Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jun-2023| Report No: PIDC36324

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Sierra Leone	P178322	SL Third Inclusive and Sustainable Growth DPF (P178322)	P178321
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	Nov 30, 2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Sierra Leone	Ministry of Finance, Government of Sierra Leone		

Proposed Development Objective(s)

The program development objectives are to: (i) improve natural resource governance; (ii) enhance inclusiveness; and (iii) strengthen accountability and transparency in public finance.

Financing (in US$, Millions)

SUMMARY

Total Financing	65.00

DETAILS

Total World Bank Group Financing	65.00
World Bank Lending	65.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The operation is being prepared at a particularly difficult time for Sierra Leone.** A series of macroeconomic shocks, aggravated by policy slippages, have significantly increased fiscal pressures and risks to debt sustainability. Income levels have largely stagnated, with per capita GDP growth averaging 0.6 percent per annum over 2017-2022 and poverty remaining high at 44 percent in 2020.[1] The Human Capital Index was 0.36 in 2020,[2] compounded by high gender inequalities. Weak governance is pervasive and a cross-cutting constraint, undermining public financial management and

[1] Per the 2017 Purchasing Power Parity (PPP) US$2.15/day poverty line
[2] Indicating that the future earnings potential of children born today is 64 percent lower than what it would be with complete education and full health

citizens' trust in institutions (PEFA, 2021). Moreover, in recent years, monetary and fiscal policy slippages have aggravated the impact of exogenous shocks, jeopardizing macroeconomic stability. During 2022, inflation rose to nearly 40 percent, the currency depreciated by 40 percent, the fiscal deficit exceeded 10 percent of GDP, public debt approached 100 percent of GDP, and forex reserves declined to 4 months of imports.

2. **The macroeconomic policy framework is adequate for the proposed operation, despite downside risks.** This assessment is contingent on the government's adherence to its stated macro-critical reforms. This includes: (i) sharp fiscal consolidation in the near-term, followed by continued revenue mobilization efforts and expenditure streamlining and PFM reforms in the medium-term; and (ii) tightening of monetary policy and gradual reduction in the net credit to government as committed under the ongoing IMF ECF program. Risks, as noted, are significant, particularly given the upcoming elections and elevated fiscal and external imbalances as well as debt sustainability pressures. However, they are mitigated by the authorities' commitment to reform – demonstrated through the recently enacted Finance Act (a particularly strong reform given the proximity of the general elections in June 2023), effective engagement with multilateral institutions, an ongoing IMF ECF program, continued access to concessional financing, and a favorable outlook for the mining sector. Ongoing structural reforms (supported by this DPF) in input markets such as land, labor, and natural resource management further support sustainability and resilience in the economy.

Relationship to CPF

3. **The proposed DPF 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 DPF, 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 ASAs, Investment Project Financing (IPF), and International Finance Corporation (IFC) Advisory Services identified in contributing to the CPF's development objective.

C. Proposed Development Objective(s)

The program development objectives are to: (i) improve natural resource governance; (ii) enhance inclusiveness; and (iii) strengthen accountability and transparency in public finance.

Key Results

4. **The reforms supported by this DPF series address critical developmental challenges related to land management practices, mining sector governance, gender equality, and accountability of the public sector, while helping to meet increased financing needs.** The supported reforms will help (i) address poor governance of the mining and land sectors; (ii) enhance inclusion in access to financial services, employment, and education; and (iii) contribute to reducing fiscal and debt vulnerabilities (including through improvements in public procurement and auditing processes). This DPF builds on the strong foundation established by the two earlier operations in the series which initiated landmark legislative reforms, including to promote decentralized and inclusive land management and strengthen governance and licensing practices in the mining sector. By addressing key shortcomings in land management, mining sector governance and SOE governance, this operation also has significant implications for strengthening climate adaptation and resilience. In addition, by helping close the financing gap for the government's budget the DPF will minimize the tradeoff between supporting the economy and maintaining fiscal sustainability. The reform program supported by this DPF series is consistent with the World Bank Group's (WBG) crisis response framework for supporting green, resilient, inclusive development, and the Global Crisis Response Framework.

D. Concept Description

5. **The proposed Development Policy Financing (DPF), the last in a series of three, builds on an agreed programmatic reform plan to support sustainable, robust, and inclusive growth in Sierra Leone.** The proposed operation is in the amount of SDRXX million (US$65 million equivalent) from International Development Association (IDA) grant resources. It has three pillars that aim to: (i) improve natural resource governance; (ii) enhance inclusiveness; and (iii) strengthen accountability and transparency in public finance. The three pillars, which are closely aligned with the priorities of the Government's Medium-term National Development Plan (MTNDP 2019-2023), 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 state-owned enterprise (SOE) reforms will help control expenditures and improve their quality, easing fiscal pressures and creating space for growth-promoting investment.

6. **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 Mines and Minerals Development Act (supported by this DPO series) to prepare regulations to facilitate implementation of the new act. The second prior action builds on the transformative land bills supported by this DPO series, to prepare regulations and establish land committees, thereby strengthening land administration.

7. **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 builds on previous actions of this series to address gender-based discrimination in labor markets. Prior action 4 and 5 support reforms in the education sector: building on the earlier reforms in this series to improve the teacher performance and strengthen education sector management. Prior Action 6 will support the authorities' efforts to increase digitalization of government transactions.

8. **Pillar 3 has been augmented to strengthen accountability and transparency in public finance.** It builds on reforms introduced under previous DPOs of this series for increased debt and procurement transparency and address crucial gaps in accountability and SOE governance. Prior Action 7 seeks to further 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 by legislation the previously adopted Standard Operating Procedures (SOPs).

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

Poverty and Social Impacts

9. **Prior actions under the proposed DPF 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 medium-to-long-term by increasing income opportunities for women and low-income households. The most recent poverty measurement for Sierra Leone (SLIHS, 2018) showed 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. Adverse social and poverty impacts may materialize to the extent that the poor are benefiting from existing informality, non-enforcement, or corrupt practices. Prior actions under pillars one and three which would strengthen governance, accountability and transparency, but could have inadvertent side effects.

Environmental, Forests, and Other Natural Resource Aspects

10. **Sierra Leone is highly vulnerable to the adverse impacts of climate change and poor environmental management.** The country is one of the poorest in the world, and is exposed to high risk of river floods, urban floods, coastal floods, landslides, extreme heat, and wildfires. Low income translates to low adaptive capacity and lack of preparedness to withstand climate hazards. More intense rainfall will likely cause increased sedimentation and runoff and could result in decreased water quality. Sea level rise and extreme weather events could cause damage to coastal infrastructure and production zones, loss of productive assets and lives. 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 and deforestation also present severe risks. 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 CO_2 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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