

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB7796

Name	Supplemental Financing for the Emergency Economic and Fiscal Support Operation (EEFSO)
Region	AFRICA
Country	Sierra Leone
Sector	General finance sector (50%); General public administration sector (50%)
Operation ID	P157333
Lending Instrument	Development Policy Financing
Borrower(s)	GOVERNMENT OF SIERRA LEONE
Implementing Agency	MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT (MOFED)
	Ministry of Finance and Economic Development, Government of Sierra Leone George Street Freetown Sierra Leone Tel: (232-22) 225-612 Fax: (232-22) 228-355 minfin@sierratel.sl
Date PID Prepared	October 20, 2014
Estimated Date of Appraisal	November 4, 2015
Estimated Date of Board Approval	December 10, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

1. Country and Sector Background

Sierra Leone's post war economic progress has been broad-based and since 2011, and been significantly boosted by inflows of Foreign Direct Investment (FDI) for the investment phase of two large scale iron ore operations and subsequently by their entering production. Double digit annual growth rates in real GDP were achieved in both 2012 and 2013 and were projected for 2014.

Significant increases in public spending since 2010, as fiscal policy turned expansionary have also contributed to the growth performance although this has come at a cost. A declining trend in inflation saw it enter single digits at the end of 2013. The currency which had been depreciating rapidly relative to the U.S. dollar has been stable since 2012 in nominal terms, reflecting FDI inflows and more recently iron ore exports. An historic, first ever trade surplus was achieved in 2013 which resulted in a modest current account deficit with projections of continued improvements to the latter.

There has been some diversification of growth as indicated by FDI inflows which have also increased from other mining sub-sectors, agriculture and energy.

Government issued the PRSP-3 in July 2013, with the main aims to promote inclusive growth, economic diversification and value-addition. The PRSP-3 includes pillars covering: Diversified Economic Growth; Managing Natural Resources; Accelerating Human Development; International Competitiveness; Labor and Employment; Social Protection; Governance and Public Sector Reform; and Gender and Women's Empowerment.

Revenue performance in recent years has been masked by one-off windfalls, for example from offshore oil exploration licenses, while non-mineral revenues appear to be in a structural decline. These prospects were shattered in mid-2014 by an outbreak of the Ebola Virus Disease which turned into a full scale epidemic that challenged international efforts to bring it under control throughout 2014 and the early part of 2015.

Government's response to the epidemic was initially inadequate and fragmented but soon gathered coalesced into an organized effort with the close support of the international community including the Bank which mobilized financial resources on an unprecedented scale. The health response is now managed by the National Ebola Response Center (NERC) an independent body established with a sole purpose. NERC has been making good progress in this work.

Government has prepared an ambitious post-Ebola recovery plan for 2015-17, to be funded predominantly by donors, which simultaneously aims to achieve stabilization, stimulate economic activity, promote diversification and build medium term resilience. The plan maintains a strong focus on the health sector to ensure that an incidence of zero cases is achieved and maintained, while rebuilding a more robust and effective health system. The near term focus is on restoration of basic services in health and education, and consolidation and expansion of social protection.

2. Operation Objectives

The development objectives supported through the proposed Supplemental Development Policy Financing are the same as for the EEFSO, to support and strengthen Government's management of public resources in response to the Ebola Virus Disease crisis and macroeconomic and fiscal shocks therefrom. The policies and reform measures to be supported through the operation are also consistent with and aligned to both the Government's Revised National Ebola Response Plan and the PRSP-3. The proposed operation would therefore contribute to:

- Strengthen Budget Management and Reduce Fiscal Risks; and
- Improve Transparency and Accountability for Public Resources.

The operation is fully consistent with the Joint Country Assistance Strategy.

3. Rationale for Bank Involvement

Despite the remarkable progress made by the country in the post-conflict period its access to capital for development finance remains constrained to a relatively small number of development partners. Moreover when the Ebola crisis struck in 2014, most of these responded generously by front-loading their programs of assistance. The implication of this is that they are now much more constrained to respond, when the country's needs are rising due to the sharp fall in government revenue occasioned by Ebola. The Bank, however, retains the ability to respond not being as constrained.

The proposed supplemental development policy financing is to assist the government which has seen a large fiscal financing gap open up as revenues have collapsed due to the slowdown in economic activity and lower taxpayer compliance and has experienced a large increase in unanticipated expenditures to respond to the health and social crisis that has resulted from the Ebola virus. The case for Bank financing rests on these considerations as well as on the progress achieved to date in strengthening public financial management.

4. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	
Total	30

5. Institutional and Implementation Arrangements

The administration of this operation will be the responsibility of the Ministry of Finance and Economic Development. The Financial Secretary will be the responsible individual and will be assisted by a Technical Committee comprising high level staff from the Ministry of Finance and Economic Development, the Bank of Sierra Leone and the Ministry of Health.

6. Benefits and Risks

This operation will support Government efforts to fight the EVD epidemic by providing additional fiscal resources and supporting implementation of its Ebola response strategy and of its recovery program.

Five main sources of risk could potentially jeopardize the expected outcomes and benefits of this operation. These are: (i) Epidemiological risk; (ii) Macroeconomic risks; and (iii) Domestic policy risks; (iv) Risks from exogenous shocks; and (v) Fiduciary risk. Measures to mitigate these risks in the event they materialize are being taken as outlined further below.

- (i) **Epidemiological Risk:** Despite the recent improvement in the Ebola situation the epidemiological risk remains high and as evidenced by the experience of neighboring Liberia which was declared Ebola-free by the WHO, and then relapsed some six weeks later with a spate of new cases. Anything short of complete eradication of the disease could spell disaster for the country's future by significantly increasing poverty and constraining future growth severely. An important mitigating factor is

- the increased response and support of the international community which is providing financial, technical and human resources to bring this catastrophic episode to a successful close
- (ii) **Macroeconomic Risks:** These have to some extent already materialized as a result of the EVD which has resulted in a large behavioral response through aversion. This has resulted from closure of markets and quarantines to contain the spread of the virus and other restrictions on public gatherings, including closure of restaurants, bars and the like. Other measures such as internal travel restrictions have also played a part. Equally the sharp reduction in commercial flights, restrictions by shipping lines and increased costs are posing a challenge to macroeconomic stability and prospects as the effects on the hospitality sector and services more broadly has been devastating. Additionally, some deferred foreign direct investment is adding to the macroeconomic weaknesses, which if maintained over time, could cloud future growth prospects. Efforts by prominent international leaders to speak out against isolation and to maintain ties to the EVD affected countries at this point offer the only mitigating measures.
 - (iii) **Domestic Policy Risks:** These relate to a number of sources—rollover risk from domestic debt; implicit contingent liabilities relating to recapitalization; continued structural deterioration in non-iron ore revenues—could materialize and be difficult to address if the government is pre-occupied because of the need to respond to the EVD threat or if it is unable to muster the requisite fiscal resolve. This risk remains a principal source of concern though it is to some extent mitigated by the close and intensive engagement between the Government and international partners that has been occasioned by the EVD epidemic.
 - (iv) **External Exogenous Shocks:** A global commodity price shock has already materialized in the case of iron ore. The iron ore mines in Sierra Leone have been loss making in 2014 and one has gone into voluntary administration in October 2014, mainly on account of falling international prices. Other sources of further shock could be a slowdown in China or regional conflicts affecting oil prices. The most appropriate mitigation measure is to accelerate structural reforms to accelerate economic diversification and resiliency. Maintenance of a satisfactory macroeconomic framework, bolstered by continuous dialogue with the community of multilateral and bilateral development partners (including the IMF, World Bank and the MDDBS partners) should also mitigate this risk somewhat
 - (v) **Fiduciary Risk due to weak institutional capacity and poor governance.** Weak institutional capacity and corruption hamper reform implementation. On the institutional side, weaknesses include a lack of skills and training with respect to procurement procedures and limited accounting skills, especially at the sub-national level. These risks are mitigated by robust PFM measures calibrated to existing capacity, including the provision of extensive technical assistance and capacity building through ongoing or planned projects, and the growing involvement of civil society in oversight activities.

The potential benefits of the proposed operation therefore outweigh the residual risks and warrant IDA's assistance for implementing critical reforms and policy actions in coordination with other development partners, while supporting risk mitigation actions to maximize the sustainability of the current efforts to address the epidemic.

7. Poverty and Social Impacts and Environment Aspects

Measures supported by the proposed operation are expected to have a positive and direct impact on poverty reduction. The Emergency Economic and Fiscal Support Operation (EEFSO) is designed to support Sierra Leone's efforts to bring the Ebola epidemic under control. In this regard it focuses on two areas of reform, namely support to the Ebola response and strengthening public financial management. To the extent that the poor are more vulnerable to the EVD having little recourse in terms of financial resources or mobility to mitigate it, they would benefit disproportionately from this operation. The direct beneficiaries of the proposed EEFSO include those in Ebola-affected areas, which are presently widespread in Sierra Leone covering both rural areas and urban centers including the capital. No significant adverse social or poverty impacts are expected from the prior actions supported by the operation.

The reforms supported by the proposed EEFSO are not likely to have any positive or negative effects on the environment, natural resources and forests as they do not entail any environmental effect. By providing for better resourcing of the fight against the Ebola virus, it is possible that there may be some positive environmental effects through improved disposal of medical and other waste. Moreover the ending of the EVD epidemic will likely have positive environmental benefits associated with it.

8. Contact point

Contact: Cyrus P. Talati
Title: Senior Economist
Tel: (202) 458-7375
Fax: (202) 614-7375
Email: Ctalati@worldbank.org

9. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Email: pic@worldbank.org
Web: <http://www.worldbank.org/infoshop>