Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-May-2022| Report No: PIDC34172

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Sierra Leone	P178321	SL Second Inclusive and Sustainable DPF (P178321)	P175342
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	Sep 20, 2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Sierra Leone	Ministry of Finance		

Proposed Development Objective(s)

The program development objectives are to: (i) improve natural resources and public sector governance; (ii) enhance inclusiveness; and (iii) improve the sustainability of development financing.

Financing (in US$, Millions)

SUMMARY

Total Financing	100.00

DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Sierra Leone's economic development has been constrained by a history of multi-dimensional shocks, and its inability to leverage a rich natural resource and demographic endowment.** The country has an advantageous geography and abundant mineral and agricultural resources, yet income levels have largely stagnated. Average economic growth has remained low at 3.3 percent during 2016-21, constrained by the country's vulnerability to boom-bust cycles and limited spillovers from its rich natural resource base. The population has been unable to reap the full benefits of growth and poverty and inequality has remained high. Gender inequalities are prevalent: Women account for 51 percent of the population but they continue to have unequal access to and control over productive resources. Sustainable and inclusive

growth has been constrained by (i) exposure to multi-dimensional exogenous shocks (economic, epidemic, climactic); (ii) pervasive governance weaknesses and dated policies; (iii) limited fiscal space and fiscal risks which inhibit the ability to promote pro-poor growth.

2. **The economy typically follows shock-recovery cycles: most recently, a nascent recovery from the COVID-19 pandemic during 2021 has been interrupted by spillovers from the Ukraine war.** Since the 2010s, the country has suffered the adverse implications of the Ebola epidemic (2014-16), the collapse in global commodity prices such as iron ore (2015-16), a major mudslide in Freetown (2018), and the COVID-19 pandemic (since 2020). Following the COVID-19 induced economic contraction in 2020 (-2 percent), GDP growth reached 3.1 percent in 2021, supported in part by a resumption in iron ore exports. Still, real GDP growth was below its pre-COVID level (~5 percent) and the regional average (3.5 percent). Moreover, in 2022, this nascent recovery has been disrupted by a net negative terms-of-trade shock with the onset of the Ukraine war and a rise in global food and fuel prices. Along with the effects of global supply chain disruptions and higher inflation, the rise in fuel prices has also caused pervasive power outages as the government accumulated arrears on its fuel price-indexed obligations to the largest power supplier in the country. Public debt has risen steadily in recent years, reflecting persistent fiscal deficits, a depreciating currency, and limited access to concessional sources of financing. Total public debt reached 70.9 percent of GDP in 2019 and rose to 76.3 percent of GDP in 2020. During 2021, it is estimated to have risen further to 76.9 percent (US$3.14 billion) driven by additional borrowing mainly from multilateral sources. This is one of the highest levels of indebtedness in SSA and the highest level in Sierra Leone since HIPC debt relief. According to the last full WB/IMF DSA in July 2021, Sierra Leone was assessed to be at high risk of debt distress.

3. **The macroeconomic policy framework, anchored in the on-going IMF ECF program, is considered adequate for the proposed Development Policy Operation.** The government's strong reform commitment is underpinned by a comprehensive engagement with development partners including the World Bank and is also reflected in the strength of this operation. Risks to the outlook are mitigated by the authorities' commitment to reform – demonstrated through recent gains in revenue mobilization and improvements in debt management, strong relations with multilateral institutions and access to concessional financing, and a favorable commodity outlook for the mining sector. The IMF program promotes fiscal discipline over the medium term and debt sustainability in the long-term.

Relationship to CPF

4. **The proposed DPO supports all three Focus Areas of the FY21–FY26 Sierra Leone Country Partnership Framework (CPF).** Specifically, Focus Area 1 (Sustainable Growth and Accountable Governance) is supported by Pillars 3 of this DPO, while Pillar 1 and 2 supports the CPF's Focus Area 2 (Human Capital Acceleration and Inclusive Growth) and Focus Area 3 (Economic Diversification and Competitiveness with Resilience). The proposed operation is also aligned with the 2018 SCD. Furthermore, the reform program supported by this operation complements existing Advisory Services and Analytics (ASAs), Investment Project Financing (IPF), and IFC Advisory Services identified in contributing to achieving the CPF's development objective.

C. Proposed Development Objective(s)

The program development objectives are to: (i) improve natural resources and public sector governance; (ii) enhance inclusiveness; and (iii) improve the sustainability of development financing.

Key Results

5. **The reforms supported by this DPO series aim to address several of the aforementioned development challenges.** The reforms under the first pillar address poor governance of the mining and land sectors. The actions under the second pillar tackle limited and unequal access to financial services, equality in employment, and high-quality education. The reforms under the third pillar seek to reduce fiscal and debt vulnerabilities and improve public procurement and auditing processes. In addition, with the COVID-19 shock having eroded the country's fiscal position, DPO financing will help minimize the immediate tradeoff between supporting the economy and fiscal sustainability. Some of the reforms supported by this series are also expected to help address climate risks. In weak regulatory environments, mining activities can generate substantial climate risks and consume large quantities of water during processing. By improving land management practices and efficiency of land use through progressive rehabilitation and wetlands restoration both climate change adaptation and mitigation objectives will be pursued. Wetlands and reforested mining sites will serve as carbon sinks, while progressive afforestation of mining sites will reverse environmental degradation and help prevent landslides, soil erosion, floods, and other typical consequences of climate change. Engagement of mining companies and improved protection of land tenure rights will ensure that the financial burden for degraded natural resources is not pushed upon impoverished local communities.

D. Concept Description

6. **The proposed Development Policy Operation, the second in a series of three, builds on an agreed programmatic reform plan to support sustainable, robust, and inclusive growth in Sierra Leone. It has three pillars that aim to: (i) improve natural resource governance; (ii) enhance inclusiveness; and (iii) strengthen accountability and transparency in financing.** The first two pillars focus, respectively, on better governance of the land and mining sectors (pillar 1) and boosting inclusive growth through reforms to promote economic participation and empowerment of the most vulnerable groups of the population (pillar 2). Pillar 3 targets improvements in accountability and transparency in public finance and has been strengthened with new measures to address weaknesses in auditing and SOE governance. These new reforms have been introduced in response to concerns raised after the unexpected suspension of the Auditor General (AG). The three pillars are complementary: better natural resource management and increased inclusiveness will contribute to higher, more sustainable growth. Mining reforms will improve revenue collection, while education and SOE reforms will help control expenditures, easing fiscal pressures and creating space for development, growth-promoting reforms. All three pillars address critical governance challenges.

7. **Pillar 1 comprises reforms to improve governance in the mining and land sectors to build resilience and support sustained and inclusive growth.** Sierra Leone possesses significant natural resource endowments such as minerals, arable land, forests, and fisheries. However, the exploitation of these abundant endowments has not translated into commensurate welfare gains for the majority of citizens. The reforms under Pillar 1 focus on strengthening the legal and regulatory framework in the land and mining sectors to improve governance of natural resources, build resilience and maximize revenues for inclusive economic growth. Policy Reform under the first prior action focusses on building on the enactment of the MMDA, 2021, and strengthen the fiscal regime by (i) amending the EIRA to reconcile with other prevailing legislations, and (ii) providing for a public manual to guide implementation of the EIRA. The second prior action builds on the transformative land bills supported by DPO1, and supports establishing a Land Commission Board, thereby strengthening land administration across all levels of jurisdiction and address the existing gender gaps.

8. **Pillar 2 seeks to enhance inclusion through reforms in three areas: (i) women's economic participation; (ii) access to quality education; and (iii) financial inclusion.** The reforms address critical structural constraints to access to resources and opportunities in Sierra Leone. They are aligned with two of the SCD's four pathways: (i) diversifying the economy and creating poverty-alleviating jobs and (ii) increasing human capital for new opportunities. Prior action 3 supports legislation that will prohibit gender-based discrimination in the labor market and improve women's access to

employment and income. Prior action 4 and 5 support reforms in the education sector: building on the technology-enabled reform implemented under DPO1 to improve the teacher management systems and by promoting updated planning and timely implementation of previously approved policies. Prior Action 6 will support the authorities' efforts to increase Digital Financial Services by strengthening the corresponding legal framework.

9. **Pillar 3 has been augmented to strengthen accountability and transparency in public finance.** It builds on reforms introduced under DPO1 for increased debt and procurement transparency and introduces new reforms to address crucial gaps in accountability and SOE governance. Prior Action 7 and 10 seeks to improve SOE debt transparency and governance to support the management of fiscal risks. Prior Action 8 will gradually improve transparency in public procurement, and eventually support the implementation of e-procurement. Prior Action 9 will support strengthening of the audit follow-up process through the adoption of clear Standard Operating Procedures (SOPs).

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

10. **Prior actions under the proposed DPO are expected to reduce poverty both directly by increasing the incomes of the most vulnerable groups of the population, and indirectly through distributional effects that benefit the poor.** Reforms under Pillars 1 and 2 (improving natural resource governance and enhancing inclusiveness) are expected to reduce poverty in the long-term by increasing income opportunities for women and low-income households. The most recent poverty measurement for Sierra Leone (SLIHS, 2018) shows that more than 74 percent of the rural population subsists below the national poverty line compared to 41 percent in urban areas (excluding Freetown area). Changes in legislation affecting women's and poor households' access to economic resources (e.g., land, credit, education, etc.) are expected to have positive welfare implications since the majority of the poor live in rural areas, where customary law dominates, along with discrimination against women from inheriting property and having access and control of assets. Gender discrimination, lower asset ownership (including land), and low overall familiarity with financial institutions are significant barriers to women's and poor households' access to credit, a divide aggravated by lower education and income levels among women and the poor.

Environmental, Forests, and Other Natural Resource Aspects

11. **Sierra Leone is highly vulnerable to the adverse impacts of climate change and poor environmental management.** The impact of climate change could increase the share of the population living below the poverty line up to 2 percentage points by 2030. Climate forecasts for Sierra Leone warn of an increase of the mean temperature, and an increase in annual precipitation and single rainfall events. The combined effects of climate change and mining, deforestation, landslides, soil erosion, changes in soil hydrology and pH balance, are likely to have a negative impact on farming activities, with small-scale subsistence farmers particularly disadvantaged. Runoff from mining districts is likely to pollute water bodies, causing a reduction in the quality of fish meat and/or leading to reduced productivity of fisheries, thus compromising food security. Natural hazards also present severe risks: a major landslide in 2017 resulted in close to US$32 million in damages and losses in electricity, transportation, housing, education, water, sanitation and hygiene and other key sectors. Deforestation is also a major concern as the country has lost over 34 percent of its forests between 1975 and 2018. Cognizant of these risks, the authorities have aligned environmental and climate change considerations with its MTNDP under an Updated National Determined Contribution (UNDC) that increases the country's climate ambitions and sets the stage for proactive efforts to mitigate the causes of global warming and help vulnerable citizens to effectively adapt to climate change. The UNDC envisions a reduction in CO2 emission levels to 5 percent by 2025, 10 percent by 2030, and 25 percent by 2050. It also envisages a transformational shift toward a low-emission development pathway, by targeting priority sectors (such as Agriculture, Forestry, Land use and Others Land Use (AFOLU) and the Blue

Economy), implementing REDD+ (Reducing Emissions from Deforestation and Forest Degradation) and promoting innovation and technology transfer for sustainable breakthroughs in energy, waste management, transport, etc.

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APPROVAL

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