Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 08-Jan-2019 | Report No: PIDA26020
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sierra Leone</td>
<td>P168259</td>
<td>Sierra Leone - Second Productivity and Transparency Support Grant (P168259)</td>
<td>P156651</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFRICA</td>
<td>31-Jan-2019</td>
<td>Macroeconomics, Trade and Investment</td>
<td>Development Policy Financing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Sierra Leone</td>
<td>Ministry of Agriculture Forestry and Food Security, Ministry of Energy, Ministry of Basic and Secondary Education, Ministry of Fisheries, Anti-corruption Commision</td>
</tr>
</tbody>
</table>

### Proposed Development Objective(s)

The main objective of the DPO is to achieve sustainable and inclusive economic development by: (i) creating the conditions for increased productivity in selected economic sectors and (ii) improving transparency in selected government decision making processes.

### Financing (in US$, Millions)

#### SUMMARY

| Total Financing | 40.00 |

#### DETAILS

<table>
<thead>
<tr>
<th>Total World Bank Group Financing</th>
<th>40.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank Lending</td>
<td>40.00</td>
</tr>
</tbody>
</table>

### Decision

The review did authorize the team to appraise and negotiate
B. Introduction and Context

Country Context

1. After more than a decade of solid economic growth (7.8 percent on average over the 2003-2014 period), Sierra Leone’s economy contracted by 21 percent in 2015 due to the Ebola outbreak and downturn in international iron ore prices. In March 2016, the country was declared Ebola free, after which an uneven economic recovery ensued, supported initially by agriculture and services. However, the recovery of the iron-ore dominated industrial sector has remained slow, buffeted by low commodity prices and deferred investments. Compounding the challenge of post-Ebola recovery, in August of 2017, a landslide of a rare magnitude hit the country’s capital city, further disrupting economic activity and leading to significant losses of lives, productive assets, and public infrastructure. Recovery in 2016 and 2017 thus remained tepid, with economic growth remaining at 6.4 percent and 3.8 percent respectively.

2. Faced with an upcoming election (in March 2018), the government was reluctant to take corrective measures to contain the deterioration in public finances and the broad macroeconomic policy environment. Indeed, as in previous electoral cycles (2007 and 2012), spending pressures led to a deterioration in the fiscal position, governance slippages, and slow implementation of programs. In response to these concerns, the IMF put on hold its first review of the Extended Credit Facility Program toward the end of 2017. As the Bank and other development partners subsequently delayed or withheld their budget support to the government, the financing gap widened resulting in significant build-up of suppliers’ arrears (amounting to about 4 percent of GDP) as of the first half of 2018. Following the election of March 2018, a new Government assumed office on April 4, 2018, ushering in the second democratic change of party in power since the end of the civil war in 2002. Recognizing the need to restore macroeconomic stability and improve public services, the Government undertook three critical steps.

• First, upon assuming office, the government immediately undertook several fiscal measures to contain and reverse the high fiscal deficits: it eliminated subsidies on fuel; introduced a stronger expenditure control over ministries, departments and agencies (MDAs); reduced duty waivers and tax exemptions; and rolled out a treasury single account (TSA), which has been instrumental in bringing additional MDA revenues on to the budget. These measures have already reduced the fiscal deficits in the second half of 2018.

• Second, the new government re-engaged with the IMF in April 2018 to revive the program; and it reached a staff level agreement in September 2018. The IMF Board then subsequently approved a new ECF program for Sierra Leone on November 30, 2018.

• Third, the Government wrote to the World Bank Group in July 2018 explicitly committing to continuing with the structural reform agenda started under the DPO series and requesting an enhanced budget support (from US$20 million to US$30 million). Based on the strong policy dialogue with the authorities since then, the relevance and importance of this second operation (GRANT-II) has been reconfirmed. Indeed, the operation has been strengthened to include new prior actions/triggers to strengthen transparency and governance, particularly around extractives, in line with the government’s commitment to public accountability and transparency. Combined, these steps have halted the deterioration in public finances and injected fresh credibility into the government’s commitment to macroeconomic stability and structural reform.

3. The proposed Bank operation provides a million (US$40 million equivalent) International Development Association (IDA) grant to the Republic of Sierra Leone for the Second Productivity and Transparency Support Grant (PTSG-II) Development Policy Operation (DPO). The operation supports critical policy reforms to promote sustainable and inclusive growth and build economic resilience. Sierra Leone’s opportunities to eradicate extreme poverty and boost shared prosperity rest on sustained macroeconomic stability and a solid enabling environment for the exploitation of its abundant natural resources. The proposed operation supports ongoing reforms to enhance macroeconomic stability, increase productivity in agriculture and fisheries while promoting transparency and accountability in selected
government decision making processes. Beyond supporting increased productivity in the real sector, the program also supports the strengthening of economic and political governance focused on improving government’s treasury management, procurement, promoting transparency in the mining sector contracts, and building an effective asset disclosure system to fight corruption and promote public sector accountability. The Government’s program since assuming office shows commitment to the overall reform program under the proposed DPO series.

Relationship to CPF

4. The proposed GRANT series has been designed with a view to unlocking constraints identified in the World Bank Systematic Country Diagnostic (SCD) (2018) and ensuring consistency with the new Country Partnership Framework for Sierra Leone (FY19-FY23). The SCD (2018) emphasized the criticality of addressing the fiscal challenges as well as boosting productivity in agriculture, manufacturing, and services to promote inclusive growth and poverty reduction. It also emphasized the need to improve overall governance to build resilience and improve public service delivery. Other World Bank operations in agriculture, fisheries, minerals sector, and governance are linked to the proposed series and provide valuable support through Technical Assistance. The preparation of the new CPF covering FY19-FY23 is was initially delayed by onset of the Ebola epidemic in 2014 but is now well underway and expected to be presented to the Board for consideration by the third quarter of FY19.

C. Proposed Development Objective(s)

5. The main objective of the DPO is to achieve sustainable and inclusive economic development by: (i) creating the conditions for increased productivity in selected economic sectors and (ii) improving transparency in selected government decision making processes.

Key Results

6. The aim goal of the operation is to achieve sustainable and inclusive economic growth. In the agriculture sector, transformative interventions driven by greater private sector participation combined with improved agricultural extension services are expected to introduce productivity enhancing crop technologies to increase crop yields and improve household incomes. In the fisheries sector, the overall goal is to generate value addition and jobs, ensure food security, and increase exports, while maintaining sustainability. In addition, increased access to and improved quality of electricity as well as skills development will boost productivity growth. At the same time, efficient management of public funds and reduced fiscal leakages through increased transparency and accountability are expected to improve public service delivery and promote economic growth.

D. Project Description

7. This operation is the second in a programmatic series of three operations to support the implementation of the Government’s priorities articulated in the “New Direction Manifesto” and the forthcoming PRSP-IV. The aim of this series is to support the Government’s objective of achieving sustainable and inclusive economic development by: (i) creating the conditions for increased productivity in selected economic sectors; and (ii) improving transparency in selected government decision making processes. The proposed operation covers five policy areas namely: agriculture (including fisheries and land), energy and extractives, education, public financial management (TSA and e-procurement), and asset disclosure. These areas are consistent with the Government’s “New Direction Manifesto”, the forthcoming PRSP-IV as well as the findings of the SCD (2018) in terms of key drivers of growth. The design of the series has
incorporated lessons from previous development policy operations including the first operation under this series (PTSC-I). The program will focus on a limited number of transformational structural reforms necessary for boosting productivity, unlocking inclusive growth, and diversifying the economy. Transparency and accountability issues are mainstreamed into the framework for the main productive sectors as well as in education.

E. Implementation

Institutional and Implementation Arrangements

8. The Government of Sierra Leone, through the Ministries in charge of finance, agriculture, fisheries, energy, and education will be responsible for the overall implementation of this program. The Ministry of Finance (MoF) is responsible for the coordination of the program. The MoF has the requisite experience including technical skills and coordination experience for this task, some elements of which will be undertake in conjunction with BSL. Given the large number of line ministries participating in the implementation of development policy financing, a committee in charge of the monitoring of the program has been created with focal points in each line ministry, as well as in the National Procurement Authority, and in the Anti-Corruption Commission. Additionally, there is a small, well-coordinated group of development partners also providing close support to the Government. The Results Framework in Annex 1 provides the list of results indicators which will be used to monitor the progress under the program. The monitoring of the series will be closely linked to the Agenda for Prosperity (AfP) and the proposed fourth National Development Plan (PRSP-IV), since their results matrices are explicitly linked. In addition to the results indicators included in the results framework, a list of intermediary and high frequency indicators will be established for the in-year monitoring of the program.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. Overall, the poverty and social impacts of the policy reforms supported under the proposed DPO series (GRANT-II) are expected to be largely positive. Reforms aimed at boosting productivity in key sectors such as agriculture and fisheries are expected to have a significant positive impact on poverty reduction in Sierra Leone. Agriculture and fisheries employ more than 60 percent of the country’s workers; close to 95 percent of the rural households have land and agriculture as their main source of income; and nearly 70 percent of the poor households have agriculture as their primary source of livelihood. In this context, the proposed reforms are expected to have a significant positive social and poverty reduction impact. In the energy sector, the reduction in electricity losses is expected to improve the financial situation of EDSA and increase the utility’s capacity to supply electricity to households and businesses. A higher electricity supply is in turn expected to better support economic activities and investment in manufacturing and services, which could lead to more jobs creation and poverty reduction. The fuel price liberalization measure, supported under energy reforms in Pillar I, has a positive fiscal impact on government budget and its estimated negative impacts on consumer welfare are progressively distributed, but likely increase poverty. The reforms aimed at improving transparency in selected government decision making processes have a positive social and poverty impact. The rollout of the TSA, by allowing to capture more off budget revenues of MDAs and bringing them into the central government revenue account, will help increase central government revenue, and all else being equal, support the fiscal consolidation effort of the government. The new extractive revenue law will strengthen the fiscal regime in the extractive sector, increase transparency of mining agreements, and reduce opportunities for corruption. The focus on transparency through asset disclosure will likely help curb corruption and improve public service delivery to the poor and vulnerable households.
Environmental Aspects

10. The proposed operation is overall expected to have a neutral-to-positive impact on the environment. Reforms in agriculture and fisheries are expected to have mostly positive effects on the environment. The fisheries sector reforms are expected to have a positive effect on the environment. The enhancement of monitoring and surveillance in the fisheries sector through the introduction of Vessel Monitoring and Ship Transponder System, Joint Maritime Committee functions and Community Management Association for artisanal fishing is expected to reduce illegal, unregulated and unrecorded fishing activities and promote environmental sustainability by addressing climate change risks. The establishment of the Seed Certification Agency, National Seed Board, Seed Laboratory and Variety Release Committee would ensure sound regulation of the seed sector and ensure the production of high quality climate-friendly seeds that not only increase yields for farmers but promote environment sustainability by addressing climate change risks. Although the fertilizer reform could have a moderate negative effect on the environment, robust mitigation measures have been put in place. The energy sector reforms are expected to have largely positive environmental effects through the reduction of technical and commercial losses at Electricity Distribution and Supply Authority (EDSA). The Network Configuration and Optimization Plan (NCOP) will support the implementation of automatic metering infrastructure to manage system losses to address climate change risks. This is complemented by the fuel subsidy reform, which by increasing the retail price of fuel, promotes efficiency in energy use by households and businesses and therefore positively contributes to lower emission. The Extractive Industry Revenue Law will not impact mine leases in terms of land use, so the environmental effects are estimated to be largely neutral. Finally, other reforms in the education sector and under the transparency pillar will also have a neutral effect on the environment.

G. Risks and Mitigation

11. The overall risk rating for the operation is ‘high’. Five main sources of risk that could potentially jeopardize the expected outcomes and benefits of this operation are: (i) political and governance risks; (ii) macroeconomic risks; (iii) risks from institutional capacity for implementation and sustainability; (iv) fiduciary risk; and (v) epidemiological risk. Risk mitigation measures, as warranted, have been outlined in the Program Document. The potential benefits of the proposed operation, however, outweigh the residual risks and warrant IDA’s financial support to the country at this difficult time, with the new government having implemented significant policy reforms in a relatively short period in coordination with other development partners.

CONTACT POINT

World Bank
Kemoh Mansaray
Senior Economist

Borrower/Client/Recipient
Republic of Sierra Leone
Jacob Jusu Saffa
Minister of Finance
jjsaffa@yahoo.co.uk
Implementing Agencies

Ministry of Agriculture Forestry and Food Security
Samking Koinnah Braima
Deputy Minister
samkin.brima@maf.gov.sl

Ministry of Energy
Alhaji Kanja Sesay
Minister
sesaykeh@gmail.com

Ministry of Basic and Secondary Education
Alpha Timbo
Minister
atimbo@gmail.com

Ministry of Fisheries
Josephus Mamie
Deputy Director
josephusmamie2013@gmail.com

Anti-corruption Commission
Francis Ben Kelfala
Commissioner
fbkaifala@anticorruption.gov.sl

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):
Kemoh Mansaray
### Approved By

| Country Director: | Henry G. Kerali | 13-Dec-2018 |