufacturers of household goods - common soap, salt and plastic footwears - was mixed. While the output for common soap increased by 92.57 metric tons (25.22%), the output for salt and plastic footwear fell by 1,068.52 metric tons (36.98%) and 151.34 thousand pairs (10.66%) respectively. The increase in the production of common soap could be attributed to the availability of more raw materials in the period under review. On the other hand, the drop in the production of salt was due to the preference for imported salt while the fall in footwear production was due to accumulation of stocks.

The increase in the output of oxygen by 122.57 thousand cubic feet (12.15%) to 1,131.26 thousand cubic feet was the result of a rise in demand and increased availability of cylinders. The production of acetylene dropped by 97.97 thousand cubic feet (49.63%) due to the use of the cheaper imported cooking gas as a substitute. Carbon dioxide production resumed in November after a break in May. Notwithstanding the break a total of 26.07 thousand pounds of the product was produced in 2002 compared to 12.73 thousand pounds in 2001.

The demand for building materials rose during the period as a result of increased reconstruction and rehabilitation activities (by the authorities, donors, Non-Governmental Organisations and private citizens) following the massive destruction of infrastructure during the war. The production of paint and cement therefore increased by 27.60 thousand gallons (17.43%), to 185.90 thousand gallons and 30.88 thousand metric tons (27.26%) to 144.14

Table. 1 Production					
		Jan-Dec'01	Jan-Jun'02	Jul-Dec'02	Jan-Dec'02
1	2	3	4	5	6
Minerals					
Diamonds	<i>000'carats</i>	224.30	136.36	215.50	351.86
Agriculture					
Coffee	<i>000'M tons</i>	74.90	635.20	312.00	947.20
Cocoa	<i>000'M tons</i>	641.00	112.14	1,065.32	1,177.46
Piassava	<i>000'M tons</i>	47.70	34.00	24.00	58.00
Manufactured Goods					
Beer and Stout	<i>000' Cartons</i>	770.43	436.32	478.17	914.49
Maltina	<i>000' Cartons</i>	149.15	99.05	101.95	201.00
Soft Drinks	<i>000' Crates</i>	1,711.78	928.40	943.63	1,872.03
Acetylene	<i>000' Cu.Ft</i>	197.40	45.74	53.69	99.43
Oxygen	<i>000' Cu.Ft</i>	1,008.69	606.75	524.51	1,131.26
Carbon-Dioxide	<i>000' Lbs</i>	12.73	17.71	8.36	26.07
Confectionary	<i>000' Lbs</i>	2,188.21	1,455.64	1,497.18	2,952.82
Salt	<i>M tons</i>	2,889.47	1,191.69	629.26	1,820.95
Common Soap	<i>M tons</i>	367.06	234.94	224.69	459.63
Paint	<i>000' Gals.</i>	158.31	93.80	92.11	185.90
Cement	<i>000'M tons</i>	113.27	81.57	62.58	144.15
Plastic Footwear	<i>000 Pairs</i>	1,419.62	674.53	593.75	1,268.28
Services					
Electricity					
Unit Generated	<i>GW/hr</i>	106.31	60.68	62.82	123.50
Industrial Consumption	<i>GW/hr</i>	22.03	13.38	12.17	25.55

thousand metric tons, respectively. Extensive rehabilitation of roads and bridges were also undertaken during the year.

The improvement in electricity generation by 17.19GW/hr (16.17%) from 106.31GW/hr in 2001 to 123.50 GW/hr in 2002 was the combined effect of the rehabilitation of one of the ageing machines, the continuous routine maintenance of distribution plants and the installation of a new 63 mega watts machine in the year under review. Industrial consumption increased by 15.95 per cent from 22.03GW/hr in 2001 to 25.55GW/hr in the year under review .

The increase in the number of hotels, guest houses and restaurants during the year reflected the rise in visitors to Sierra Leone. Transport and Communication activities continued to grow with the extension of mobile phone companies' operations to the provinces.

The production of diamonds as measured by shipment through the Government Gold and Diamond Office (GGDO) increased by 127.56 thousand carats (56.87%) in 2002. The total shipment of 351.86 thousand carats consisted of 204.56 thousand carats of industrial and 147.30 thousand carats of gem diamonds. This increase was attributed to the re-establishment of government's authority and the resettlement of people in the mining areas. In addition, the provision of incentives and logistics to mines wardens, assistance to the producing chiefdoms and the continuous implementation of the Certificate of Origin contributed to the increase.

In May 2002 the first petroleum bid was announced following the successful seismic surveys undertaken by TGS/NOPEC geo-physical firm.

During the year 2002, the pump prices of petroleum products were revised twice. Firstly in February 2002, the pump prices for petroleum products were revised downwards to reflect a fall in world market prices. The pump prices per gallon of petrol, diesel and kerosene fell from Le 5,150 to Le 4600, Le 5,050 to Le 4,750 and Le 3,500 to Le 3,350 respectively. Secondly in August 2002, the pump prices of petroleum products were revised upwards from Le 4,600 to Le 4,900 (Petrol), Le 4,750 to Le4,800 (Diesel) and Le 3,350 to Le 3,500 (Kerosene) respectively, to reflect the general increase in world market prices since the last change.

Official statistics on production in the agricultural sector are unavailable but increases of 872.30 metric tons (1,164.62%) and 536.46 metric tons (83.69%) in the shipment of coffee and cocoa respectively, were recorded in the review period . The increase in the world market prices for these commodities served as a stimulus for production, as rehabilitation work was done on the existing crop farms by resettled rural communities. The volume of piassava shipped also increased by 10.30 metric tons (21.59%) from 47.70 metric tons in 2001 to 58.0 metric tons in 2002.

It is estimated that out of 625.59 thousand metric tons requirement for Sierra Leone, production of cereal was only 220.63 thousand metric tons. In particular the short fall in rice production was filled by more importation of the cereal. Over the years Sierra Leone has suffered from the smuggling of cash crops to neighbouring countries either because of price consideration or because of poor infrastructure

(c) Fiscal Developments

The 2002 budget presented to Parliament on December 7, 2001 was within the context of a three-year (2001-2004) support programme, under the International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF). Following satisfactory performance under the Programme, Sierra Leone qualified in March 2002 for interim debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative of about US\$35.40mn or Le7,360mn. This development required the presentation to Parliament of a Supplementary Budget on July 26, 2002 for the utilization of the additional resources provided by HIPC debt relief. The resources were to enhance government expenditures in critical social, economic and security services as well as rehabilitation and reconstruction activities in support of its poverty reduction efforts as outlined in the Interim Poverty Reduction Strategy Paper (IPRSP). A detailed plan for their use with transparent and accountable monitoring procedures was developed.

In the review year, budgetary operations reflected improvement in domestic revenue collection and efforts made to keep expenditures within budgetary allocations. Total revenue and grants at Le399,883mn (23.83 per cent of GDP) was 36.00 per cent higher than that for 2001 but 2.43 per cent lower than the budget estimate for 2002 due to the less than expected receipts from project grants. Programme grants were slightly higher than the projections because of a slightly depreciated exchange rate. Total domestic receipts amounted to Le238,689mn and exceeded its level in the previous year by 14.82 per cent and its budget estimate by 0.54 per cent. The improved performance in domestic revenue was as a result of

the higher Customs and Excise receipts. Customs and Excise collection of Le160,589mn accounted for 67.28 per cent of the total revenue and was 16.22 per cent and 1.34 per cent more than the 2001 level and budget estimate, respectively. This development was accounted for mainly by the better than expected collection from import duties and domestic sales tax, reflecting the rise in imports and domestic manufacturing activities. Income Tax receipts at Le62,889mn were greater than the level in 2001 by 15.63 per cent but less than the budget estimate by 0.87 per cent. Total tax revenue was Le230,395mn and accounted for 96.53 per cent of total domestic revenue. Non-tax revenue from the mining sector increased as more mining licenses were issued.

Total grants received from external donors was Le161,194mn (9.61 per cent of GDP) and comprised Le107,857mn programme grants and Le53,337mn project grants of which Le75,327mn of programme grants was HIPC Debt Relief Assistance and the rest budgetary support grant from DFID. Although project grants received for the DDR

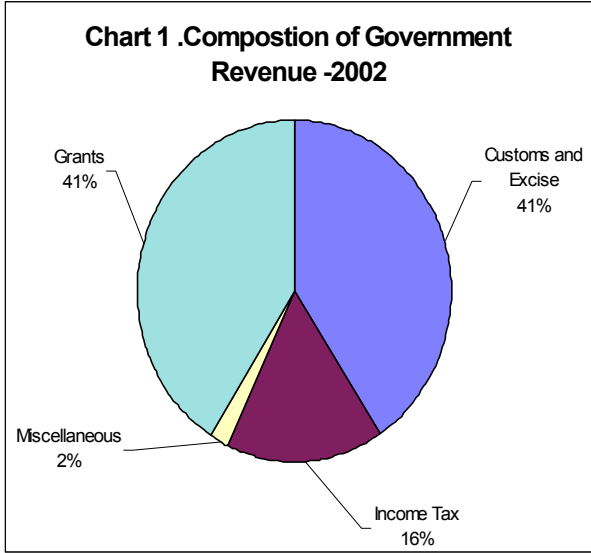


Table 2 Government Fiscal Operations (Leone Million)

1	Rev. Budget		
	2002	2002	2001
	2	3	4
Total Revenue (Plus Grants)	409,838	399,883	294,027
Domestic Revenue	237,559	238,689	207,879
Of which:			
Customs & Excise	158,470	160,589	138,182
Import taxes	118,371	120,703	104,475
Excise on Pet.	27,909	28,337	21,025
Other Excise Dut.	4,639	3,791	6,012
Domestic Sales Tax	7,551	7,757	6,670
Income Tax Department	63,430	62,881	54,382
Company Tax	29,340	29,117	19,987
Personal Income Tax	33,035	32,525	33,703
Other Taxes	1,055	1,239	692
Miscellaneous	8,748	8,293	9,131
Mines Department	2,055	2,033	1,210
Licences	2,055	2,033	1210
Other Departments	6,693	6,261	7,921
Royalty on Fisheries	2,322	2,309	2,790
Parastatals	2,177	1,677	3,129
Other Revenues	2,194	2,275	2,002
Road User Charges	6,911	6,925	6,184
Grants	172,279	161,194	86,148
Programme	105,684	107,857	57,268
HIPC Debt Relief Assistance	73,600	75,327	-
DFID	32,084	32,530	57,268
Project	66,595	53,337	28,880
DDR	40,236	31,737	10,760
Elections-Foreign Funded	10,201	10,201	-
Other Projects	16,158	11,399	18,120

Table 2. (Concl'd). Government Fiscal Operations (Leone Million)

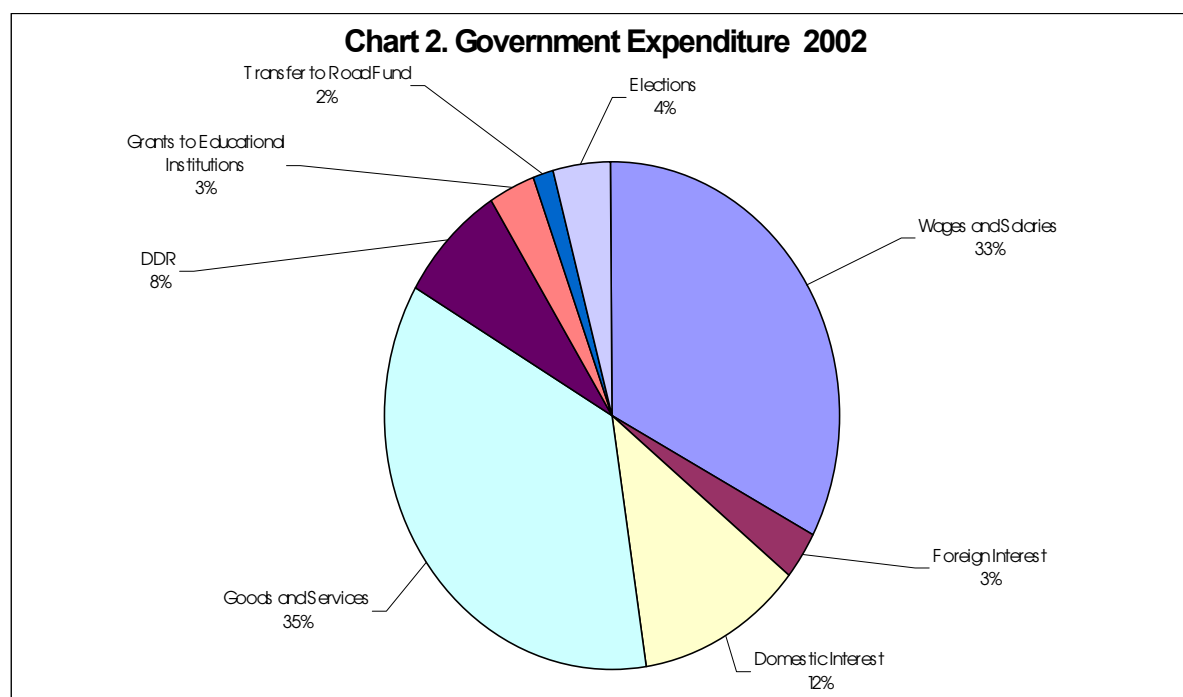
1	Rev. Budget		
	2002	2002	2001
	2	3	4
Total Expenditure	532,063	523,266	459,371
Of which:			
Current Expenditure	443,473	435,218	361,605
Of which:			
Wages & Salaries	142,035	142,769	111,455
Foreign Interest	12,596	12,662	28,533
Domestic Interest	47,706	51,020	49,463
Goods & Services	158,482	154,621	136,714
DDR	43,237	33,737	14,260
Social Outlays	0	0	1,365
Grants to Edu. Inst.	14,710	14,041	13,141
Trans. to Rd. fund	6,911	6,924	6,179
Elections	17,796	17,796	495
Development Expenditure	88,590	88,048	97,766
Foreign Loans and Grants	69,920	65,226	81,034
Loans	53,762	53,827	62,914
Grants	16,158	11,399	18,210
Domestic	16,552	20,540	13,284
Subsidies	600	450	3,448
Lending minus repayment	1,518	1,224	-
Current Balance+/-	(33,635)	(33,687)	(67,578)
Add Development Expenditure	(122,225)	(121,127)	(165,344)
Financing	122,225	121,127	165,344
Domestic	25,874	18,601	53,132
Of which:			
Bank Financing	13,154	(5,602)	44,185
Bank of Sierra Leone	13,154	(24,540)	12,817
Commercial Banks	-	18,938	31,368
Non-Bank Financing	12,720	24,203	8,947
External	107,058	113,988	106,704
Of which:			
Loans	136,252	141,605	114,461
Project	53,762	53,827	62,914
Programme	82,490	87,778	51,547
Amortisation	(29,194)	(27,617)	(7,757)
Others*	(10,707)	(11,462)	5,508

* Others include rescheduling/ write off, financing gap, privatisation net, unaccounted amounts and lending minus repayment

programme and other reconstruction and rehabilitation projects were less than the budget estimates, they exceeded the previous year's level by 84.68 per cent as a result of an expansion in project activities when the entire country became accessible in 2002.

Total expenditure was within the budget limit as expenditures were monitored in line with budget allocations. Expenditure of Le521,010mn was 2.08 per cent lower than the budget estimate Le532,063mn but 13.42 per cent higher than its level in 2001. Recurrent expenditure of Le433,570mn (25.84 per cent of GDP), though 19.90 per cent higher than the level in 2001 was 2.23 per cent below its budget estimate. The higher than budget estimate of Le142,769mn recorded for Wages and Salaries resulted from the recruitment of new teachers and an increase in the allocation to parliamentarians following an increase in their number. The wage

bill accounted for 32.92 per cent of total recurrent expenditure and 61.97 per cent of total tax revenue. Spending on Goods & Services amounting to Le154,621mn or 35.66 per cent of total recurrent expenditure, was less than its budget estimate by 2.44 per cent. A substantial proportion of these expenditures were HIPC related spending on the reconstruction and rehabilitation of government institutions, the purchases of tractors for agricultural activities and teaching and learning materials for schools. Other significant expenditures were in respect of the rehabilitation of hospitals, cost of vehicles supplied to various government ministries and departments, essential medical drugs and equipments and security-related outlays. Expenditure on the DDR Programme amounting to Le33,737mn, fell below its budget estimate of Le43,237mn but was above the preceding year's level of Le14,260mn due to the expansion in DDR



activities in the provinces, which culminated in the huge training costs and end of training benefits. Total domestic interest payments of Le51,020mn was higher than the budget estimate and the preceding year's level by 34.65 per cent and 3.15 per cent, respectively. The higher than expected domestic interest payment was as a result of the high level of Ways and Means advances for most of the year, though it declined by the end of the year.

Development expenditures amounted to Le87,440mn, of which Le53,827mn were from loans, Le11,399mn from grants and Le20,540mn was domestic contribution. Government's contribution to development expenditure was 23.49 per cent of the total development expenditure in 2002. The review year's development outlays were slightly less than the budget estimates and the preceding year's position by 1.30 per cent and 10.56 per cent, respectively. The marginal decrease in expenditure on development projects was due to the delay in the release of external funds.

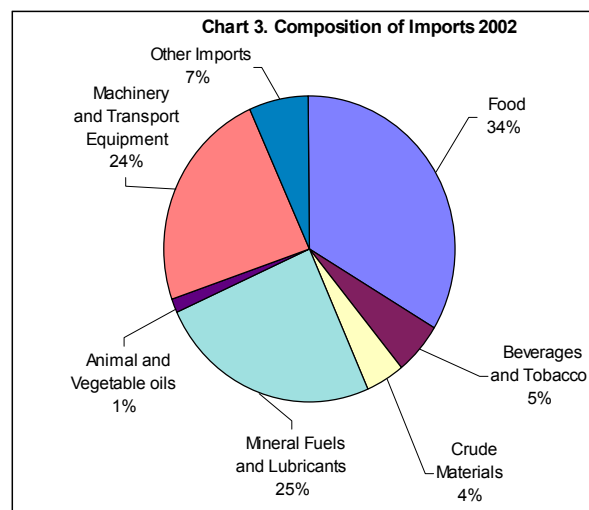
The overall budget deficit including grants was Le121,127mn (7.22 per cent of GDP). The financing of the deficit was largely from external sources comprising Economic Recovery and Rehabilitation Credit (ERRC) 11 from IDA and Economic Recovery and Rehabilitation Loan (ERRL) from the African Development Bank (ADB), and accounted for 94.11 per cent of total financing. Domestic financing of Le18,601mn was entirely from the private sector and the commercial banks. Net claims on the Government by the Bank of Sierra Leone (including HIPC debt relief deposits) declined by Le24,540mn while commercial banks net claims on government increased by Le18,938mn, resulting in a reduction of Le5,602mn in bank financing.

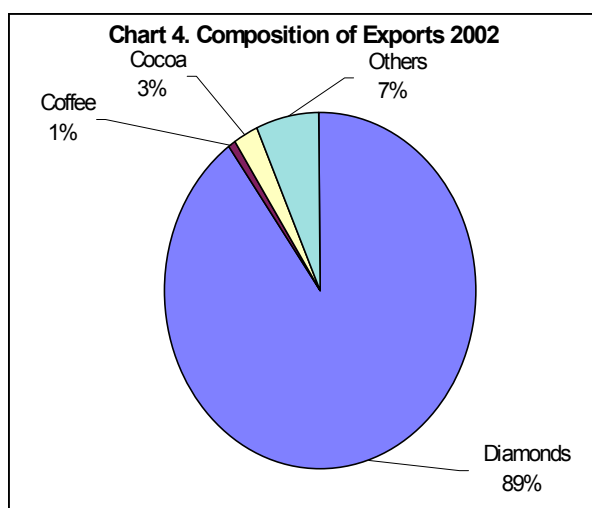
(d) External Sector Developments

(i) International Trade

The level of foreign trade during the review period picked up by 47.1 per cent with remarkable recovery in both mineral and agricultural exports. Proceeds from diamond exports totalled US\$41.73mn, the highest level since 1985. The sharp increase in payments for imports however resulted in the widening of the trade deficit by 23.5 per cent.

Total receipts from exports increased by 67.4 per cent from US\$29.08mn in 2001 to US\$48.70mn or (6.16 per cent of Gross Domestic Product) in 2002. This was mainly due to the significant improvement in both mining and agricultural exports. Earnings from export of diamonds at US\$41.73mn was 58.8 per cent higher than receipts in 2001 and indicated the highest official value recorded for over 18 years. Receipts from gem diamonds, which increased by 55.00 per cent, accounted for US\$37.74mn of this total while the value of industrial diamonds more than doubled (107.7%) to US\$4.99mn. The total volume of diamonds exported also increased by 56.7 per cent to 351.9





thousand carats comprising 147.3 and 204.6 thousand carats of gem and industrial respectively. The impressive performance in the export of diamonds could be attributed to increased mining activities, increased incentives and logistics to mines wardens coupled with more effective implementation of the Certificate of Origin Scheme

Performance in the Agricultural Sub-Sector was also encouraging with proceeds from cocoa and coffee exports surging to US\$1.22mn and US\$0.27mn from US\$0.27mn and US\$0.02mn in 2001 respectively. The levels were however low when compared to the pre-war years. Receipts from piassava exports increased by more than threefold to US\$26.10 thousand from US\$7.50 thousand in 2001. The value of fish and shrimps exported also increased by 42.0 per cent to US\$22.30 thousand from US\$15.70 thousand in 2001. The increase in agricultural receipts is explained by the resumption in the agricultural activities following the resettlement of farming communities after the completion of disarmament program. A favourable world market price for cocoa has also been a contributing factor. The earnings from “Other Exports” (comprising mainly plastic wares, audio cassettes, palm oil, gari, assorted timbers and African food stuff, confectioneries etc.) increased by 77.6 per cent to US\$3.09mn while the value of re-exports at US\$2.34mn was more than three times the value in 2001.

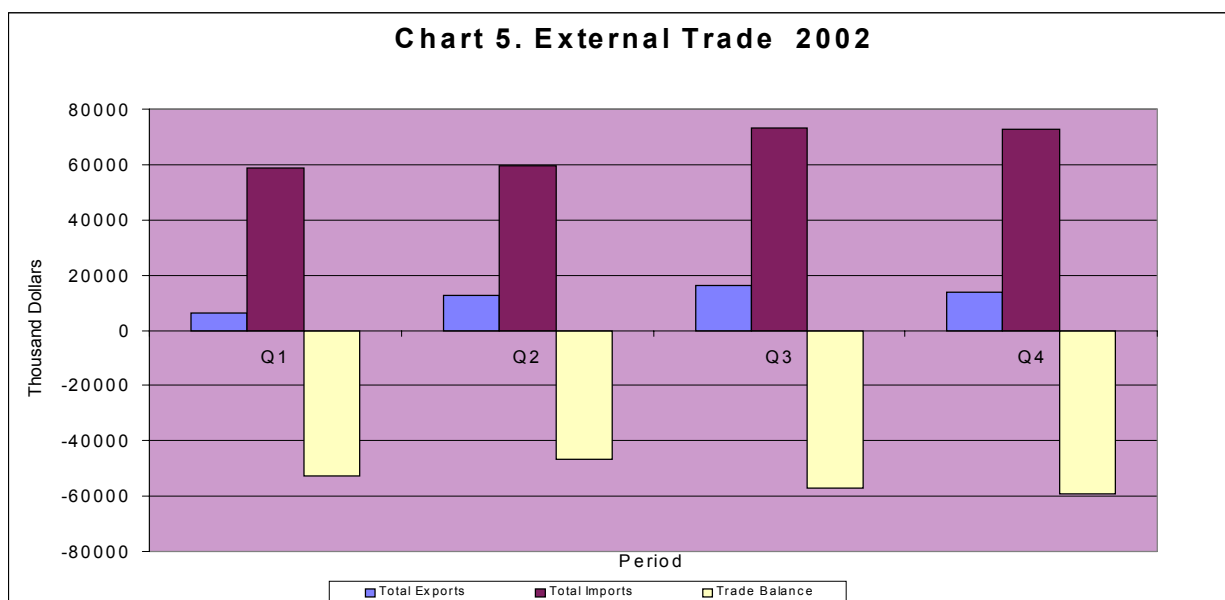


Table 3 International Trade and Reserves

(Thousand US Dollars)

	Jan-Dec'01	Jan-Jun '02	Jul-Dec '02	Jan-Dec'02
1	2	3	4	5
Merchandise Imports	183,619.2	118,295.8	145,981.2	264,277.0
of which:				
Food	51,917.0	28,922.9	41,860.3	70,783.2
Beverages and Tobacco	4,868.7	4,950.9	6,369.1	11,320.0
Crude Materials	5,754.5	4,286.8	4,925.3	9,212.1
Mineral Fuels and Lubricants	43,334.8	24,860.1	26,868.8	51,728.9
Animal and Vegetable Oils	1,601.2	1,749.0	1,077.6	2,826.6
Chemicals	8,478.6	8,900.0	9,402.7	18,302.7
Manufactured Goods	21,500.8	16,402.5	19,498.0	35,900.5
Machinery and Transport Equipment	37,239.9	22,294.9	27,921.9	50,216.8
Other Imports	8,923.7	5,928.7	8,057.5	13,986.2
Merchandise Exports	29,087.2	18,813.2	29,891.6	48,704.8
of which:				
Mineral Exports	26,274.5	16,021.7	25,710.5	41,732.2
Diamonds	26,273.3	16,021.7	25,710.5	41,732.2
Gold	1.2	-	-	-
Agricultural Exports	312.0	279.3	1,259.9	1,539.2
Coffee	22.9	192.1	80.0	272.1
Cocoa	265.9	63.9	1,154.8	1,218.7
Pissava	7.5	23.3	2.8	26.1
Fish and Shrimps	15.7	-	22.3	22.3
Others	1,740.3	1,450.6	1,639.6	3,090.2
Re-exports	760.4	1,061.6	1,281.6	2,343.2
Trade Balance	(154,532.0)	(99,482.6)	(116,089.6)	(215,572.2)
Foreign Reserves (\$mn)	51.28	39.65	84.57	84.57

The total import bill for the year increased by 43.9 per cent to US\$264.28mn. This could be attributed to increased availability of foreign exchange to importers, improved business confidence and increased consumer spending. The increase was reflected in all the major categories of imported items and was more pronounced in the values for intermediary and manufactured goods. The payment for consumer items (food, beverages and tobacco, animal and vegetable oils) at US\$84.93mn was 45.5 per cent higher than the bill in 2001. The value of food accounted for 83 per cent of the consumer goods while the bill for imported rice, which dominated the food sub-category, increased by 15.4 per cent to US\$27.27mn. The value of intermediary goods also increased significantly (93.3%) to US\$27.51mn. Payments for manufactured goods totalled US\$49.87mn, up by 64.0 per cent over the year, indicating intensive post-conflict recovery efforts especially in the areas of reconstruction and rehabilitation. The value of petroleum products increased by 19.4 per cent to US\$51.73mn and included a rise of US\$7.22mn (19.2%) in payments for fuel to US\$44.78mn. Payments in respect of machinery and transport equipment also moved up by 34.8 per cent to US\$50.22mn over the year. A trade deficit of US\$215.57mn was recorded for the year, reflecting a widening by US\$61.04mn (23.6%) on the previous year on account of the high level of import payments pitched against the still low level of export receipts.

(ii) Exchange Rate Developments

The value of the Leone against the United States dollar remained robust during the first half of 2002 but weakened significantly in the second half yielding an all-round depreciation in the annual average. The monthly averages posited consistent depreciation in

all the foreign exchange markets especially during the last four months of the year under review while mixed trends were observed in quarterly positions. The rate nevertheless remained well within the plus or minus fifteen per cent (+ 15%) band of the central rate of Le2,165.32/US\$1 under the Exchange Rate Mechanism (ERM) for the Second West African Monetary Zone (WAMZ). The commercial banks' annual average rate recorded the highest depreciation (6.05%) at Le2,085.73/US\$1. The official rate was next (5.74 per cent) at Le2,099.16/US\$1 while the bureaux and parallel market rates depreciated by 4.50 per cent and 4.15 per cent to Le2,137.61/US\$1 and Le2,264.40/US\$1 respectively. The auction rate depreciated by 4.51 per cent (over the year) to Le2,166.31/US\$1. The spread between the official and parallel market rate widened to Le165.24/US\$1 from Le118.95/US\$1 in 2001. The general depreciation of the Leone could be attributed to increased demand for foreign exchange by the business community as well as other related expenditure activities in the latter part of the year.

(e) Monetary Developments

(i) Monetary Survey

Monetary management in 2002 was difficult as the Central Bank tried to contain the excess liquidity in the system and maintain low inflation. There were delays in the disbursement of external support to the budget and most of the funds were received during the fourth quarter in 2002. In the interim, the Central Bank had to accommodate the financing requirements of the Government that could not be met by the commercial banks and private sector such that by September 2002, claims on Government by Bank of Sierra Leone had increased by Le62.80bn

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

Table 4
Monetary Survey
(Million Leones)

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02
1	2	3	4	5	6
Reserve Money	142,103	143,591	142,965	144,810	177,441
Broad Money	290,864	301,463	302,889	318,386	376,838
Narrow Money	189,437	191,173	191,105	199,492	247,478
Currency in Circulation	116,153	121,380	123,154	121,237	148,015
Demand Deposits	73,284	69,793	67,951	78,255	99,463
Quasi Money	101,427	110,288	111,783	118,894	129,359
Foreign Currency Deposits	46,023	52,261	46,601	52,708	55,267
Time Deposits	2,924	2,985	2,915	3,237	3,559
Savings Deposits	49,117	52,616	57,692	58,679	66,007
Time Savings and Foreign Currency Deposits (BSL)	3,363	2,426	4,575	4,270	4,526
Net Foreign Assets	(202,292)	(176,255)	(199,064)	(190,720)	(140,521)
Bank of Sierra Leone	(249,587)	-234,472	-251,466	-248,592	-198,904
Assets	115,454	113,984	88,519	127,601	191,179
Liabilities	(365,041)	(348,456)	(339,985)	(376,193)	(390,083)
Commercial Banks	47,295	58,217	52,402	57,872	58,383
Assets	47,295	58,217	52,402	57,872	58,383
Liabilities	-	-	-	-	-
Domestic Credit	242,601	282,057	267,094	268,984	263,905
Claims on Central Government Net	194,990	229,640	213,991	211,127	189,389
<i>of which: BSL</i>	105,136	143,045	113,753	106,288	80,598
Total Claims	115,376	155,363	160,422	178,171	119,977
Deposits	10,240	12,318	46,669	71,883	39,379
Commercial Banks	89,854	86,595	100,238	104,839	108,791
Total Claims	100,748	103,364	115,729	120,962	130,035
Commercial Banks	10,894	16,769	15,491	16,123	21,244
Claims on Non Financial Public Sector	499	428	100	830	963
Claims on Private Sector	34,943	44,433	41,770	48,277	56,719
<i>of which</i>					
Commercial Banks' claims on Private Sector	32,974	40,725	37,103	42,891	50,559
Claims on Non-Banks Financial Inst.	12,169	7,559	11,233	8,750	16,834
Other Items Net	(250,541)	(189,610)	(234,859)	(240,122)	(253,454)

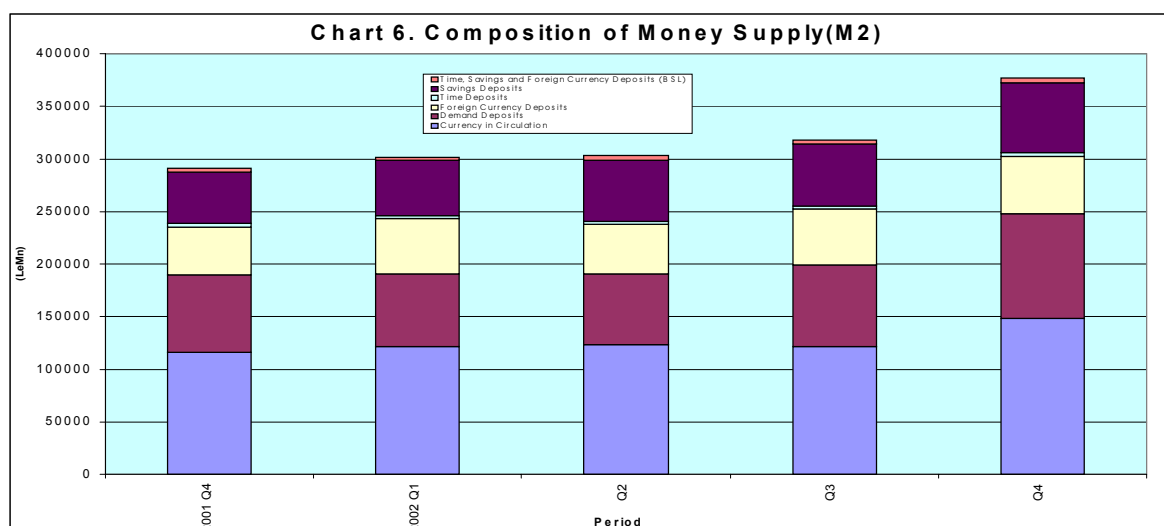
Note: Other Items Net includes Non-Negotiable, Non-Interest Bearing Stock

Table 5
Average Interest Rates (Percent)

	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02
1	2	3	4	5	6
Treasury Bills (3-months)	14.73	15.04	15.29	15.23	14.99
Treasury Bearer Bonds (1-year)	20.00	20.00	19.00	18.11	18.00
Savings Deposits	5.10	5.10	5.10	5.50	5.50
Time Deposits					
1-3 Months	8.10	8.10	8.10	8.42	8.42
3-6 Months	9.20	9.20	9.20	9.67	9.67
6-9 Months	9.50	9.50	9.50	9.50	9.50
9-12 Months	11.13	11.13	11.13	9.50	11.50

to Le178.17bn (54.0%). Disbursement of budgetary support by the World Bank, African Development Bank and DFID enabled the Government to reduce its Ways and Means Advances at the Bank of Sierra Leone to below the December 2001 level resulting in a reduction of total claims on Government by the Bank by Le4.60bn in 2002. This together with increases in Government deposits by Le29.14bn (which included un-disbursed HIPC funds) led to a reduction in net claims on Government by the Bank of Sierra Leone of Le24.54bn as at end of 2002.

Net claims on Government by the commercial banks increased by Le18.94bn (21.08%) with their holdings of Treasury Bills and Treasury Bearer Bonds rising by Le23.97bn and Le5.42bn to Le115.17bn and Le14.78bn respectively. Government deposits at the commercial banks were also higher at the end of the year due to the high level of DDR funds. The increase in Net Claims by commercial banks was less than the decrease in Net Claims by BSL resulting in a drop in Net Claims on Government by the banking system. Though HIPC funds were available in April, disbursement for poverty-related expenditure only started in October with the bulk being disbursed in December, thus substantially increasing the levels of liquidity by the end of the year. Reserve Money, Narrow Money and Broad Money, increased by Le35.34bn (24.87%), Le58.04bn (30.64%) and Le85.97bn (29.56%) to Le177.44bn, Le247.48bn and Le376.84bn respectively in 2002 of which Currency in Circulation, Demand Deposits and Quasi Money registered increases of Le31.86bn, Le26.18bn and Le27.93bn respectively. The growth in M2 emanated from the increases in Net Domestic Assets Le24.22bn and Net Foreign Assets (Le61.76bn). The rise in foreign



assets during the period of Le 86.81 bn was much higher than the reduction in foreign liabilities of Le 25.06 bn. Commercial banks' lending to the Private Sector increased substantially by Le20.86bn (55.22%) to Le58.65bn with the increase especially to Commerce, Finance and Construction reflecting the pick-up in economic activities in the sectors.

Interest rates on 3-months Treasury Bills fluctuated between a high of 15.35% and a low of 14.72% closing the year at 14.99%. The Treasury Bearer Bonds rate dropped from 20.00% to 18.00%. The commercial banks also over the period reduced their lending rates from 23-33 to 20-30 with marginal increases in their savings and time deposit rates. The spread still remains wide.

(ii) Inflation

In 2002 the price levels of goods for the various regions of the country as measured by their consumer price indices fluctuated.

In Freetown, according to the the Consumer Price Index (CPI) the average prices dropped steadily for the first four months of the year, fluctuated for the next six months and then rose in November and December. Food being the main component of this index accounted for much of the fluctuations. The annual average CPI for 2002 was 503.93 compared to 521.06 in 2001 indicating a 3.29 percent reduction in prices. The year-on-year rate of inflation dropped from 3.4 percent in 2001 to minus 3.1 percent in 2002.

Inflation Rates (Freetown) - 2002				Inflation Rates (Freetown) - 2001		
	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Consumer Price Index	Monthly (%)	Year-on-Year (%)
1	2	3	4	5	6	7
January	514.5	-4.8	-7.2	484.25	-4.75	-7.17
February	507.5	4.8	-3.4	507.65	4.83	-3.42
March	497.8	1.9	-1.6	517.4	1.92	-1.57
April	495.0	-0.1	-0.5	516.69	-0.14	-0.48
May	498.9	0.3	1.3	518.29	0.31	1.32
June	508.4	1.0	5.4	523.64	1.03	5.37
July	518.8	0.9	6.3	528.35	0.9	6.32
August	504.4	3.9	10.9	548.87	3.88	10.93
September	495.4	-2.2	6.1	536.59	-2.24	6.09
October	498.9	-1.7	2.6	527.30	-1.73	2.63
November	498.0	-1.8	2.9	517.81	-1.8	2.90
December	509.6	1.6	-3.1	525.83	1.55	3.43

In Bo and Kenema, though the prices declined as shown by their respective CPIs for the second half of the period, the prices on average remained fairly high in the review period when compared with the previous year. The annual average CPI for Bo in 2001 and 2002 were 109.49 and 112.79, respectively and that for Kenema 101.87 and 113.60. The year on year inflation rates were 2.6 percent and minus 6.3 percent respectively. The high price in these regions was on account of the upward pressure on the demand for commodities in short supply. These included fuel and power, food, transportation, education and stationery, rents and rates and tobacco and drinks. The prices for Makeni were recorded for the first time in July with a CPI of 94.02 which dropped to 92.31 in December.

2 Supervision of Banks and Other Financial Institutions

(a) Banking Sector Performance

The strong growth in the banking system that has been manifested over the last three years was

sustained in 2002. The resource base increased from Le255.2 billion (2001) to Le345.8 billion (2002); a growth of 35.5%

Confidence in the banking sector was also manifested in an increase in total local deposits from Le125.6 million (2001) to Le174.3 billion (2002), showing an increase of 38.8%. Foreign currency deposits increased from Le50.8 billion (2001) to Le62.2 billion (2002). All the components of Total Deposits i.e. Demand, Savings, Time and Foreign increased during the period under review with savings recording the highest growth rate of 42.5 percent and time deposits the lowest of 3.4 percent. Even though there was a reduction in the interest rates on government securities, there was an increase in the banks' holdings of government securities by 29.1% from Le100.8 billion (2001) to Le130.0 billion (2002). Government securities form 37.6 percent of total assets of the commercial banks.

Table 6-contd
Inflation Rates (Bo, Kenema and Makeni) - 2002

	Bo			Kenema			Makeni	
	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)
1	2	3	4	5	6	7	8	9
January	116.7	9.4	19.9	113.2	-1.1	N.A	N.A	N.A
February	116.8	0.1	21.4	116.2	2.7	20.2	N.A	N.A
March	116.2	-0.6	-2.7	115.6	-0.5	12.9	N.A	N.A
April	115.6	-0.5	-1.9	114.8	-0.7	15.5	N.A	N.A
May	118.8	2.7	6.8	118.9	3.6	20.2	N.A	N.A
June	119.3	0.5	6.8	117.5	-1.2	18.0	N.A	N.A
July	109.6	-8.1	-4.0	113.7	-3.2	8.2	94.0	-6.0
August	109.6	0.2	-0.4	111.6	-1.9	9.1	92.6	-1.5
September	108.0	-1.7	-0.9	112.9	1.1	10.7	93.3	0.8
October	106.6	-1.3	-3.9	110.8	-1.8	8.8	93.5	0.1
November	106.6	0.0	-0.9	111.0	0.2	8.2	92.6	-1.0
December	109.4	2.7	2.6	107.1	-3.5	-6.3	92.3	-1.2

Table 7			
Commercial Banks Operating in Sierra Leone			
Prudential Indicators (Unaudited)			
(In Thousand Leones)			
	31-Dec-02	31-Dec-01	31-Dec-00
1	2	3	4
Total Assets	345,812,089	255,211,407	204,174,307
Average Total Assets	293,340,338	246,928,039	183,557,626
Loans and Advances (Gross)	58,644,559	37,781,904	31,305,453
Bad Debt Provision	(5,598,532)	(5,814,678)	(7,377,146)
Interest in Suspense	(5,366,997)	(5,610,380)	(5,634,968)
Loans and Advances (Net)	47,679,030	26,356,846	18,293,339
Investment - TB, TBB, SLGDS	130,266,205	100,875,613	72,758,622
Fixed Assets	38,755,227	22,591,219	17,061,016
Deposits:-	174,322,932	125,602,199	134,386,643
Demand	102,899,112	72,218,334	55,755,280
Savings	67,674,297	49,757,897	38,989,358
Time	3,749,523	3,625,968	4,653,269
Foreign Deposits	62,162,299	50,807,572	34,988,736
Capital:-	61,263,945	49,956,910	36,450,382
Share Holders' Funds	61,263,945	49,956,910	36,450,382
<i>Paid-up</i>	11,274,746	7,526,939	5,933,628
<i>Statutory and Other Reserves</i>	8,231,882	5,935,379	5,376,384
<i>Retained Earnings</i>	26,258,499	18,087,397	6,91,370
<i>Current Profit</i>	15,498,818	18,407,194	18,239,000
Primary Capital	44,852,686	49,956,910	36,450,382
Revaluation Reserves	6,416,065	5,203,818	5,950,313
Adjusted Capital base	83,364,644	32,249,508	25,199,679
Adjusted Aset Base	172,408,681	142,672,997	102,638,436
Capital Adequacy Ratio	48.35	29.35%	24.55%
Surplus(Shortfall):(%)	33.35	23.36%	18.55%
Surplus(Shortfall):	57,498,295	47,491,730	19,041,373

**Table 7 (Contd.)
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)**

	31-Dec-02	31-Dec-01	31-Dec-00
1	2	3	4
Average Shareholders' Funds	58,840,510	47,392,865	35,033,051
Asset Quality			
Performing Loans	48,610,769	26,819,240	17,902,972
Non-Performing Loans	10,033,790	10,962,663	13,402,481
Loan Loss Provisions	5,598,532	5,814,678	7,377,146
Non-Performing:			
Total Advances	17.11%	27.99%	42.81%
Loans Loss Provisions:			
Non-Performing	55.80%	56.42%	55.04%
Profitability: Pre- Tax Profits	30,594,419	28,753,438	28,434,454
Post Tax Profits	15,498,817	18,666,700	18,239,000
Return on Assets	10.43%	10.46%	15.49%
Return on Equity Funds	33.25%	32.40%	52.06%
Liquidity: Liquid Assets	148,149,858	116,797,451	96,362,617
Cash	10,578,764	9,950,022	6,999,902
Current A/C with BSL	11,117,394	7,262,221	13,543,422
Treasury Bills	115,165,184	91,199,894	67,439,557
Placement with FDHL	7,750,016	7,198,950	6,147,736
Treasury Bearer Bonds	5,972,750	9,355,719	2,232,000
Cash Ratio	52.56%	22.56%	26.85%
Overall Liquidity Ratio	86.38%	95.01%	96.95%
Surplus/(Shortfall): (%)	54.57%	63.35%	65.73%
Surplus/(Shortfall)	95,128,024	77,233,344	65,334,244
Foreign Assets:	58,382,503	47,295,432	40,610,628
Foreign Curr: (Cash)	1,359,493	155,256	1,405,470
Bal. with Other Banks Abroad	57,023,010	47,130,496	39,205,158
Foreign Liabilities:	64,589,673	48,392,784	35,396,706
Foreign Deposits	62,562,561	47,853,875	34,908,988
Foreign Other Liabilities	2,027,112	502,909	487,718
Net Foreign Deposits Assets/(Liabilities)	(6,207,170)	(1,061,352)	5,213,922

During the period under review, shareholders' funds increased by Le11.31 billion from Le 49.96 billion (2001) to Le 61.26 billion (2002) even as paid up capital increased by 49.8% from Le7.5 billion (2001) to Le11.3 billion (2002). This increment in shareholders' fund was due mainly to an increase in retained earnings of Le 8.71 billion (2001) to Le26.26billion (2002) even though there was a drop in current profit by Le2.9 billion from Le18.4 billion to Le15.5 billion.

With effect from January 2002, the banks' started implementing the new Banking Regulations 2001 covering such areas as bank licensing, minimum paid up capital, foreign exchange open position, capital adequacy and local assets ratio.

Capital adequacy, which is now based on risk weighted assets, has a minimum requirement of 15% of which the primary capital shall not be less than 7.5% of the risk-weighted assets. The ratio increased from 29.4% (2001) to 48.4% (2002) and indicates that the banks continue to be highly capitalized with the banking sector's capital base increasing by Le51.1 billion or 158.5% from Le32.3 billion (2001) to Le83.4 billion (2002). Fixed assets, other assets and cash items also registered increases. Gross advances increased from Le37.8 billion (2001) to Le58.6 billion (2002) an increase of 55.3%. The import sector accounted for Le20.5 billion or 34.9% of the advances outstanding at end December 2002. A significant growth of 15.6% was however recorded in advances to the construction sector during the year. Performing advances increased by 81.25% from Le26.82 billion (2001) to Le48.61 billion (2002). The ratio of non-performing loans to total advances dropped from 27.99% (2001) to 17.11% (2002) and loan loss provision for non-performing advances decreased slightly by 0.62% from 56.42% (2001) to 55.8% (2002).

With the opening of branches during the year, banking activities increased, resulting in an increase in pre-tax profits by 6.4% from Le28.6 billion (2001) to Le30.6 billion (2002).

The increase in pretax profits resulted in a slight increase in the Return on Equity (ROE) from 32.40% (2001) to 33.25% (2002) while there was a drop in post-tax profits resulting in the drop in Return on Assets (ROA) from 10.5% (2001) to 10.4% (2002).

There was a reduction in the liquidity position of the banking sector brought about by the bank's increasing their advances to customers. The overall liquidity ratio thus dropped to 86.4 % from 95.0% in 2001 while the cash reserve ratio rose from 22.6% to 52.6%

(b) Licensing of Financial Institutions

The Guaranty Trust Bank Sierra Leone Limited which assumed ownership of First Merchant Bank Sierra Leone Limited was granted license to operate banking business in Sierra Leone on the 1st February 2002 as an independent entity for a period of one year.

License was granted to First International Bank Sierra Leone Limited to commence banking business in Sierra Leone with effect from 31st May 2002 for a period of one year (under the Banking Act 2000). The licenses for Sierra Leone Commercial Bank, Rokel Commercial Bank and the First Discount House were each renewed for 3 years. Standard Chartered Bank reopened its branch at the Wellington Industrial Estate and also in Bo. Approval was granted to Union Trust Bank to open a branch in Bo and an agency at Sanders Street in the West end of Freetown. Sierra Leone Commercial Bank

was also authorized to relocate its branch in Bo from 11 Bojon Street to a new site owned by the bank at 13 Dambara Road.

Creative, Denarius and City Centre Foreign Exchange Bureaux were granted licenses to carry out buying and selling of Foreign Currency under the Other Financial Services Act 2001 for a period of one year each, increasing the total number of registered Foreign Exchange Bureaux to thirty-three in 2002. Afro International Foreign Exchange Bureau also opened branches in Bo and Kenema, while the licenses of the existing Foreign Exchange Bureaux were renewed for a period of one year each.

There was growth in value added for banks and other financial services with the installation of Automated Teller Machines(ATM) at the Sierra Leone Commercial Bank and Rokel Commercial Bank.

(c) Other Financial Institutions

In order to facilitate efficient supervision of Other Financial Institutions operating guidelines were drawn up for the following institutions: -

- ❖ Foreign Exchange Bureaux
- ❖ Investment Banks
- ❖ Savings and Loans Institutions
- ❖ Mortgage Finance Institutions

The guidelines to Foreign Exchange Bureaux and Savings and Loans Institutions have been issued.

(d) Technical Assistance

The Monetary and Exchange Affairs Department of the IMF provided technical assistance during the year. A supervision adviser made four visits to the department, during which staff received training on the four operational manuals currently being used for onsite examinations, accounting, bank monitoring and reporting. Training was also provided on the three proposed regulations/directions.

- Holding equity interest in licensed institutions
- Asset classification
- Internal Control

The manual of on-site examination of banks was revised and upgraded.

Table 8.
Commercial Banks Operating in Sierra Leone and their Branches

Bank	No. of Branches 2001	No. of Branches 2002	Freetown	Bo	Kenema
Sierra Leone Commercial bank	5	5	3	1	1
Rokel Commercial Bank	5	5	3	1	1
Standard Chartered Bank	1	3	2	1	-
Union Trust Bank	2	3	1	1	1
Guaranty Trust Bank	-	2	2	-	-
First International Bank	-	1	1	-	-

3. Open Market Operations

Monetary Policy Objectives for 2002

The objective of monetary policy during the year 2002 was to achieve single digit inflation through the management of the growth of the Bank of Sierra Leone's net domestic assets. Active monetary operations therefore was key to mopping up the excess liquidity generated by the increased bank borrowing of government due mainly to technical delays in receipt of external budgetary support during the year

The shift in government's emphasis from emergency relief to medium term development and growth consequent upon the improved security environment was reflected in government expenditures and significantly determined liquidity trends during the review period. Owing to technical delays in external

budgetary flows during the third quarter of the year, there was substantial recourse to bank borrowing which threatened to subvert the inflationary objective of the Monetary Authorities. Towards the end of the year there was a further surge in liquidity due to increased government expenditures financed mainly from HIPC resources which necessitated active monetary operations in order to contain the inflationary potential.

During the year, a total of Le61.62 billion in outstanding Ways and Means Advances was converted into tradable government securities for monetary operations. Of this, a total of Le47.61 billion or 77.26% was issued in the form of Treasury Bills while the remaining Le14.01 billion or 22.74% were issued in the form of Treasury Bearer Bonds.

Table 9
Stock of Government Securities Outstanding by Holders
(In Million Leones)

	2002	2001	Change
1	2	3	4
A Stock Position			
1 Treasury Bills	187,646.05	139,354.40	48,291.65
Bank of Sierra Leone	33,597.15	30,175.05	3,422.10
Commercial Banks	117,347.40	93,052.90	24,294.50
Non-Bank Public	36,701.50	16,126.45	20,575.05
2. Treasury Bearer Bonds	85,253.55	69,614.35	15,639.20
Bank of Sierra Leone	12,101.25	5,690.85	6,410.40
Commercial Banks	18,411.20	12,809.05	5,602.15
Non-Bank Public	54,741.10	51,114.45	3,626.65
3. Total Government Securities	272,899.60	208,968.75	63,930.85
Bank of Sierra Leone	45,698.40	35,865.90	9,832.50
Commercial Banks	135,758.60	105,861.95	29,896.65
Non-Bank Public	91,442.60	67,240.90	24,201.70

As a result of the excess liquidity situation, interest rate on Treasury Bearer Bonds declined from 20.0% to 18.0% during the year while that on Treasury Bills ranged between 14.0% and 15.0%.

At the end of the period, commercial banks holding accounted for 49.75 percent of government securities while the non-bank public accounted for 33.51 percent of the total outstanding government securities of Le 272.89 bn. The overall performance of the monetary programme during the year 2002 on the economy was satisfactory as the key monetary operating target, reserve money, was comfortably met.

4. Payment Systems

During the period under review, the Bank of Sierra Leone's Payment Systems was reviewed and assessed in terms of its compliance with the Basle Core Principles for Systematically Important Payment Systems. Working towards compliance with the Basle Core Principles was also an important part of the Bank's efforts in preparing for the West African Monetary Union. In this regard, the Cheques Clearing System being the dominant non-cash payment instrument in Sierra Leone was reviewed and a new set of Clearing House Rules was adopted in October 2002. This shortened the period for inter-town clearing from 21 to 14 days. To achieve compliance with the Basle Core Principles for Systematically Important Payment Systems, an action plan for the modernisation of the payment systems is being followed. This includes:-

- (i) Strengthening the internal payment systems capabilities of the Bank of Sierra Leone
- (ii) Establishing a national strategy on payment systems

- (iii) Preparing for the West African Monetary Union.
- (iv) Reviewing of and deciding on a core payment systems, such as a Real Time Gross Settlement System (RTGS) for the country.
- (v) Introducing new payment instruments.

On the regional level, the Bank, in consistence with a request from the West African Monetary Institute (WAMI) set up a National Payments Committee and selected representatives to the WAMZ Zonal Committee. The National Payments Committee is a broad-based Committee with membership not only from the central and commercial banks but also includes Sierra Leone Chamber of Commerce, Insurance Companies, First Discount House and Accountant General's Department. The main objective of the National Payments Committee is to assist the Bank of Sierra Leone evolve strategies for the development, implementation and operation of the Domestic Payment Systems in line with international best practice. Membership to the Zonal Committee is restricted to two, one from the Bank of Sierra Leone and the other representing the Association of Commercial Banks. The main objective of the Zonal Committee is to guide the development, implementation and operation of a cross-border payment systems as well as to co-ordinate the development of the Domestic Payment systems of member countries of the West African Monetary Zone (WAMZ).

An inaugural meeting of the National Payments Committee was held in December 2002 and efforts are being made to get the Committee functioning in line with WAMI objectives.

Upgraded Currency Notes

At the end of December 2002 the Bank of Sierra Leone introduced upgraded Le5,000 and Le2,000 currency notes into circulation. These notes had been upgraded to include new anti-counterfeit and anti-photocopying features. The following are some of the additional visible security features introduced into these currency notes : –

- 1) Above the lion watermark, the inscription ‘BSL’ appears when held up to the light.
- 2) Wider silver security thread with text ‘BSL’ on it.
- 3) Addition of a diamond shaped gold foil on the Le 2,000.00 and Le5,000.00 notes.



It is hoped that with the introduction of these upgraded high denomination notes counterfeiting of the national currency would be minimised.

5. Foreign Exchange Management

(i) Foreign Assets

Bank of Sierra Leone’s Gross Foreign Exchange Reserves fluctuated for most of the year. From a level of US\$51.22mn at end December 2001, the lowest level of US\$33.69mn recorded in 2002 was reached in August. The reserves then moved steadily upwards with a surge in December 2002 to end the year at US\$84.57mn. This represented an increase of 151.02 percent from the level in August 2002 and 64.11 percent from December 2001.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of grants and loans, the bulk of which were realized in quarter four, 2002 with the disbursement of the final tranches of the World Bank Economic Rehabilitation and Recovery Credit (ERRC II) and United Kingdom/Sierra Leone Government Programme Grant. Outflows of foreign reserves were predominantly in respect of payments for goods and services and external debt service to key creditors.

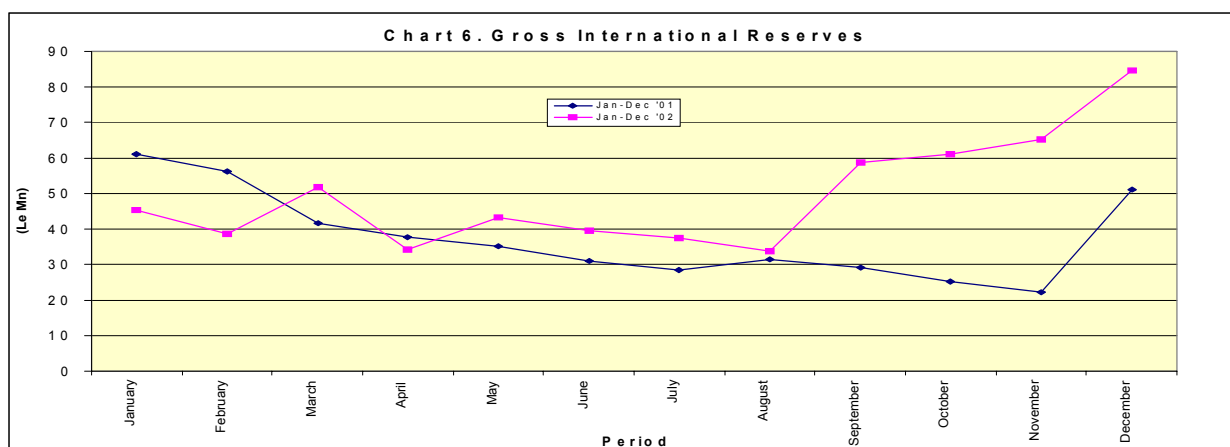


Table 10.
Bank of Sierra Leone Foreign Exchange Cash-flows
(In Million of US\$)

	January-December 2002	January-December 2001
INFLOWS	139.61	136.03
Receipts from exports	1.94	1.43
Diamond License fees	1.09	0.54
Diamond Exporters Income Tax	0.31	0.22
Fishing Royalty/License	0.53	0.67
Others	2.20	2.25
Inspection Fees	0.03	0.06
BSL Purchases of Notes/ T Cheques	0.24	0.04
Transactions with Commercial Banks	4.52	1.60
Privatization receipts	0.02	0.30
Disbursement of loans & grants	128.88	130.34
IMF	36.42	60.44
AFDB	6.37	6.33
UK (DFID)	15.50	14.32
EC (EDF Replenishment)	5.04	3.35
EC-SASP	0.00	15.72
WB ERRC LOAN	28.50	27.50
IDA/World Bank	0.47	0.80
Others/IDB	3.40	1.22
DDR(CAFSL/DFID)	0.63	0.67
HIPC Relief	31.67	0.00

Table 10 (Contd) Bank of Sierra Leone Foreign Exchange Cash flows (in Million Dollars)		
	January-December 2002	January-December 2001
OUTFLOWS	106.39	133.56
<i>Payments for Goods and Services</i>	59.80	45.66
Embassy/Missions	7.29	6.65
BSL	2.77	1.13
Printing of Currency	0.68	1.35
Government Travel	1.25	1.22
Other Government	10.37	4.00
Subscription to Intl. Organisations	1.34	1.35
Military Payments	1.30	2.12
Private Sector Support	34.82	26.89
ECOWAS T-Cheques	0.00	0.65
<i>Debt Service</i>	46.59	87.90
IMF	32.51	79.82
World Bank	3.12	4.96
AFDB	2.01	2.34
IFAD	0.78	0.00
EEC/EIB	1.81	0.00
Other Multilateral & Bilateral	1.50	0.36
Paris Club Creditors	0.10	0.00
Other Commercial Creditors	3.60	0.00
Clearing of Arrears	1.16	0.42

During the period under review, total inflows slightly increased by 2.63 per cent or US\$3.58mn from US\$136.03mn in 2001 to US\$139.61mn in 2002. This increase was mainly due to the increase in foreign exchange purchased from commercial banks while receipts from disbursements of loans and grants decreased by 1.12 percent. The key disbursements included UK/Sierra Leone Programme Grant for balance of payments and budgetary support of US\$15.50mn (GBP10.00mn), World Bank Economic Rehabilitation and Recovery Credit (ERRCII) of US\$28.50mn, Poverty Reduction and Growth Facility (PRGF) Assistance from the IMF of US\$36.42mn (SDR28.00mn), HIPC relief of US\$ 31.67mn and IDA/World Bank disbursement of US\$0.47mn (to finance IDA related projects in the country). Receipts realized from other donors were mainly from the European Development Fund (EDF Replenishment) of US\$5.04mn for funding EC projects operating in the country, DFID/ERT Reintegration Project funds of US\$0.63mn to support the DDR Programme and Islamic Development Bank project funds disbursed under the Integrated Rural Development Project (IDB-IRDP) of US\$2.51mn.

Total official receipts from exports increased by 35.76 per cent from US\$1.43mn in 2001 to US\$1.94mn by 2002. As shown in Table 10, the improvement emanated from two sources; Diamond License Fees and Diamond Exporters Income Tax. Diamond Exporters Income Tax was more than twice that realized in 2001. Fishing Royalty/License receipts however declined by 20.90 per cent, from US\$0.67mn in 2001 to US\$0.53mn in 2002.

Total foreign exchange outflows at US\$106.39mn in 2002 were lower when compared to US\$133.56mn recorded in the previous year. Of

that total, 56.21 per cent or US\$59.80mn was in respect of goods and services and 43.79 per cent or US\$46.59mn for debt service payments. Out of the total payment of US\$59.80mn made for goods and services, 58.23 per cent was in respect of foreign exchange provided to the private sector through the weekly foreign exchange auction. This was to complement the existing sources of foreign exchange in the banking system for essential imports as rice, petroleum products and raw materials for manufacturing.

(ii) Investment Activities

A total of US\$1.08mn was earned out of an average deposit of US\$40.00mn invested in 2002. In 2001, an average deposit of US\$30.00mn invested yielded US\$1.22mn. The decrease in earnings was due to the late disbursements of programmed donor funds particularly in the first two quarters, coupled with low global interest rates. This situation resulted in low level of reserves for investment at very low rates as most of the available funds were utilized to meet recurrent payments including funding the foreign exchange auction. Earnings for the review period were 11.48 per cent lower than those for 2001 and the returns on investment for 2001 and 2002 were 4.0 per cent and 3.08 per cent respectively.

(iii) Foreign Currency Management

The Bank of Sierra Leone's policy objective for currency management continues to be the holding of reserves in currencies to match transaction needs with debt service payments and private sector support being the most significant. Table 11 shows holdings of currencies by the Bank of Sierra Leone as at end December, 2002 (47.97 per cent was held in United States Dollars, 20.21 per cent in Pound Sterling, 28.91 per cent in SDR 2.82 per cent in Euro and 0.09 per cent in Japanese Yen).

(iv) Foreign Exchange Market**(a) Overview**

The Bank of Sierra Leone's weekly Foreign Exchange Auction, introduced in February 2000, continued to contribute significantly to the stability of the foreign exchange market through increased competition and transparency. These developments were reflected in the narrowing of the divergences in the exchange rates in the market. The Leone exchange rate against the U.S. Dollar remained broadly stable though with a downward trend.

(b) Volume of Transactions

Aggregate purchases and sales from the records of commercial banks and foreign exchange bureaux indicated increases of 21.77% and 25.13% over the previous period from US\$115.57 million and US\$119.88 million in 2001 to US\$ 140.73 million and US\$ 149.89 million in 2002 respectively. The volume of transactions reported in each quarter of the current year was above that of the corresponding quarter in the year 2001. The increase in the volume of transactions reflected the increase in economic activities and confidence in the real sector.

	December 2001	%	December 2002	%
Currency				
US Dollars	34.28	80.31	39.75	47.97
Pound Sterling	7.76	18.18	16.75	20.21
Deutsche Mark	0.17	0.39	0.00	0.00
Swiss Francs	0.00	0.00	0.00	0.00
Euro	0.30	0.70	2.34	2.82
Dutch Guilders	0.00	0.00	0.00	0.00
Japanese Yen	0.07	0.16	0.07	0.09
Holdings of SDR	0.11	0.26	23.96	28.91
Total Balance	42.68	100.00	82.87	100.00
Donor Funds				
US Dollars	0.24	100.00	1.26	100.00
Balance	0.24	100.00	6.84	100.00

(v) Foreign Exchange Bureaux

The Foreign Exchange Bureaux continued to complement the activities of commercial banks by providing the public with access to services, and enabling small businesses to obtain necessary foreign exchange to facilitate trade in the West African sub-region. They have also been effective in mobilising personal funds, which could have found their way into the parallel market.

Aggregate purchases and sales of bureaux for the review period increased by 38.04% and 51.06% from US\$9.84 million and US\$9.87 million to US\$13.59 million and US\$14.91 million respectively.

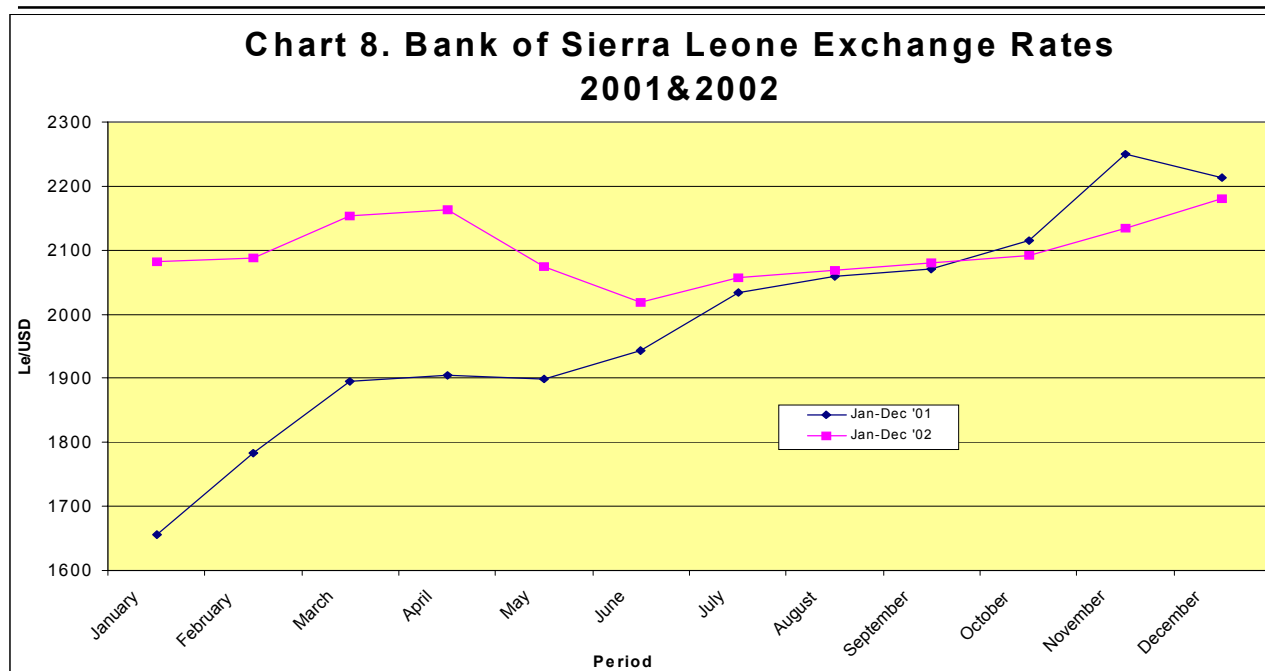
(vi) Foreign Exchange Auction System

The weekly foreign exchange Auction continued as a mechanism by the Bank of Sierra Leone to supplement the supply of foreign exchange to the market in a competitive, transparent and efficient manner.

Throughout the period, there has been a high demand for auction funds, which was reflected in excess demand over supply and the gradual depreciation of the auction rate. A total of 50 foreign exchange auction sessions were conducted. The total amount offered was US\$36.90 million with US\$31.55 in the competitive window and US\$5.35 in the non-competitive window. Actual overall sales amounted to US\$34.86 million. The difference of

Table 12.
Purchases and Sales of Foreign Currency
for the Period January 1, 2002 - December 31, 2002
(in Million of US Dollars)

	2002						
	Q1 Jan-Mar	Q2 Apr-June	Q3 Jul-Sept	Q4 Oct-Dec	Total	Total (2001)	% Change
1	2	3	4	5	6	7	8
A Purchase							
Commercial Banks	30.30	27.97	33.44	35.44	127.15	105.72	21.43
Foreign Exchange Bureaux	3.34	3.80	3.12	3.32	13.58	9.84	3.74
Total	33.64	31.77	36.56	38.76	140.73	115.56	25.17
B. Sales							
Commercial Banks	33.36	30.70	37.30	33.62	134.98	109.91	25.07
Foreign Exchange Bureaux	4.02	3.70	3.05	4.14	14.91	9.87	5.04
Total	37.38	34.40	40.35	37.76	149.89	119.78	30.11
	Official Average Exchange Rates						
	Q1	Q2	Q3	Q4			
Buy	2,086.70	2,064.60	2,047.85	2,113.73			
Sell	2,128.85	2,106.10	2,089.40	2,159.43			



US\$2.04 million in amount sold relative to amount offered was due to the low utilisation of funds in the non-competitive window.

On a sectoral basis, commercial banks' share of the total amount sold in the auction was US\$5.80 million or 16.63%, oil companies US\$1.79 million or 5.15%, Industry US\$5.63 million or 16.16% and general imports US\$21.63 million or 62.07%. Funds won by banks were for on-selling to their customers.

The period under review also witnessed the continued sale of foreign exchange to the Auction by Non-Governmental Organisations. The foreign exchange offered for sale at the Auction was bought at the auction rate struck on the day of the Auction. Foreign Exchange sold to the Auction for the period

under review totalled US\$0.68 million, whilst that sold in 2001 was US\$0.51 million.

The Auction rate decreased to its lowest level of Le 2032.85 on 22nd May, 2002 and increased to its highest level on 18th December, 2002 at Le 2368.00.

The Foreign Exchange Auction rate has continued to be regarded as the reference rate for the pricing of all foreign exchange transactions. Banks and foreign exchange bureaux closely monitor the weekly auction rate in fixing their rates.

6. External Debt Management

(i) An Overview

As at end December 2002, Sierra Leone's total disbursed and outstanding official medium and long-term debt, including principal arrears stood at US\$ 1,467.9 million. The total stock of debt continued

Table 13
Principal and Interest Arrears as at End December 2002
(In Millions of US Dollars)

	December 2001		December 2002	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total Arrears	313.5	16.0	287.4	7.6
Total Commercial Obligations & Short-Term Debt 1/	250.0	-	230.2	-
Total Long-Term Debt, of which:	63.5	16.0	57.2	7.6
Multilateral	15.3	3.1	9.5	0.8
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others	15.3	3.1	9.5	0.8
Official Bilateral	26.0	3.6	27.2	3.3
Paris Club	-	-	1.6	1.8
Others 2/	26.0	3.6	25.6	1.5
Other Creditors	22.2	9.3	20.5	3.5
Executive Outcomes	19.5	9.3	19.0	3.5
J. S Franklyn Ltd & Deftech BV Corp.	2.3	-	1.1	-
Chatelet Investment Ltd	0.4	-	0.4	-

1/ Amount updated to include both validated and non-validated commercial arrears as at April 2001
2/ China, Morocco, Kuwait & Saudi Fund

to be dominated by debts owed to multilateral and bilateral creditors, accounting for 56.4% and 26.5% of the total respectively. Other debts like military debts accounted for 1.4% while the residual of 15.7% is owed to commercial creditors. This classification is shown on Table 14. The principal multilateral creditors are the World Bank, the International Monetary Fund (IMF) and the African Development Fund (ADF).

Table 13 shows the stock of principal and interest arrears owed to all creditors. A total of US\$ 287.4 million of the stock of disbursed outstanding debt represented principal arrears owed mainly to the commercial and other creditors. Interest arrears amounted to US\$ 7.6 million of which US\$3.3million is owed to official bilateral creditors.

(ii) Major Developments

- ❖ During the period under review, the Government of Sierra Leone continued to make timely debt service payments to the key multilateral creditors; the World Bank, the International Monetary Fund (IMF) and the African Development Fund (ADF) and to other external creditors for which an agreement has been reached for the settlement of arrears.
- ❖ Sierra Leone reached its decision point under the HIPC Initiative in March 2002. In this regard, the key multilateral creditors namely the IDA, IMF and ADF commenced frontloading of interim relief to Sierra Leone. Total debt relief granted for the period amounted to US\$ 35.83mn. Of this amount, US\$ 31.67mn was received as cash inflows from the IMF (US\$30.52mn) and World Bank (US\$1.15mn). The residual of US\$ 4.16mn was in the form of foreign exchange savings on the debt service payments due from the World Bank (US\$2.93mn) and the ADF (US\$1.23mn) respectively.
- ❖ In March 2002, Sierra Leone signed bilateral agreements with the Governments of France, Belgium, Germany, Austria, United Kingdom, Netherlands, Norway and Italy for the implementation of the P-VIII agreed minute of October 2001 in which arrears as at September 2001 and maturities falling due from October 2001 to September 2004 were rescheduled under Naples terms.
- ❖ On July 10, 2002, Paris Club creditors agreed to grant Sierra Leone interim relief under Cologne terms (top up of 90% debt reduction) in which the P-VIII agreed minute of October 2001 was amended to reflect the interim relief on maturities falling due from March 2002 to September 2004. To this end, the Governments of Germany, Italy and Norway granted Sierra Leone 100% relief on eligible debts falling due during the interim period.
- ❖ During the period under review, a total amount of US\$ 91.4mn was disbursed from external creditors. Of this amount, US\$ 37.92 mn was from the World Bank, US\$ 36.4mn from IMF, US\$ 13.62mn from ADF and the residual of US\$ 3.46mn was from Kuwait Fund, BADEA and IDB under various projects.

Table 14
Stock of Sierra Leone's Disbursed Outstanding Debt and
Debt Indicators. (Incl. Principal Arrears) (In Millions of US Dollars)

	2001 December	Per cent of Total	2002 December	Per cent of Total
Bilateral:				
Paris Club Creditors	302.1	21.8	325.8	22.2
Other Bilateral	59.3	4.3	62.6	4.3
Total Bilateral	361.4	26.1	388.4	26.5
Multilateral				
African Development Bank/Fund	119.4	8.6	438.6	26.5
World Bank (IBRD/IDA)	378.1	27.3	174.8	11.9
International Monetary Fund	175.8	12.7	129.4	8.8
Other Multilateral	77.2	5.6	85.6	5.8
Total Multilateral	750.5	54.2	828.4	56.4
Other Creditors	22.2	1.6	21.0	1.4
Commercial and Short-Term Debt	250.0	18.1	230.1	15.7
Grand Total	1,384.1	100.0	1,467.9	100.0
	2001		2002	
Debt Indicators (US\$Mn)				
Debt Service Payment due	64.5		53.1	
Debt service payment made	86.8		46.4	
Exports	28.9		48.7	
Gross Domestic Product	759.4		790.2	
Debt Ratios				
Stock of Debt as a percentage of Gross Domestic Product	182.3		185.8	
Stock of Debt as a percentage of Export	4,792.6		3,014.2	
Debt Service as a percentage of Export	300.6		95.3	
Multilateral Debt as a percentage of Stock of Debt	54.2		56.4	
Bilateral Debt as a percentage of Stock of Debt	26.1		26.5	
Debt Service Payments Made (in millions of US Dollars)				
	2001		2002	
Bilateral:				
Paris Club Creditors	0.00		0.09	
Other Bilateral	0.29		0.98	
Multilateral				
African Development Bank/Fund	2.34		2.01	
HIPC foreign exchange savings on debt service	0.00		1.23	
World Bank (IBRD/IDA)	4.97		3.13	
HIPC foreign exchange savings on debt service	0.00		4.10	
International Monetary Fund	78.78		32.35	
of which: HIPC debt relief	0.00		30.40	
Other Multilateral	0.43		4.31	
Other Commercial/Military Debts	0.00		3.50	
Total	86.81		46.37	

Table. 15						
Disbursed Outstanding Debt, including Principal Arrears as at End December 2002						
Classified by Currency of Liability (Amounts In Thousands)						
	End Dec-2001			End Dec-2002		
	Debt in Forr. Currency	Total debt in Le.	Percent of total	Debt in Forr. Currency	Total debt in Le.	Percent of total
1	2	3	4	5	6	7
Currency						
Austrian Shillings	9,829	1,384,955	0.06	-	-	0.00
Belgian francs	797,227	38,322,720	1.55	-	-	0.00
Canadian Dollars	1,370	1,875,568	0.08	1,324	1,837,981	0.07
Swiss Francs	40,017	52,872,812	2.14	39,721	62,562,672	2.23
Chinese Yuan	181,917	47,367,652	1.92	183,447	48,582,372	1.74
Deutsche Marks	68,814	68,226,032	2.76	-	-	0.00
Danish Kroner	363	94,599	0.00	350	108,181	0.00
EURO	5,492	10,652,196	0.43	180,778	414,693,885	14.81
French Francs	205,812	60,842,240	2.46	-	-	0.00
British Pounds	6,345	19,833,920	0.80	6,584	23,137,742	0.83
Italian Lira	71,006,000	71,005,616	2.87	-	-	0.00
Japanese Yen	10,309,000	173,295,616	7.01	10,000,000	185,100,000	6.61
Kuwaiti Dinar	4,284	30,228,986	1.22	4,544	35,822,400	1.28
Dutch Guilder	64,417	56,682,084	2.29	-	-	0.00
Norwegian Kroner	81,908	19,862,796	0.80	86,064	27,141,164	0.97
Saudi Riyal	3,997	2,303,998	0.09	4,875	3,129,380	0.11
Swedish Kroner	2,864	584,642	0.02	2,759	691,101	0.02
United States Dollar	226,887	490,363,712	19.85	260,538	571,028,288	20.40
Special Drawing Rights	457,014	1,236,858,119	50.06	463,988	1,363,744,249	48.72
European Currency Units	44,364	86,051,928	3.48	24,707	56,676,944	2.02
Islamic Dinar	677	1,828,352	0.07	1,733	5,094,551	0.18
Total		2,470,538,543	100.00		2,799,350,910	100.00

(iii) External Debt by Creditor Category

Sierra Leone's stock of disbursed outstanding debt including principal arrears to all external creditors stood at US\$ 1,467.9 million as at end December 2002 as compared to US\$ 1,384.1 million as at end December 2001. This is shown in Table 14. The increase was as a result of disbursements made on existing and new borrowings mainly from the principal multilateral creditors during the period under review.

The increase in the disbursed outstanding debt to the Paris Club creditors was due to the rescheduling of current maturities, which led to the capitalisation of interest falling due during the review period.

(iv) Foreign Currency Composition

Table 15 shows the currency composition of Sierra Leone's Disbursed Outstanding Debt including principal arrears. It shows the amount of debt classified by the currency of liability and the Leone equivalent. The Special Drawing Rights and the United States Dollars continue to be the major currencies that dominate Sierra Leone's debt. They account for 48.72% and 20.4% respectively as at end December 2002. Loans from IMF and IDA are mainly denominated in SDRs, which accounted for the high percentage of the total debt. As could be seen from the table, all debts in the Euro currency zone have been converted to reflect the amounts in EURO thereby resulting in the EURO being the third major currency and accounting for 14.8% of Sierra Leone's debt. The total debt in Leones increased from Le 2,470,538,543mn in 2001 to Le 2,799,350,910mn in 2002. This was as a result of the depreciation of the Leone against the other currencies.

(v) Debt Indicators, Debt Ratios and Debt Service

Table 14 also shows the debt indicators and debt ratios for the period ended December 2001 and 2002. Debt service payments decreased from US\$ 86.8 million in 2001 to US\$ 46.4 million in 2002. This decrease was a result of the interim debt relief granted by the multilateral creditors during the review period. It should also be noted that the high principal repayments made in 2001 was due to the refinancing of the Post Conflict Facility loan of the IMF. Debt service to export ratio also decreased from 300% to 95.3% as a result of the significant increase in exports as against the decrease in the debt service payments. The stock of debt as a percentage of GDP increased slightly in 2002 due to the increase in the stock of debt.

As Sierra Leone has now reached the decision point under the HIPC Initiative, its key focus is to be current in debt service payments to all creditors. Every effort is being made towards this end and for commercial debts that are currently in arrears; negotiations are underway for these debts to have comparable treatment as that of the Paris Club.

7. Status of Convergence- West African Monetary Zone

The main objectives of the ECOWAS Monetary Cooperation Programme adopted in 1987 was to integrate the economies in the West African region through the adoption of trade liberalisation measures and the adjustment of exchange rates, fiscal and monetary imbalances to acceptable level thus setting the platform for a harmonized system for the introduction of the single currency

The drive towards economic integration in West Africa took an accelerated pace in the 1990s, and with the success of the European Union achieving its objectives of the single currency in 1999, regional integration in West Africa gained further momentum. Two developments were clearly evident on the path to integration. First was the decision of the West African Monetary Union (UMOA) countries (i.e. countries in West Africa using the CFA) to foster greater integration of their economies through the formation of the West African Economic and Monetary Union (UEMOA) in 1994. The second significant development towards sub-regional integration was the decision by Non-UEMOA countries namely, Nigeria, Ghana, Guinea, The Gambia, Liberia and Sierra Leone, to establish a Fast Track approach to monetary integration through the formation of a Second Monetary Zone.

The Accra Declaration of April 2000 established this zone, the West African Monetary Zone (WAMZ). At the Bamako ECOWAS summit of Heads of State and Governments on December 15, 2000, the statutes and agreements establishing the West African Monetary Zone (WAMZ) were signed. The West African Monetary Institute (WAMI) was inaugurated in January 2001 to undertake preparatory work for the setting up of a West African Central Bank and the introduction of single currency by early 2003. The primary objectives of the Second Monetary Zone are to ensure price stability, sound fiscal and monetary conditions and sustainable balance of payments for member countries. This was expected to lead to a monetary union in 2003 and the eventual merger with UEMOA by the target date of 2004 in line with the timetable of the ECOWAS Monetary Cooperation Programme (EMCP).

In furtherance of this, the WAMZ countries adopted a set of convergence criteria, compliance with which will qualify countries for inclusion in the monetary union. The four primary criteria, which are broadly in line with those of the UEMOA, were: –

- *An inflation rate of five per cent by 2003;*
- *A budget deficit/GDP ratio of less than four per cent by 2002;*
- *Gross reserves greater than or equal to six (6) months of imports by 2003;*
- *Central bank financing of budget deficit limited to ten per cent of previous year's tax revenue by 2003.*

A set of secondary criteria was designed to sustain the primary criteria and facilitate the achievement of the convergence targets. They include:

- *Prohibition of new domestic arrears and liquidation of all existing ones;*
- *Tax revenue to be equal to or more than twenty per cent;*
- *Wage bill/tax revenue to be equal to or less than thirty five per cent;*
- *Maintenance of real exchange rate stability and positive real exchange rate.*

At the WAMZ meetings held in Accra, Ghana from June 17 – 21, 2002 it became clearly evident that though substantial progress can be seen in terms of institutional design and other policy frameworks and arrangement, there was lack of consistent progress towards macroeconomic convergence.

Chief among the problems facing member states to meet the convergence criteria is the issue of fiscal dominance. Other issues include: –

- a) Improvement of the payments system in the zone
- b) The problem of data harmonisation and definition of concepts
- c) The harmonisation of duties and tariffs among all ECOWAS states
- d) Adequate funding of the programmes of the National Sensitisation Committee
- e) Contribution to the Stabilization and Co-operation Fund

In the light of these developments the Authority of Heads of State and Government agreed in November 2002 in Conakry with recommendations made by the Technical Committee, Committee of Governors and the Convergence Council of Ministers and Governors to extend the timeframe from January 2003 to July 1, 2005.

Performance with regards to the WAMZ Convergence Criteria can be summarized as follows: –

WAMZ CRITERIA	Performance		
	2000	2001	2002
Primary Criteria			
Budget deficit excluding grants/GDP (commitment base) less than or equal to 4 percent	17.3%	16.9%	16.8%
Inflation rate less than or equal to 5percent	-2.8%	3.4%	-3.1%
Central Bank advances to government less than or equal to 10 percent of previous year's tax revenue	32.7%	9.2%	0%
Gross reserves greater than or equal to 6months of imports of goods and services	2.8 months	2.1 months	2.5 months
Secondary Criteria			
Arrears: prohibition of new domestic arrears and liquidation of previous arrears	N/A	N/A	Le21.4bn
Tax revenue/ GDP ratio greater than or equal to 20 percent	10.8%	13.4%	13.7%
Wagebill/tax revenue ratio less than or equal to 35percent	62%	56.1%	61.9%
Public capital expenditure finances from domestic resources/tax revenue ratio greater than or equal to 20percent	4.4%	6.7%	8.9%
Stability of real exchange rate	Relatively stable	Relatively stable	Relatively stable
Real interest rate greater than 0	9.3%	1.3%	8.1%

Sierra Leone met only two primary and two secondary criteria in 2002. Inflation has been consistently maintained within the WAMZ target over the 3 year period 2000–2002. Central bank advances to government was within target in 2001 and 2002 while budget deficit as a percentage of GDP and Gross Reserves fell short of the targets throughout the period 2000 – 2002. Though Sierra Leone has not been able to satisfy all the performance criteria, progress, though slow has been consistent. Low domestic revenue mobilization has been the major factor responsible for this slow progress towards convergence.

The strain on fiscal management has been the major obstacle on overall performance regarding the secondary criteria during the review period. Only the exchange rate and interest rate targets were met. The wage bill continued to be high accounting for more than 50 per cent of the of the tax revenue. The paucity of domestic revenue affected the level of domestically financed investment while domestic arrears remained a problem throughout the period and Tax revenue/GDP ratio remains below the WAMZ minimum.

8. Human Resource Development

The Bank continues in its efforts to achieve the optimal utilization of the available human resources in order to achieve its corporate objective. There has been an expansion of the Central Bank's responsibilities emanating from recent developments in the financial sector especially in the area of supervision of other financial institutions and support to private sector development. Also, with the improvement in security, commercial banks have recommenced operations in the provincial towns. Community Banks, (formerly Rural Banks) are also being resuscitated in these areas.

As a result, the staff complement increased from 467 at the end of year 2001 to 521 at the end of year 2002. The bulk of new staff are in the professional category, i.e. graduates recruited at Banking Officer level. The Bank has experienced the highest rate of turnover in this category, which necessitated additional recruitment. The current staff strength comprises the following categories –

Table 16									
Human Resource Statistics									
	2000			2001			2002		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of staff as at December 31	334	111	445	326	129	455	383	138	521
<i>of which</i>									
Management	3	4	7	4	4	8	3	4	7
Professionals	118	44	162	109	48	157	141	48	189
Sub-professionals	93	61	154	98	75	173	114	80	194
Others	120	2	122	115	2	117	125	6	131

During the period under review, 91 staff were recruited while 35 staff severed from the Bank for the following reasons: –

Resigned	–	9
Retired	–	12
Voluntary retirement	–	3
Vacated	–	2
Terminated	–	6
End of Contract	–	1
Died	–	2

Total **35**

Staff Development

The Training activities of the Bank that were part of the duties of a section in the Human Resources department were separated and transferred to a new stand-alone division during the review period. In addition Computer and French Laboratories were established to foster training programmes bank wide. These were deliberate proactive stances towards building capacity in areas where special skills are needed.

Meanwhile the Bank continues to take advantage of short term training both local and overseas in specialised areas where there are gaps in skills related to the Bank's activities.

Overseas Training Included:

(i) Degree programs

Name of Programme	Number Started	Number Pursuing	Number Completed
Masters in Economic Management	-	5	3

(ii) Long/Short Courses

Central Banking Publications Limited

- Change Management in a Central Banking/Regulatory Agency

ELC International

- Computer Aided Auditing Course

Association of African Development & Finance Institutions

- Knowledge and Skills Building Workshop for Senior Secretaries, Special and Personal Assistant to CEO's in African Banking and Finance Institutions

International Monetary Fund

- Monetary & Financial Statistics Course
- Course on Financial Programming & Policies

Joint African Institute (JAI)

- Course on Financial Programming & Policies

Continental Centre for Management Development

- Training of Trainers Course

West African Institute For Financial and Economic Management (WAIFEM)

- Regional Course on Macro-Economic Modelling Forecasting & Policy Analysis
- Regional Workshop on Inter-Bank Foreign Exchange Market
- Workshop on Middle & Banking Officers Functions in Reserves Management
- Course on Balance of Payment Compilation & Analysis

- Course on Techniques of Economic Analysis
- Regional Workshop on Money Laundering & Financial Crimes
- Regional Course on Banking Supervision

WAIFEM/Debt Relief International (DRI)

- Regional Workshop on Domestic Debt Strategy
- Regional Workshop on External Assistance & Management

WAIFEM/COSMEC

- Regional Workshop on CS-DRMS 200+

Bank of England

- Course on Financial Management Accounting in a Central Bank

(ii) Local training centred mainly on In-Service Training conducted at the Auditorium of the Sam Bangura Building and the Staff Complex. 27 (twenty-seven) In-service courses were conducted as follows:

√	Transfer of Knowledge Seminars	-	24
√	Courses conducted by WAIFEM	-	3

(ii) In-house Training

Training also included these mandatory courses for potential managers:

- ◆ Course on Accounts & Budgeting
- ◆ Central Banking Course
- ◆ Communication & Managerial Skills Course

Local Training

The Bank also sponsored staff through local tuition to pursue both professional and degree courses listed below: –

Name of Programme	Number Started	Number Pursuing	Number Completed
Association of Chartered Certified Accountants (ACCA)	-	3	-
Bachelor of Science in Financial Services		5	1
Bachelor of Education Programme	-	2	-
Post-Graduate Diploma in Business Administration		1	3
Masters in Development Studies		-	2
Diploma in Administration/Personal Assistant/Secretarial Duties	-	-	1

Management of the Bank including Independent Units

Governor	–	Mr. J. Sanpha Koroma
Deputy Governor	–	Mr. G. Melvin Tucker

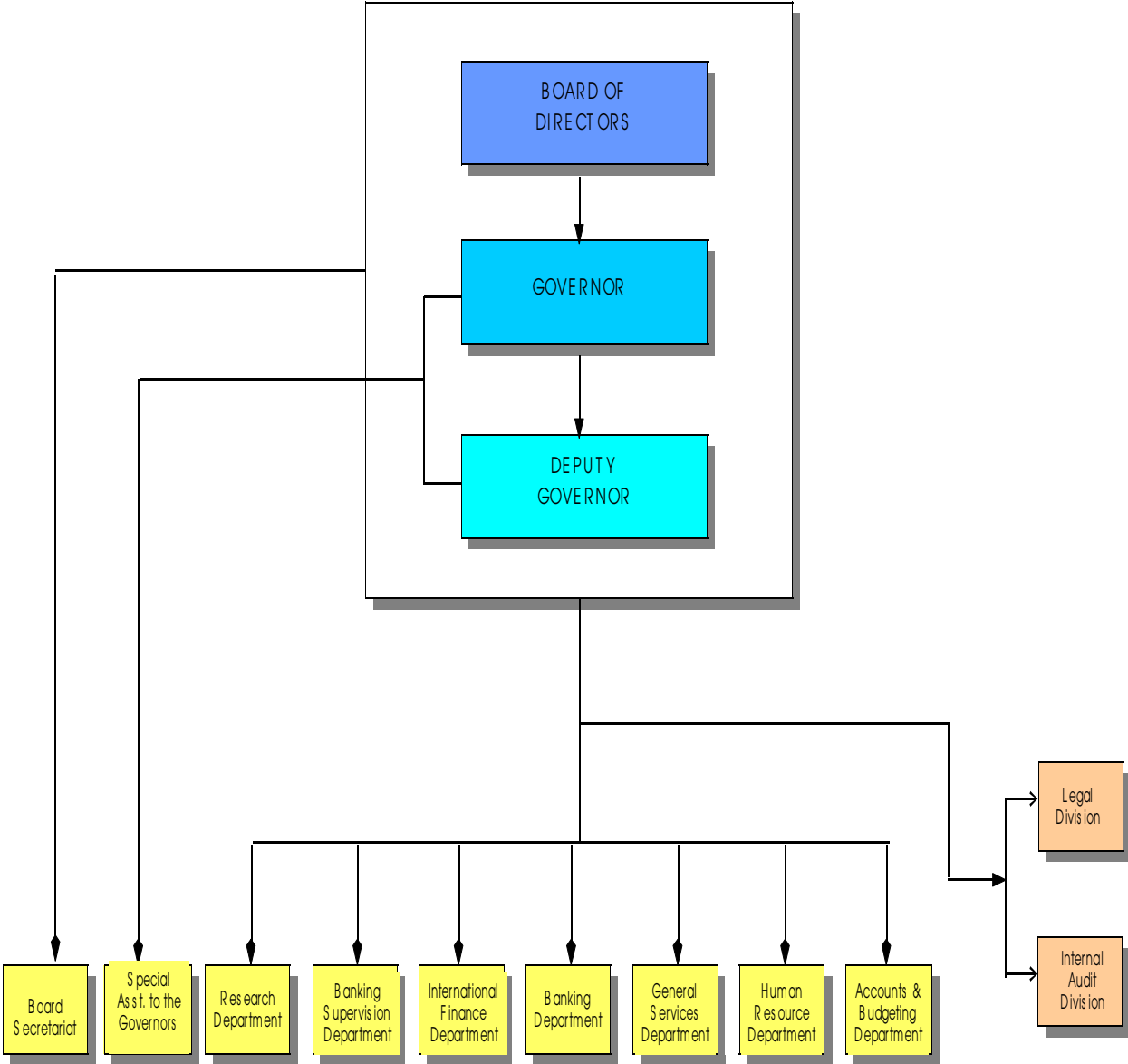
Directors

Secretary to the Board	–	Mr. Kaifen S. T. Kallay
Director, Research	–	Ms Andrina R Coker
Director, International Finance	–	Mr Francis B Roberts
Chief Accountant	–	Mrs Khadi R Saccoh
Director, Human Resources	–	Haja Ajaratu A M Mahdi
Director, Banking Supervision	–	Ms Yeabu M D Kamara
Director, Banking	–	Mr Ibrahim K Lamin
Director, Special Duties	–	Mr Sidique A B Sesay
Ag. Director General Services	–	Mrs. Grace Hassan

Heads of Unit

Internal Auditor	–	Mr. Ralph Ansumana
Division Head, Legal Unit	–	Vacant

Bank of Sierra Leone Organisational Structure



FINANCIAL POSITION AND OPERATING RESULTS OF THE BANK FOR THE YEAR ENDED 31ST DECEMBER, 2002

As at 31st December, 2002 the total Assets and Liabilities of the Bank amounted to Le1,230.25 billion. This represents a rise of 9.63 percent over the total value of Assets and Liabilities of Le1,122.22 billion recorded as at 31st December, 2001, and indicate a further improvement in the Bank's performance over prior years. The major change was the increase in Foreign Currency Financial Assets and Liabilities especially the increase in International Monetary Fund (IMF) Special Drawing Rights and Quota Subscription Accounts and other foreign financial liabilities inclusive of IMF Securities.

The Bank's holdings of Treasury and other eligible bills at Le44.95 billion represent an increase of 27.51 percent over last year's holdings. This was occasioned by the tight liquidity position during the period.

The rise in property, plant and equipment was 13.90% and was mainly reflective of the continued rehabilitation to properties and the acquisition of more equipment and facilities, which are necessary for the Bank's operations.

As the improvement in the economy continues, lending to Government declined by 6.58 percent from Le79.51 billion as at 31st December, 2001 to Le74.28 billion as at 31st December, 2002.

Cash and cash equivalents denominated in foreign currencies increased by 23.32 percent mainly due to the receipt of US\$23 million under the Economic Rehabilitation and Recovery Credit (ERRC-2) towards the end of the period.

There was a significant drop (63.88 percent) in the Bank's Capital and Reserves (liabilities) during the period due to revaluation losses.

Local currency Financial Liabilities moved up by 84.38 percent mainly as a result of huge increases in deposits.

The Revaluation Reserve Account which is reflective of the net of translation of foreign assets and liabilities recorded a net debit balance of Le44.69 billion as the total foreign financial liabilities of Le794.92 billion exceeded the total foreign currency financial assets of Le492.74 billion by 60.92 percent. The debit balance in this account will be treated in accordance with Section 54 (3) and (4) of the Bank of Sierra Leone Act, 2000.

Total income from financial assets was Le28.75 billion, with the bulk (92.41 percent) of it accruing from Local Currency Assets. Interest receipts on Ways and Means Advances to Government was the most significant, contributing 71.08 percent of total income. Interest income from local investments rose by 144.26 percent consequent upon a corresponding increase in the Bank's holdings of Government Securities during the period.

Interest income from foreign currency assets however fell by 21.79 percent from Le2.79 billion in 2001 to Le2.18 billion in 2002 due mainly to the decline in interest rates, a reflection of the global trend after the September 11, 2001 incident, and the fact that significant disbursements like the World Bank ERRC 11 (US\$22.08 million) and UK/DFID

(£10 million) were only realised in quarter four of the period. Interest receipts from the Bank's Pound Sterling and US Dollars investment portfolios constituted the bulk (78.69 percent) of this income. Net interest income was Le27.70 billion representing an increase of 65.27 percent over last year's net position. This was mainly due to the significant drop (81.09 percent) in charges paid to the IMF for use of its resources during the period.

Operating expenses amounting to Le15.99 billion was 17.80 percent higher than costs incurred during year 2001. Of this, personnel costs which constituted 49.30 percent of total expenses rose by 41.37 percent mainly as a result of an increase in

the number of staff employed and percentage increases in salaries and related allowances. Administrative expenses, which represented 27.11 percent of total operating expenses, also rose by 21.88 percent mainly due to increases in related costs. The cost of writing-down the Bank's Fixed Assets decreased by 35.05 percent during the period to Le1.54 billion as a result of the change in the Bank's depreciation policy.

The resultant profit of Le12.42 billion for the period was allocated in accordance with the provisions of Section 11 of the Bank of Sierra Leone Act, 2000.

Accounts & Budgeting Department

Board of Directors, Officials and Registered Office

Directors	:	Mr. J. Sanpha Koroma - Governor Mr. G. Melvin Tucker - Deputy Governor Mr. Maigore Kallon Dr. I.B. Peters Mrs Mariatu Mahdi Dr. Morie K. Manyeh Dr. M.B. Yilla
Secretary to the Board	:	Mr. K S T Kallay
Chief Accountant	:	Mrs. K R Saccoh
Solicitors	:	Renner-Thomas & Co. Adele Chambers Africanus House 13A Howe Street Freetown.
Auditors	:	KPMG Chartered Accountants Bicentenary House 17 Wallace Johnson Street Freetown.
Registered Office	:	Siaka Stevens Street Freetown.

Report of the Directors

The Directors have pleasure in submitting their report to the Government of Sierra Leone together with the audited financial statements for the year ended 31 December 2002.

Statement of Directors Responsibilities

The Bank of Sierra Leone Act requires the Directors of the Bank to prepare and forward to the Minister of Finance, Financial Statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the Profit or Loss for the year then ended.

In preparing these Financial Statements, the Directors are required to: –

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;

The Directors are responsible for keeping proper records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the Financial Statements comply with the Bank of Sierra Leone Act 2000. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share Capital

Details of the Bank's Share Capital are given in note 19 to the Financial Statements.

Financial Statements

The annexed statements adequately disclose the results of the Bank's operations during the year.

Audit Committee

The Audit Committee comprising Non-Executive Directors receive and review reports from the Internal Audit Division. To complement the functions of this Audit Committee, an Internal Audit Sub-committee also reviews the Internal Audit reports and the effectiveness of the Bank's system of internal control.

Directors and their Interests

The following were Directors of the Bank as at 31 December 2002: –

Mr. J. Sanpha Koroma	–	Governor
Mr. G. Melvin Tucker	–	Deputy Governor
Mr. Maigore Kallon	–	Reappointed 13 September 2002
Dr. I.B. Peters	–	Reappointed 24 November 2002
Mrs Mariatu Mahdi	–	Appointed 18 April 2001
Dr. Morie K. Manyeh	–	Appointed 17 September 2002
Dr. M. B. Yilla	–	Appointed 17 September 2002

Report of the Directors

The Governor and the Deputy Governor who were appointed on 26 March 1998 and 25 September 1998 respectively shall each be appointed for a term not exceeding five years and shall be eligible for re-appointment.

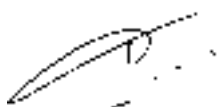
The other Directors hold office for three years and shall be eligible for re-election.

No Director had during the year, or has a material interest in any contract or arrangement of significance to which the Bank was or is a party.

Auditors

The auditors KPMG having signified their willingness to continue in office, offer themselves for re-election.

By order of the Board



Mr. ~~K. S. T.~~ Kallay
Secretary

**Report of the Independent Auditors to
the Government of Sierra Leone**

We have audited the accompanying balance sheet of Bank of Sierra Leone as of 31 December 2002 and the related statements of income and cash flows for the year then ended. These Financial Statements are the responsibility of the Directors. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements properly reflect the assets and liabilities of the Bank at 31 December 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards adopted by the International Accounting Standards Board except in so far as the Bank has not considered it appropriate to do so having regard to its functions, and have been properly prepared in accordance with the provisions of the Bank of Sierra Leone Act, 2000.

Freetown



Chartered Accountants

Date: 14 March 2003

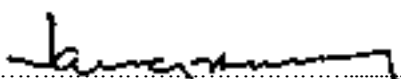
Balance Sheet As at 31 December 2002


<i>In thousands of Leones</i>	Note	2002	2001
ASSETS			
Foreign Currency Financial Assets			
Cash on hand		456,874	782,713
Cash and Cash Equivalents with Foreign Banks		132,882,084	107,752,520
International Monetary Fund Quota Subscription		304,792,966	280,652,643
Equity Shares and Participating Interest	1	2,428,099	1,019,191
Accrued Interest		187,410	651,130
International Monetary Fund Special Drawing Rights		51,988,372	285,617
Total Foreign Currency Financial Assets		492,735,805	391,143,814
Local Currency Financial Assets			
Treasury and Other Eligible Bills		44,945,194	35,248,198
Investment in Marketable Securities		14,357,976	12,404,873
Accrued Interest		232,554	1,815,157
Advances to Banks		34,337	277,648
Advances to Government	2	74,277,670	79,508,670
Special issue of Securities of the Government of Sierra Leone	3	531,037,271	531,606,797
Other Local Currency Financial Assets	4	1,251,688	1,270,069
Total Local Currency Financial Assets		666,136,690	662,131,412
Total Financial Assets		1,158,872,495	1,053,275,226
Non-Financial Assets			
Inventory	5	1,421,152	5,113,236
Gold Stocks		67,662	55,287
Property, Plant and Equipment	6	25,330,550	22,238,914
Other Non-Financial Assets	7	44,559,995	41,536,022
Total Non-Financial Assets		71,379,359	68,943,459
Total Assets		1,230,251,854	1,122,218,685

Balance Sheet As at 31 December 2002

<i>In thousands of Leones</i>	Note	2002	2001
Liabilities:			
Foreign Currency Financial Liabilities			
Term Liabilities	8	410,603,818	396,211,158
Other Foreign Currency Financial Liabilities	9	333,014,435	295,262,723
International Monetary Fund Special Drawing Rights Allocation		51,303,387	47,240,037
Total Foreign Currency Financial Liabilities		794,921,640	738,713,918
Local Currency Financial Liabilities			
Government Deposits		41,196,728	12,393,484
Commercial Banks' Deposits		9,259,444	7,064,608
Other Deposits		21,507,143	19,287,258
Accrued Charges		1,873,726	1,133,351
Other Local Currency Financial Liabilities	10	413,201	392,141
Total Local Currency Financial Liabilities		74,250,242	40,270,842
Total Financial Liabilities		869,171,882	778,984,760
Non-Financial liabilities			
Currency in Circulation		158,593,429	126,123,990
Other Liabilities	11	184,553,995	167,462,703
Total Non-Financial Liabilities		343,147,424	293,586,693
Total Liabilities		1,212,319,306	1,072,571,453
Capital and Reserves	13	17,932,548	49,647,232
Total Liabilities and Equity		1,230,251,854	1,122,218,685

These Financial Statements were approved by the Board of Directors on 14 March 2003

 Governor

 Director

Income Statement

For the year ended 31 December 2002

<i>In thousands of Leones</i>	Note	2002	2001
Operating Income			
Income from Financial Assets	14	28,751,666	21,867,118
Expenses on Financial Liabilities	15	(1,052,541)	(5,107,360)
Net Exchange (Loss)/Gain		(199,744)	12,396
		27,499,381	16,772,154
Other Income	16	910,981	963,194
Total Operating Income		28,410,362	17,735,348
Operating Expenses:			
Personnel		7,885,506	5,577,820
Depreciation	6	1,544,091	2,377,481
Currency	17	1,329,383	1,021,232
Administration		4,335,224	3,556,866
Other		899,202	1,042,800
Total Operating Expenses		15,993,406	13,576,199
Operating Surplus available for appropriations		12,416,956	4,159,149
Less Appropriations	12	(12,416,956)	(4,159,149)
		-	-

Statement of Cash Flows

For the year ended 31 December 2002

<i>In thousands of Leones</i>	Note	2002	2001
Operating Activities			
Profit for the year		12,416,956	4,159,149
Depreciation	6	1,544,091	2,377,480
Decrease in Revaluation Reserve		(44,560,115)	(17,796,586)
Increase in Deposits		33,217,965	10,972,922
Decrease in Advances to Government		5,231,000	9,786,651
(Decrease)/Increase in Other Assets		2,732,815	(1,383,459)
Decrease in Liabilities and Provisions		74,060,449	86,966,506
Increase in Currency in Circulation		32,469,441	30,269,960
Decrease in Advance to Banks		243,311	30,000
Loss on Sale of Fixed Assets		1,273	-
Net Cash Inflow from Operating Activities		117,357,186	125,382,623
Investing activities:			
Acquisition of Property, Plant and Equipment	6	(4,637,000)	(3,800,547)
Fund Movements		998,001	(374,401)
Acquisition of Investment		(11,662,474)	(29,300,977)
Acquisition of Shares in Other Financial Institutions		(1,408,908)	(549,625)
Cash Outflow from Investing Activities		(16,710,381)	(34,025,550)
Financing activities:			
Net Increase in Cash and Cash Equivalents		100,646,805	91,357,073
Cash and cash equivalents at 1 January		389,473,491	298,116,418
Cash and Cash Equivalents at 31 December		490,120,296	389,473,491

Notes to the Financial Statements

Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Bank's Financial Statements.

(a) Presentation of Financial Statements

Although the Bank's Financial Statements are not subject to the requirements of the Companies Act, they have been prepared so as to present fairly the state of affairs of the Bank, its results and cash flows in accordance with Cap. 249 and applicable International Accounting Standards in so far as they are appropriate to a Central Bank.

In exceptional circumstances, as part of its central Banking responsibilities, the Bank may act as "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potentially systemic disturbance have improved. Accordingly, although the financial effect of such operations will be included in the financial statements in the year in which they occur, these Financial Statements may not explicitly identify the existence of such support.

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings.

(b) Financial Assets and Liabilities

The Bank presents its Financial Assets and Liabilities, and the associated income and expense streams by distinguishing between foreign currency and local currency activities.

Foreign Currency activities arise mainly from the Bank's management of the country's external reserves. Local currency activities reflect transactions arising from monetary policy implementation, managing the currency in circulation and Banking activities.

This presentation marks a significant departure from the usual format adopted in previous years. The reason being that the separate reporting of these activities is considered to provide a clearer picture and enhance users' understanding of the Bank's financial position, performance and risk profile.

(c) Foreign Currency Assets and Liabilities

Foreign Currency Assets and Liabilities are translated into Leones at the official exchange rates ruling at the Balance Sheet date and in accordance with Section 54 (1) of the Principal Act.

(d) Sierra Leone Government Securities and Marketable Securities

These are stated at cost.

Notes to the Financial Statements

Principal Accounting Policies (cont'd)

(e) **Inventories**

Inventories are valued at the lower of cost and net realizable values. Unissued Currency Stocks are recorded as inventory at the cost of acquisition and expensed when issued.

(f) **Investments**

The special issue of securities of the Government of Sierra Leone, Equity Shares and participating interests are stated at par value.

Other investments are stated at cost less provisions for diminution in value, where in the opinion of the Directors, the value of an investment has permanently diminished.

Gains and Losses on realisation are taken to the income statement in the year in which they arise.

(g) **Property, Plant and Equipment**

Depreciation is charged on a straight line basis over the estimated life of the Assets at the following rates: –

Premises	–	2% per annum on cost
Plant and Machinery	–	10% per annum on cost
Furniture and Equipment	–	25% per annum on cost
Motor Vehicles	–	20% per annum on cost
Computers and Ancillary Items	–	20% per annum on cost.

(h) **Pension**

Pension costs are charged to the Profit and Loss Account systematically over the periods benefiting from the employees' services.

(i) **Comparative Amounts**

Due to the change in presentation, and to ensure consistency with the current year, comparative figures have been restated where appropriate. The material change is the separation of Assets and Liabilities into its foreign and local currency component parts and a breakdown of Other Assets.

1. Equity Shares and Participating Interest

<i>In thousands of Leones</i>	2002	2001
AfreximBank Capital Investment	1,753,384	469,566
AfreximBank Dividend Investment	180,366	55,276
BSL CON-WAMA Credit Guarantee Fund	494,349	494,349
	<u>2,428,099</u>	<u>1,019,191</u>

Notes to the Financial Statements

2. Advances to Government

<i>In thousands of Leones</i>	2002	2001
Ways and Means Advances brought forward	79,508,670	89,295,321
Recoveries during the year Due to Government from Profit and Loss Account	(5,231,000) -	(9,786,651) -
Ways and Means Advances carried forward	<u>74,277,670</u> =====	<u>79,508,670</u>

Under the provisions of Section 42 (1) and (2) of the Bank of Sierra Leone Act, 2000, the limit of the Ways and Means Advances that the Bank can grant to the Government shall not exceed five percent of the Government's actual revenue in the previous year's budget

Ways and Means Advances	74,277,670	79,508,670
Treasury and Eligible Bills	44,945,194	35,248,198
Bank's Holding of Special Issue of Securities by Government of Sierra Leone	531,037,271	531,606,797
	<u>650,260,135</u>	<u>646,363,665</u>
Less: Government Deposits	(41,196,728)	(12,393,484)
Government Stocks and Shares	(4,730,033)	(3,338,718)
Capital Account	(24,001,500)	(24,001,500)
Net credit to Government of Sierra Leone	<u>580,331,874</u>	<u>606,629,963</u>
Government Actual Revenue in previous year	<u>1,507,900,000</u>	<u>1,330,319,000</u>
5% thereof	<u>75,395,000</u>	<u>66,515,950</u>
Excess in Government Lending	<u>504,936,874</u>	<u>540,114,013</u>

The Directors' Report excesses in lending to the Government of Sierra Leone as at 31 December 2002 of Le 504,936,874 (2001: 540,114,013).

Notes to the Financial Statements**3. Special Issue of Securities of the Government of Sierra Leone**

<i>In thousands of Leones</i>	2002	2001
Securities in issue at the beginning	531,606,797	532,024,988
New Securities issued during the year	-	-
Redemption during the year	(569,526)	(418,191)
Securities in issue at the end of the year	<u>531,037,271</u>	<u>531,606,797</u>

Under Section 44(2) and 7(2) of the repealed Bank of Sierra Leone Amendment Act 1970, the Minister of Finance and the Financial Secretary, on behalf of the Government issued on 24 June 1994 and 25 May 2000 non-negotiable, non-interest bearing securities in the following amounts:

<i>In thousands of Leones</i>	2002
(a) To offset the Bank's cumulative losses to June 1994 (in excess of its capital of Le 1,500,000 and including foreign currency revaluation losses) to bring the Bank back to its normal capital base	275,000,000
(b) As fresh capital injection into the Bank in order to assist the Bank to cover projected annual operating expenses	24,000,000
(c) To cover the deficit balance in the Revaluation Reserve Account for the period 1 July 1991 to 31 December 1994	157,564,321
(d) To cover the deficit balance in the Revaluation Reserve Account for the year ended 31 December 1999	135,494,107
	592,058,428
Redemption in 1996	(57,433,448)
Redemption in 1997	(368,504)
Redemption in 1998	(376,467)
Redemption in 1999	(1,210,442)
Redemption in 2000	(644,579)
Redemption in 2001	(418,191)
Redemption in 2002	(569,526)
	<u>531,037,271</u>

Section 7(2) of the 1970 Act has been replaced by Section 10(6) of the Bank of Sierra Leone Act 2000.

Notes to the Financial Statements

Special issue of securities of the Government of Sierra Leone (continued)

Accordingly:

- Where in the judgment of the Board, the assets of the Bank are less than the sum of its liabilities and minimum paid up capital, the Board shall notify the Minister who shall notwithstanding any other provision of this Act authorize the transfer to the Bank of funds, readily marketable securities or foreign exchange for the purpose of preserving the minimum paid-up capital of the Bank from impairment.
- Section 11 (3) (a) – one quarter of the remainder of the net profit for the financial year shall be applied to the redemption of any securities of the Government held by the Bank, which have been issued under Section 10 of the Act.

4. Other Local Currency Financial Assets

<i>In thousands of Leones</i>	2002	2001
Staff Personal Loan	248,335	133,149
Staff Housing Loan	28,566	33,248
Staff Vehicle Loan	89,607	78,696
Advance Contractors	766,846	876,756
Advances to Staff	13,446	9,470
Advances to Others	30,153	91,210
Rent etc. paid in advance	74,735	47,540
	<u>1,251,688</u>	<u>1,270,069</u>

5. Inventory

<i>In thousands of Leones</i>	2002	2001
Medical	38,211	45,968
Fuel	3,156	505
Maintenance	20,442	21,766
Stationery	78,995	77,810
Others	79,232	84,143
Items in transit	1,201,116	4,883,044
	<u>1,421,152</u>	<u>5,113,236</u>

Notes to the Financial Statements

6. Property, Plant and Equipment

In thousands of Leones

Cost:	Premises	Equipment	Total
Balance at 1 January 2002	21,477,895	7,116,756	28,594,651
Acquisitions	2,819,194	1,817,806	4,637,000
Disposal	-	(448,556)	(448,556)
Balance at 31 December 2002	24,297,089	8,486,006	32,783,095

Depreciation:

Balance at 1 January 2002	2,666,517	3,689,220	6,355,737
Depreciation charge for the year	484,380	1,059,711	1,544,091
Disposals during the year	-	(447,283)	(447,283)
Balance at 31 December 2002	3,150,897	4,301,648	7,452,545

Carrying Amount:

At 1 January 2002	18,811,378	3,427,536	22,238,914
At 31 December 2002	21,146,192	4,184,358	25,330,550

Freehold properties in Freetown and Kenema were revalued in October 1999 on a replacement cost basis, taking into consideration the Bank's specialized facilities, by Realini Bader Associates Limited, Architects, Engineers and Planners. The revaluation has been reflected in these Financial Statements. The surplus arising thereon has been credited to capital reserve account.

Notes to the Financial Statements**7. Other Non-Financial Assets**

<i>In thousands of Leones</i>	2002	2001
Work in Progress	-	106,601
Deferred Currency Issue Expenses	5,409,088	2,818,210
Deferred Government Security Certificate Expenses	151,096	153,407
SAL Cash Cover	38,999,811	38,457,804
Balance at end of year	44,559,995	41,536,022

8. Term Liabilities

<i>In thousands of Leones</i>	2002	2001
Sierra Rutile/GOSL Loan	1,589,091	849,087
Bank of Morocco Loan	24,515,475	24,174,766
Bank of China US\$ Clearing	18,443,782	18,187,456
Poverty Reduction and Growth Facility (PRGF)	342,230,477	307,405,220
IMF-SAP Loan	23,824,993	45,594,629
Balance at end of year	410,603,818	396,211,158

9. Other Foreign Currency Financial Liabilities

<i>In thousands of Leones</i>	2002	2001
SAL loan	39,543,365	38,993,804
Foreign payment	9,235,641	25,393,690
Thomas de la Rue	-	1,170,556
IMF Securities	31,152,470	174,318
IMF No. 1	250,436,897	215,120,170
ADF/ERR loan	546,423	13,681,704
WAMA ECOWAS Travellers Cheque	11,578	11,578
WAMA ECOWAS Travelers Cheques Clearing	366	(183)
Commission of European Committee	2,847,019	1,488,986
WAMA Settlement	(759,324)	(771,900)
	333,014,435	295,262,723

Notes to the Financial Statements

10. Other Local Currency Financial Liabilities

<i>In thousands of Leones</i>	2002	2001
P. S. Bond in Circulation	449	449
Retention Monies	336,810	327,371
Rent received in advance	25,613	11,884
Unapproved Invoices	11,459	13,883
Trade and Sundry Creditors	38,870	38,554
	<u>413,201</u>	<u>392,141</u>

11. Other Liabilities

<i>In thousands of Leones</i>	2002	2001
Provision Loss on Investment	3,378	3,378
Special US Dollars	-	20
Provision for Bad Debts	34,337	432,355
Provision for Revaluation – Pipeline	184,516,280	167,026,950
Balance at end of year	<u>184,553,995</u>	<u>167,462,703</u>

12. Appropriations

<i>In thousands of Leones</i>	2002	2001
Net Profit for the year	12,416,956	4,159,149
<i>Appropriations:</i>		
Building Reserve Fund	(3,000,000)	(500,000)
Asset Procurement Reserve Fund	(3,000,000)	(500,000)
Staff Welfare Fund	(200,000)	-
Staff Personal Loan Fund	(500,000)	-
Staff Vehicle Loan Fund	(100,000)	-
Internal Insurance Fund	(100,000)	(300,000)
Staff Housing Loan Fund	(100,000)	-
Community Banking Fund	(1,000,000)	-
Monetary Cooperation Fund	(1,000,000)	(350,000)
	<u>3,416,956</u>	<u>2,509,149</u>
General Reserve	(1,138,985)	(836,383)
Redemption of Securities	(569,526)	(418,191)
Development Credit Fund	(200,000)	(500,000)
Revaluation Reserve	<u>(1,508,445)</u>	<u>(754,575)</u>
	<u>-</u>	<u>-</u>

Notes to the Financial Statements

13. Capital and Reserves

<i>In thousands of Leones</i>		2002	2001
Capital Account	(note 19)	24,001,500	24,001,500
Capital Reserves	(note 20)	8,982,043	8,982,043
General Reserve Fund		-	-
Development Credit Fund		3,636,243	2,721,905
Revaluation Reserve	(note 18)	(44,686,179)	(2,773,494)
Credit Guarantee Fund		319	-
Export Credit Guarantee Fund		217	-
Internal Insurance Fund		1,120,566	569,997
Staff Welfare Fund		201,198	16,207
Community Banking Fund		1,006,829	-
Staff housing Loan Fund		109,824	148,480
Staff Vehicle Loan Fund		489,743	400,665
Staff Personal Loan Fund		958,000	586,347
Monetary Cooperation Fund		1,840,322	1,235,836
Building Reserve Fund		3,900,950	2,936,938
Asset Procurement Reserve Fund		3,709,951	1,862,875
General Asset Reserve		12,661,022	8,957,933
		<u>17,932,548</u>	<u>49,647,232</u>

(a) General Reserves

Under the provision of Section 11 (2) (b) of the Bank of Sierra Leone Act 2000 a General Reserve is to be established by allocation from the net profit of each year, one-third of such profits where the general reserve exceeds the minimum paid up capital of the Bank and one-sixth of such profits where the general reserve exceeds the minimum paid up capital of the Bank but does not exceed four times the paid up capital. Further allocations to the General Reserve may be made from time to time with the approval of the Minister to increase the reserve beyond four times the minimum paid up capital of the Bank.

In accordance with Section 11(7) of the Act, if the Bank incurs any net loss during any financial year such loss shall be charged to the General Reserve. Also in accordance with Section 54(3) where there is a carried over loss or net debit balance in the Revaluation Reserve Account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.

Notes to the Financial Statements**Capital and Reserves (continued)**

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	-	5,254,986
Transfer to Revaluation Reserve in accordance with Section 54(3)	(1,138,985)	(6,091,369)
Transfer from Profit and Loss Account in accordance with Section 11(2) of the Bank of Sierra Leone Act 2000	1,138,985	836,383
Balance at end of year	-	-

(b) Development Credit Fund

In accordance with Section 11 (3) (b) of the Bank of Sierra Leone Act 2000, the Bank is to establish a Development Credit Fund for purposes specified in Section 49 of the Act. The fund is constituted by amounts transferred from net profits, in consultation with the Minister of Finance, and accruals of income on the investments allocated to the fund.

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	2,721,905	1,553,800
Adjustment in respect of proceeds	49,230	-
Income Accruing	203,408	206,405
Investment	-	-
Maturity of Investment	461,700	461,700
Transfer from Profit and Loss Account	200,000	500,000
Balance at end of year	3,636,243	2,721,905

The purpose of the fund is to make loans and advances to cooperative Banks and statutory bodies in which the Bank is entitled to invest, under Section 36(1)(i) of the Act on such terms and condition as the Board may determine or to facilitate the dealings in debt obligations having a maturity not in excess of eight years from date of acquisition by the Bank issued by cooperative Banks or statutory bodies.

Notes to the Financial Statements

Capital and Reserves (continued)

(c) Building Reserve Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	2,936,938	3,348,192
Transfer to General Asset Reserve Fund	(2,022,043)	(1,304,953)
Income Accruing from Investment	199,113	199,241
Investment	(1,999,578)	(1,786,520)
Maturity of Investment	1,786,520	1,980,978
Transfer from Profit and Loss Account	3,000,000	500,000
Balance at End of Year	3,900,950	2,936,938

The fund will be used to finance the construction and renovation of the Bank's buildings.

(d) General Asset Reserve Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	8,957,933	6,290,355
Transfer from Building Reserve Fund	2,022,043	1,304,953
Transfer from Asset Procurement Reserve Fund	1,681,046	1,362,625
Balance at End of Year	12,661,022	8,957,933

This reserve is created to record the value of purchased or developed Assets financed by the Building Reserve Fund and the Asset Procurement Reserve Fund.

(e) Asset Procurement Reserve Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	1,862,875	3,869,762
Income accruing from Investment	308,320	282,902
Investments	(3,004,019)	(3,223,820)
Transfer to General Asset Reserve Fund	(1,681,046)	(1,362,625)
Maturity of Investment	3,223,820	1,796,656
Transfer from Profit and Loss Account	3,000,000	500,000
Balance at End of Year	3,709,950	1,862,875

This is a Reserve created to provide funds for the procurement of Capital Items.

Notes to the Financial Statements**Capital and Reserves (continued)****(f) Staff Housing Loan Fund**

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	148,480	521,855
Income Accruing from Investment	169,785	183,304
Loan Repayment	4,732	4,664
Investments/Loans Disbursed	(2,026,993)	(1,713,820)
Maturity of Investment	1,713,820	1,152,477
Transfer from Profit and Loss Account	100,000	-
Balance at End of Year	<u>109,824</u>	<u>148,480</u>

This fund was originally created out of transfers from the Building Reserve Fund and then subsequently out of profits for the provision of funds for the Staff Housing Loan Scheme.

(g) Staff Welfare Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	16,207	207,623
Income Accruing from Investments	65,192	65,322
Investments at year end	(717,451)	(637,250)
Maturity of Investment	637,250	380,512
Transfer from Profit and Loss Account	200,000	-
Balance at End of Year	<u>201,198</u>	<u>16,207</u>

This fund will be used to finance the Bank's Staff Welfare Activities.

Staff Personal Loan Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	586,347	600,000
Adjustments	(12,541)	-
Loan Repayments	196,368	103,387
Disbursements to Staff	(312,174)	(117,040)
Transfer from Profit and Loss	500,000	-
Balance at End of Year	<u>958,000</u>	<u>586,347</u>

This fund will be used to Finance Loans disbursed under the staff Personal Loan Scheme.

Notes to the Financial Statements

Capital and Reserves (continued)

(h) Staff Vehicle Loan

<i>In thousands Leones</i>	2002	2001
Balance at beginning of year	400,665	400,000
Loan Repayments	32,253	21,177
Disbursements to Staff	(43,175)	(20,512)
Transfer from Profit and Loss	100,000	-
Balance at end of year	489,743	400,665

This fund will be used to Finance Loans disbursed under the Vehicle Loan Scheme.

(i) Internal Insurance Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	569,997	226,037
Proceeds from Investment	425,746	-
Income Accruing from Investment	24,823	43,960
Transfer from Profit and Loss	100,000	300,000
Balance at End of Year	1,120,566	569,997

This fund will be used to Finance Insurance Claims in respect of the Bank's Fixed Assets.

(j) Monetary Cooperation Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	1,235,836	600,000
Refund by Ministry of Finance	-	517,973
Contribution to WAMI	(283,923)	(231,497)
WAMZ Expenses	(111,591)	(640)
Transfer from Profit and Loss	1,000,000	350,000
Balance at end of year	1,840,322	1,235,836

This fund was created to finance the Bank's contribution to the budget of the West African Monetary Institute (WAMI) to complement the country's effort towards the Second Monetary Zone Programme.

Notes to the Financial Statements

Capital and Reserves (continued)

(k) Community Banking Fund

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	-	-
Adjustments	22,535	-
Income Accruing from Investments	188,239	-
Investments at year end	(887,145)	-
Maturity of Investment	683,200	-
Transfer from Profit and Loss Account	1,000,000	-
	<u>1,006,829</u>	<u>-</u>

This fund will be used to Finance Community Banking activities.

14. Income from Financial Assets

Income from Foreign Currency Assets

Interest Income:

<i>In thousands of Leones</i>	2002	2001
STG Investments	1,116,245	1,754,602
US\$ Investments	600,782	834,981
SDR Investments	427,376	169,263
Other External Investments	37,606	30,961
Total Income from Foreign Currency Assets	<u>2,182,009</u>	<u>2,789,807</u>

Income from Local Currency Assets

Interest Income:

<i>In thousands of Leones</i>	2002	2001
Interest on Sierra Leone Bearer Bonds	1,844,070	778,827
Interest on Sierra Leone Treasury Bills	4,288,331	1,731,751
Interest on Loans and Advances	20,437,256	16,566,733
Total Income from Local Currency Assets	<u>26,569,657</u>	<u>19,077,311</u>
Total Income from Financial Assets	<u>28,751,666</u>	<u>21,867,118</u>

Notes to the Financial Statements

15. Expenses on Financial Liabilities

Expenses on Foreign Currency Liabilities

<i>In thousands of Leones</i>	2002	2001
Interest expenses: IMF Interest and Charges	949,570	5,022,619
Charges on Foreign Transactions	100,660	57,088
Total expenses on Foreign Currency Liabilities	<u>1,050,230</u>	<u>5,079,707</u>

Expenses on Local Currency Liabilities

<i>In thousands of Leones</i>	2002	2001
Interest Expense:		
Total Interest Expense	-	24,930
	<u>-</u>	<u>24,930</u>
Amortisation on Government Securities	2,311	2,723
Total Expenses on Local Currency Liabilities	<u>2,311</u>	<u>27,653</u>
Total Expenses on Financial Liabilities	<u><u>1,052,541</u></u>	<u><u>5,107,360</u></u>

Notes to the Financial Statements

16. Other income

<i>In thousands of Leones</i>	2002	2001
Commission Received	221,752	86,456
Commission on Foreign Transactions	15,412	16,742
Net (shorts)/Overs in Tills	(1,565)	4
Profit on Sale of Assets	10,231	2,398
Rents Received	64,076	22,299
Sundry Receipts	369,560	935,469
Gains/(Losses) in Treasury Bills	114,613	(155,450)
Interest Received	116,902	55,276
Total Other Income	910,981	963,194

17. Currency

<i>In thousands of Leones</i>	2002	2001
Currency Management	51,161	42,423
Currency Issue Expenses	1,278,222	978,809
	1,329,383	1,021,232

18. Revaluation Reserve Account

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	(2,773,494)	8,177,148
Revaluation (Losses)/Gains	(44,560,115)	(17,796,586)
Transfer from General Reserve Account (Section 54 (3) of BSL Act 2000)	1,138,985	6,091,369
Transfer from Profit and Loss Account	1,508,445	754,575
	(44,686,179)	(2,773,494)

The translation of Foreign Currency Assets and Liabilities is in accordance with the accounting policy set out in paragraph (c) on page 52.

Notes to the Financial Statements

Applicable mid rates at 31 December 2002 were:

US \$ 1	=	Le 2,191.73
£Stg 1	=	Le 3,514.44
WAUA 1	=	Le 2,953.10
Euro 1	=	Le 2,293.94
SDR 1	=	Le 2,939.18

and equivalent for other Currencies.

In accordance with Section 54(1) of the Bank of Sierra Leone Act 2000, gains and losses arising from any changes in the valuation of the Bank's Assets and Liabilities in or denominated in Gold or Foreign Currencies, Special Drawings Rights or Euros as a result of changes in the exchange rate of the Leone or if any change in the value parities or exchange rates of such assets with respect to the Leone shall be carried to a special account called the Revaluation Reserve Account.

In accordance with Section 54(4) of the Act any net debit in this account shall be cancelled by future revaluation gains or by transfers from the General Reserve. No profit shall be transferred to the Consolidated Fund and any available credit shall be credited to the Revaluation Reserve Account in an amount sufficient to cover the losses.

19. Capital

<i>In thousands of Leones</i>	2002	2001
Authorised	100,000,000 =====	100,000,000 =====
 <i>In thousands of Leones</i>	 2002	 2001
Issued	24,001,500 =====	24,001,500 =====

In accordance with Section 10(1) of the Bank of Sierra Leone Act 2000 the minimum paid up capital of the Bank shall be Le 50 bn and in accordance with Section 71 of the Act will be subscribed to within five years from the commencement of the Act.

Notes to the Financial Statements

20. Capital Reserve

<i>In thousands of Leones</i>	2002	2001
Balance at beginning of year	8,982,043	4,251,533
Revaluation Surplus	-	4,730,510
Balance at end of year	8,982,043	8,982,043

This Balance represents the Surplus arising on Revaluation of Freehold Building.

21. Contingent Liabilities

<i>In thousands of Leones</i>	2002	2001
Guarantees and Endorsements	459,298,671	14,768,098

22. Capital Commitments

Capital Commitments not provided for at year end were authorised and contracted for in respect of:

<i>In thousands of Leones</i>	2002	2001
Capital Expenditure/Building Renovation	1,441,380	1,771,887
African Export Import Bank	2,630,076	3,481,600
	4,071,456	5,253,487

23. Taxation

In accordance with Section 9(a)(iii) of the Income Tax Act 2000 and Section 56(3) of the Bank of Sierra Leone Act 2000, the Profits of the Bank are not liable to Income Tax.

Notes to the Financial Statements

24. Risk Management

Operational Risk

This relates to exposure to losses resulting from unexpected interruption of operation, unauthorized use of information, non-compliance with security requirements, theft of assets, fraud and other circumstances related to inadequate internal controls or external factors.

To minimize operational risk inherent in security and information systems, the Bank relies on the system put in place by the Internal Audit Unit (which reports directly to the Governors) to undertake periodic checks aimed at ascertaining adequacy of internal controls and compliance to the existing control mechanisms.

This unit also reports to the Audit Committee of the Board of Directors, which meets twice a year.

Credit Risk

Credit risk relates to exposure to losses resulting from a counterparty's default. The Bank is exposed to credit risk as a result of investments in foreign debt securities and short to medium-term cash deposits.

The Bank minimizes exposure to credit risk related to investment made in foreign debt securities and short-term deposits by establishing limits on investments with different credit quality. Credit quality is evaluated on the basis of the ratings set by the international rating agencies. The bulk of the funds is placed with triple "A" rated Banks (i.e. Central Banks and other international financial institutions such as BIS and IMF) as approved by the Foreign Asset Committee (FAC), Management and the Board.

Price Risk

Price risk relates to exposure to losses due to adverse changes in the Financial Markets such as, movement in Interest Rates or Exchange Rates.

The Bank manages interest rate risk inherent mainly in foreign assets sensitive to interest rate fluctuations by using modified duration limits. To avoid losses resulting from adverse changes in exchange rates, the BSL ensures that foreign assets are maintained in currencies from which all foreign liabilities are met.

In the domestic market, the Bank's investment is mainly in Government of Sierra Leone Treasury Bills and Treasury Bearer Bonds Securities, which are normally held to maturity. These Securities are gilt-edged 3 months and 1 year Government of Sierra Leone Treasury Securities with no underlying interest rate risk when held to maturity. Disinvestments prior to maturity have an interest rate risk exposure as price are re-set daily based on last prevailing weighted average Treasury Bills/Bonds auction price.