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Report 114851-SL

INTERNATIONAL DEVELOPMENT ASSOCIATION

DOCUMENT FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 16.1 MILLION
(US$22 MILLION EQUIVALENT)
INCLUDING SDR 8.8 MILLION
(US$12 MILLION EQUIVALENT)
IN CRISIS RESPONSE WINDOW RESOURCES

AND A PROPOSED GRANT

IN THE AMOUNT OF SDR 5.9 MILLION
(US$8 MILLION EQUIVALENT)
IN CRISIS RESPONSE WINDOW RESOURCES

TO

THE REPUBLIC OF SIERRA LEONE

FOR THE

FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT (PTSC-I)

June 5, 2017

Macroeconomics and Fiscal Management Global Practice - GMFDR
Africa Region

**Republic of Sierra Leone - Government Fiscal Year**
January 1–December 31

**Currency Equivalents**
Exchange Rate Effective as of April 30, 2017

| Currency Unit | Leone |
|---|---|
| US$1.00 | Le 7,450 |
| US$1.00 | SDR 0.729 |

**ABBREVIATION AND ACRONYMS**

| | |
|---|---|
| ACC | Anti-Corruption Commission |
| AfDB | African Development Bank |
| AfP | Agenda for Prosperity |
| BSL | Bank of Sierra Leone |
| CAS | Country Assistance Strategy |
| CPI | Corruption Perception Index |
| CRW | Crisis Response Widow |
| DFID | Department for International Development |
| DPF | Development Policy Financing |
| DSA | Debt Sustainability Analysis |
| ECF | Extended Credit Facility |
| EDSA | Electricity Distribution and Supply Authority |
| EEFSO | Emergency Economic and Fiscal Support Operation |
| EGTC | Electricity Generation and Transmission Company |
| EIA | Environmental Impact Assessment |
| EPA | Environmental Protection Agency |
| ESMF | Environmental and Social Management Framework |
| ESURP | Energy Sector Utility Reform Project |
| EU | European Union |
| EWRC | Electricity and Water Regulatory Commission |
| FAD | Fiscal Affairs Departments |
| FAO | Food and Agriculture Organization |
| FBO | Farmer Based Organizations |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GRSC | Governance Reform and Growth Credit |
| GRT | Gross Registered Tonnage |
| GST | Goods and Services Tax |
| HFO | Heavy Fuel Oil |
| IDA | International Development Association |
| IEZ | Inshore Exclusion Zone |
| IFMIS | Integrated Financial Management Information System |
| IMF | International Monetary Fund |
| IUU | Illegal, Unreported and Unregulated |

| | |
|---|---|
| LDP | Letter of Development Policy |
| Le | Leone, Currency in Sierra Leone |
| MAFFS | Ministry of Agriculture Forestry and Food Security |
| MDAs | Ministries, Departments, and Agencies |
| MDBS | Multi-Donor Budget Support |
| MCS | Monitoring, Control and Surveillance |
| MEST | Ministry of Education, Science and Technology |
| MOF | Ministry of Finance |
| MOU | Memorandum of Understanding |
| MRAG | Marine Resources Assessment Group |
| NACS | National Anti-Corruption Strategy |
| NCOP | Network Configuration Optimization Plan |
| NLP | National Land Policy |
| NPPA | National Public Procurement Authority |
| NSADP | National Sustainable Agriculture Development Plan |
| PEFA | Public Expenditure and Financial Accountability |
| PER | Public Expenditure Review |
| PFM | Public Financial Management |
| PRP | President Recovery Priorities |
| PRSP | Poverty Reduction Strategy Paper |
| PTSC | Productivity and Transparency Support Credit |
| REDP | Revitalizing Education Development Project |
| SCADP | Smallholder Commercialization and Agribusiness Development Project |
| SDR | Special Drawing Rights |
| SLIHS | Sierra Leone Integrated Household Surveys |
| STA | Single Treasury Account |
| TSC | Teaching Service Commission |
| UK | United Kingdom |
| UNDP | United Nations Development Program |
| VGGT | Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests |
| WARFP | West Africa Regional Fisheries Program |
| WBG | World Bank Group |
| WDI | World Development Indicators |
| WHO | World Health Organization |

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## REPUBLIC OF SIERRA LEONE

## FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT (PTSC-I)

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**SUMMARY OF PROPOSED CREDIT AND GRANT**

**REPUBLIC OF SIERRA LEONE**

**FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT (PTSC-I)**

<table>
<tr><td>Borrower</td><td colspan="3">Republic of Sierra Leone</td></tr>
<tr><td>Implementing Agency</td><td colspan="3">Ministry of Finance and Economic Development</td></tr>
<tr><td>Financing Data</td><td colspan="3">IDA Credit.<br>SDR 16.1 million (US$22 million equivalent) including SDR 8.8 million (US$12 million equivalent) from the IDA Crisis Response Window.<br>Credit will be extended on IDA regular terms, with total maturity of 38 years including six years of grace.<br><br>IDA grant.<br>SDR 5.9 million (US$8 million equivalent) from the IDA Crisis Response Window.<br>Grant will be on standard IDA grant terms.</td></tr>
<tr><td>Operation type</td><td colspan="3">The First in a series of three programmatic Development Policy Operations, single tranche.</td></tr>
<tr><td>Pillars of the Operation and Program Development Objectives</td><td colspan="3">The program aims to contribute to the Government of Sierra Leone’s objective of achieving sustainable and inclusive economic development through: (i) increasing productivity in selected economic sectors and (ii) improving transparency and accountability in selected government decision making processes.</td></tr>
<tr><td rowspan="7">Results indicators</td><td>Results Indicators</td><td>Baseline (year)</td><td>End program target (2020)</td></tr>
<tr><td>Average yield of rice, measured as production in kilogram per hectare.</td><td>1.5 (2015)</td><td>2.0</td></tr>
<tr><td>Number of active industrial fishing license.</td><td>85 (2016)</td><td>30</td></tr>
<tr><td>Revenue recovered as percentage of the total revenue which could theoretically be recovered.</td><td>49.6% (2015)</td><td>63%</td></tr>
<tr><td>Absenteeism rate of the teachers on payroll</td><td>30% (2015)</td><td>15%</td></tr>
<tr><td>Share of procurement transactions processed through the e-procurement portal.</td><td>0% (2015)</td><td>20%</td></tr>
<tr><td>Share of public officials that have submitted asset declaration form.</td><td>20% (2015)</td><td>90%</td></tr>
<tr><td>Overall risk rating</td><td colspan="3">High</td></tr>
<tr><td>Climate and Disaster Risks (required for IDA countries</td><td colspan="3">Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?<br>No.</td></tr>
<tr><td>Operation ID Number</td><td colspan="3">P156651</td></tr>
</table>

**IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT**

**TO THE REPUBLIC OF SIERRA LEONE**

## I. INTRODUCTION AND COUNTRY CONTEXT

1.1 **This proposed single tranche First Productivity and Transparency Support Credit (PTSC-I[1]) for the Republic of Sierra Leone seeks the approval of the Executive Directors to provide a credit of SDR 16.1 million (US$22 million equivalent) including US$12 million from the Crisis Response Window (CRW[2]) and a grant of SDR5.9 million (US$8 million equivalent) from the CRW**. This operation is the first of a programmatic series of three PTSCs, which supports the implementation of the country's third Poverty Reduction Strategy—the Agenda for Prosperity (AfP) and the President Ebola Recovery Priorities. The aim of this series is to contribute to the Government's objective of achieving sustainable and inclusive economic development through: (i) increasing productivity in selected economic sectors and (ii) improving transparency and accountability in selected government decision making processes.

1.2 **After more than a decade of steady improvement in living conditions, progress on poverty reduction was suddenly reversed in 2014 with the advent of the Ebola epidemic and the sharp decline in iron ore prices.** According to the last two Sierra Leone Integrated Household Surveys (SLIHS), the share of population living below the national poverty line (roughly US$1/day) declined from 66.4 percent in 2003 to 53.8 percent in 2011. In the same period, overall inequality measured by the Gini coefficient decreased from 0.39 to 0.32 but disparity between urban and rural areas and between Freetown and the rest of country remained important with high concentration of poor households in rural areas. Projections based on the last two household surveys suggest that poverty further declined to 46 percent in pre-crisis 2014, before increasing to over 49 percent in 2015 as a result of the Ebola epidemic and the low commodity prices. The economy weakened by 1.3 percent in the second half of 2014 and contracted by 21 percent in 2015. The positive trend in Government's fiscal position was also reversed with domestic revenue declining to 10.8 percent of gross domestic product (GDP) in 2015, down from 12.6 percent in 2013.

1.3 **The extraordinary sensitivity of the economy to these two shocks has revealed the country's high vulnerability and reinforced the need to build economic resilience and promote a more balanced development path.** Sierra Leone's economy was spurred in the last three years prior to the crisis (2011-2013) by large scale mining production and exports, which saw the industrial sector's share in GDP nearly tripling to 21.3 percent. Iron ore, which was not produced before 2011, represented alone near 15 percent of GDP and 70 percent of export receipts in 2013. This rapid growth shifted the focus away from traditional sectors such as agriculture and fisheries that provide livelihood for almost two-third of the population. The small local manufacturing was more than ever adversely affected by imports made cheaper by abundant foreign reserves. While all these three sectors were negatively affected by the Ebola epidemic, but agriculture showed strong dynamic resilience and robust ability to recover, leading to a

[1] The World Bank has provided budget support to Sierra Leone through the Governance Reform and Growth Credit (GRSC) series since 2006. The first GRSC was approved in December 2006.

[2] Management informed the Executive Directors of its intention to allocate an indicative amount of US$20 million equivalent to support Sierra Leone's response to the impact of the commodity price shock at a technical briefing on October 12, 2016. See the note entitled "IDA Crisis Response Window Support for Liberia, Sierra Leone, Guinea and Chad in Response to the Commodity Price Shock" for additional information.

rebound in activity in 2016. The large fluctuations of the prices of iron ore have reminded the Government of the need to diversify the economy for a more balanced and less vulnerable growth.

**1.4 The proposed program 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 sound exploitation on the country's abundant natural resource endowments, renewable (arable land, forestry, and fisheries) and non-renewable (water, oil, and minerals). The proposed operation supports ongoing reforms to increase productivity and sustainability in agriculture and fisheries and increase efficiency in the and education sector while promoting transparency and accountability in selected government decision making processes and related transactions, including decision to grant access rights to private operators, including land and fisheries. The program will also focus on reducing the likelihood of miss-procurement through improved transparency and accountability and on increasing information available to document corruption cases through an effective asset disclosure system.

## II. MACROECONOMIC POLICY FRAMEWORK

### A. Recent Economic Development

**2.1 Sierra Leone's economy is recovering from the Ebola epidemic but growth is subdued by low international prices of iron ore.** 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 as a result of the Ebola outbreak and downturn in international iron ore prices. The country was officially declared Ebola free on March 17, 2016[3], and most economic activities have gradually normalized to pre-crisis levels. The recovery started earlier in the primary sector that showed some signs of resilience followed by the service sector which benefited from fewer restrictions on mobility and a normalizing business environment. However, industry, dominated by iron ore mining is still subdued by persisting low commodity prices. The largest iron ore producer (Shandong Iron and Steel Group[4]) has resumed activity since February 2016, but production is well below potential while operations remain suspended at the other mining company (Timis Mining Corporation) because of the low world prices. Overall, real GDP is increased by 6 percent in 2016, spurred by the increase in household consumption, as agricultural output grows, and with the up-tick in mining exports.

**2.2 With the moderate economic recovery, living condition is expected to improve compared to the Ebola period but poverty patterns will remain broadly unchanged.** Projections indicate that poverty has increased to 49 percent in 2015, up from 46 percent in 2014 as a result of the sharp contraction in per capita income in 2015 but this downturn phase seems to have ended with the cycle reaching a trough. With the slight recovery in per capita income, as economic growth rate turns back above population augmentation rate, poverty is expected to start declining again, though at a different pace between urban and rural areas, the impact being much lower in the less poor urban areas where unemployment remains higher than in rural areas where households benefit from more resilient agriculture. Also, the leone

[3] According to World Health Organziations (WHO), as of March 17, 2016, two incubation cycles of the virus (42 days) have passed, since the last person confirmed to have Ebola virus disease in the country. The country was declared Ebola free for the first time in January 2016, together with Guinea and Liberia.

[4] Following the acquisition of the stake previously owned by African Minerals (AML), Shandong now owns 100 percent of the equity of Tonkolili as well as the associated infrastructure company African Port and Railway Services. Production of iron ore was suspended in early 2015 by the two companies operating in the sector.

depreciated significantly in 2016, leading to higher price of imported food, which disproportionately affected the urban areas.

**2.3 Despite these positive developments, the recovery is still very fragile as the low commodity prices and the scaling down of Ebola-related aid continue to weigh on macroeconomic stability.** Despite the resumption of iron ore production, the country continues to face growing balance of payment challenges. The current account deficit widened to 19.7 percent in 2016, up from 17.4 percent in 2015, despite improvements in the trade balance, net services and net income. The decline in current transfers, including Ebola related foreign aid, outweighed the gains from restarted iron ore exports, declined Ebola related service imports, and lower factor income payments in the mining sector. Resumption of iron ore delivery to China boosted exports but persisting low world prices kept the value of shipments well below 2013 levels. The widening current account deficit is financed mainly by growing foreign direct investment (FDI) inflows to the agriculture and food processing sectors and portfolio investment to cover incurred losses in the mining sector. Nevertheless, the balance of payment will display a deficit financed by use of International Monetary Fund (IMF) resources and drawing from the stock of foreign reserves. As a result, the gross international reserves declined to 3.3 months of imports by December 2016, down from 3.8 months of imports in December 2015.

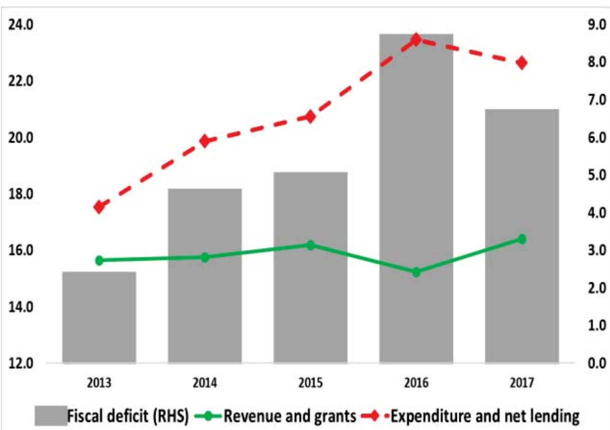
**2.4 On the policy side, greater exchange rate flexibility allowed the economy to adjust.** Interventions in the foreign exchange market by the Bank of Sierra Leone (BSL) increased markedly between the second half of 2014 and end 2015, reaching as much as US$20 million in weekly auctions. Total sales during auctions by the BSL amounted to US$112 million in 2015, up from US$83 million in 2014. With growing pressures on the international reserves, the BSL reduced its intervention to less than US$3 million per week to contain excessive volatility and let the market forces determine the exchange rate. As a results, the exchange rate depreciated by 26.4 percent in 2016, after the 12 percent depreciation in 2015. This allowed a real depreciation of the currency by 9 percent, reducing the misalignment of the exchange rate. Based on an external balance assessment, the IMF estimated the overvaluation of the exchange rate to be 15–17 percent in 2015. Hence, the premium between official and parallel market rate increased very fast to reach 12.6 percent in September 2016, up from 1.6 percent in December 2015 before declining back to around 5 percent in December 2016.

**2.5 On the fiscal side, domestic revenue mobilization remained challenging in the context of declining aid and weak recovery.** Despite an increase by 1.4 percent of GDP in domestic revenue, total revenue and grants decreased from 16.2 percent of GDP in 2015 to 15.2 percent in 2016, as foreign aid scaled down to its pre-Ebola level. Despite the sharp depreciation of the leone, budget support grants dropped from 3 percent of GDP in 2015 to 0.8 percent in 2016, while project grants remained broadly unchanged at around 2.3 percent of GDP in 2016. Tax policy continued to be marked by competing objectives of raising revenue, social considerations, and promoting medium term growth. In the last few years, the growth promotion objectives and social considerations led to several policy decisions (exemption for imported rice, adjustment of excise rate of retail fuel, weaver of Goods and Services Tax (GST) on electricity bill, etc.) that weakened the tax system, but these deficiencies were hidden by substantial influx from donors and growing revenue from the mining sector. The slump in commodity prices and the advent of Ebola have again shifted the focus toward raising domestic revenue. The Government has succeeded in eliminating some tax exemptions, including implicit subsidies on retail fuel and GST on electricity that appeared politically difficult in the past. As a result, tax to GDP increased moderately to 11.4 percent in 2016, up from 10.0 percent in 2015, as the full effects of the removal of the exemptions are expected in 2017.

**2.6 Despite weak revenue mobilization, fiscal policy remained largely expansionary as the Government continued to stimulate the economy in its effort to support the country's recovery after**

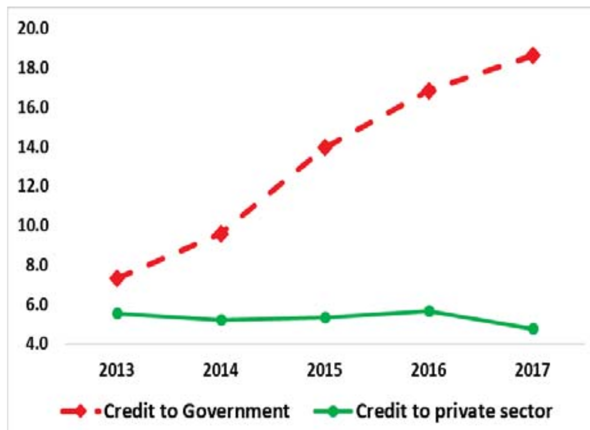
**the Ebola epidemic.** Large fiscal slippages amounting at 5.4 percent of GDP occurred in 2016 in both current and capital expenditures as the country started the implementation of the second phase of the President's Recovery Priorities. Current expenditures increased from 13.0 percent of GDP in 2015 to 15.0 percent of GDP in 2016, reflecting mainly higher levels of consumption of goods and services and wages and salaries than initially planned. Expenditure on goods and services increased from 3.2 percent of GDP in 2015 to 4.8 percent of GDP in 2016 with overruns broadly distributed across Ministries, Departments, and Agencies (MDAs). Wages and salaries increased from 7.4 percent of GDP in 2015 to 7.7 percent of GDP in 2016, reflecting higher than expected gratuity payment and the implementation of the right sizing program of 1,000 Civil Servants and pension payment to the National Social Security and Insurance Trust (NASSIT). The subsidies and transfers increased slightly, reflecting the limited election related spending. The Government also overshot its target on capital expenditures despite slightly lower execution of donors financed projects. Capital expenditures domestically financed were overrun by 1.8 percent of GDP, causing total expenditures and net lending to increase from 20.7 percent of GDP in 2015 to 23.5 of GDP percent in 2016. As a result, the Government missed its target of fiscal deficit by 3.6 percentage points of GDP. The fiscal deficit reached 8.2 percent in 2016 up from 4.5 percent in 2015.

**Figure 1: Government fiscal revenue, expenditure and deficit (in % of GDP)**




Source: WBG, IMF, MOFED

**Figure 2: Composition of domestic credit (in % of GDP)**




Source: WBG, IMF, MOFED

2.7 **With the limited access to concessional loans, the wider fiscal deficit was mainly financed by increase in domestic borrowing and accumulation of arrears**. As in the last three years, external borrowing stabilized at 1.7 percent of GDP as disbursement of concessional financed project remained slow. As a result, domestic financing of the fiscal deficit more than doubled to reach 6.5 percent of GDP in 2016, up from 3.0 percent of GDP in 2015, largely above the upper ceiling of 2 percent of GDP on which the Government's medium term fiscal program was anchored. Borrowing from the Central Bank amounted to Le 675 billion (2.5 percent of GDP, made up of IMF SDR on-lending of Le 284.1 billion; Ways and Means Advances of Le 168.2 billion and disinvestment on Treasury Securities of Le 222.7 billion). Borrowing from Commercial Banks amounted to Le 318.5 billion (1.2 percent of GDP) while financing from the non-banking sector was at Le 137.9 billion (0.5 percent of GDP). In addition, the Government accumulated a stock of payable cheques of Le 460 billion (1.9 percent of GDP), mostly related to roads construction and Grants to Subvented Agencies. This expansionary fiscal policy, together with the sharp depreciation of the leone, caused the total public debt to increase from 41.9 percent of GDP in 2015 to 54.8 percent of GDP in 2016.

**2.8 In contrast, monetary policy was tightened in the second half of 2016 to respond to the rising inflation rate**. Given the perceived weak aggregate demand and fragile economic recovery, a relatively loose monetary stance was maintained in the first half of 2016. Hence, the Monetary Policy Rate (MPR) was maintained at 9.5 percent since its reduction by 50 basis points in March 2015, while the repurchase and Standing Facility Rates were kept at 50 and 100 basis points, respectively. As inflation pressures emanating from the depreciation of the exchange rate started to growth, the Central Bank increased the MPR by 100 basis points in September 2016 to 10.5 percent and by an additional 50 basis points in December 2016 to 11 percent. Nevertheless, the inflation rate increased to 17.4 percent in December 2016, up from 8.9 percent in December 2015. The effectiveness of the monetary policy in curbing inflation has been very limited since the BSL has only partial control of the money supply and credit. Commercial lending rates remained high in Sierra Leone, owing to the apparent crowding-out from the Government borrowing as well as structural constraints, while the rising inflation keeps real deposit rates in negative territory. In addition, the financial sector's stability weakened, partly caused by the Ebola epidemic and iron ore prices downturn. For example, the ratio of non-performing loans (NPL) increased significantly to reach 39.6 percent in June 2015, up from 22.0 percent in March 2014, before falling back to 27.7 percent in June 2016, with two large banks showing ratios of 32 and 73 percent. Overall, money and quasi-money (M3) grew by 17.9 percent in December 2016, on a y-o-y basis. Domestic credit increased by 26.7 percent in December 2016 (y-o-y basis), reflecting a 32.7 percent increase in the claim on the Central Government and 16.7 percent increase in credit to the private sector. By end December 2016, total domestic credit represented 23.4 percent of GDP, with the 80 percent going to the Government (18.6 percent of GDP) and only 20 percent to the private sector (4.8 percent of GDP).

## Table 1: Selected Economic Indicators (2010-2020)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Est. | Est. | Proj. | Proj. | Proj. | Proj. |
| **National Accounts (growth rates, %)** | | | | | | | | | | | |
| Agriculture | 3.5 | 4.9 | 3.8 | 4.6 | 0.8 | 2.0 | 5.4 | 5.5 | 6.6 | 7.2 | 7.1 |
| Industry | 12.3 | 10.2 | 127.4 | 97.5 | 13.5 | -74.1 | 21.6 | 10.1 | 7.4 | 6.2 | 6.4 |
| Services | 6.7 | 7.4 | 6.1 | 6.2 | 2.0 | 1.3 | 3.0 | 4.2 | 4.7 | 4.7 | 5.8 |
| GDP at market prices | 5.3 | 6.3 | 15.2 | 20.7 | 4.6 | -21.1 | 6.0 | 5.5 | 6.0 | 6.2 | 6.6 |
| Real per capita GDP | 3.1 | 4.0 | 12.9 | 18.5 | 2.4 | -23.3 | 3.8 | 3.3 | 3.8 | 4.0 | 4.4 |
| Annual average inflation (%) | 16.6 | 16.2 | 12.9 | 9.8 | 8.3 | 9.0 | 11.5 | 17.0 | 13.5 | 10.0 | 9.0 |
| **National Accounts (% GDP at current factor cost)** | | | | | | | | | | | |
| Agriculture | 58.2 | 56.0 | 56.7 | 52.5 | 49.9 | 54.8 | 61.7 | 61.9 | 61.3 | 61.9 | 62.2 |
| Industry | 6.9 | 8.2 | 8.2 | 15.1 | 22.1 | 15.5 | 5.8 | 6.5 | 6.7 | 6.8 | 7.1 |
| Services | 34.9 | 35.7 | 35.1 | 32.4 | 28.0 | 29.7 | 32.5 | 31.6 | 31.9 | 31.3 | 30.6 |
| Gross domestic investment | 9.6 | 30.7 | 41.5 | 24.7 | 14.0 | 12.3 | 11.2 | 10.8 | 10.0 | 10.3 | 10.5 |
| Public investment * | 0.9 | 0.8 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Private investment | 8.7 | 30.0 | 40.9 | 24.2 | 13.6 | 11.9 | 10.8 | 10.5 | 9.7 | 10.0 | 10.2 |
| Gross domestic savings | 13.4 | -6.3 | 0.4 | 0.8 | -1.4 | -25.4 | -10.6 | -6.5 | -5.7 | -4.9 | -4.2 |
| Gross national savings | 19.6 | 1.0 | 1.8 | -6.5 | 7.8 | -16.9 | -4.8 | -3.2 | -1.2 | -0.8 | -0.2 |
| **Balance of Payments (% GDP at current market prices)** | | | | | | | | | | | |
| Current account balance (including current official transfers) | -19.7 | -44.7 | -31.8 | -17.5 | -18.5 | -17.4 | -19.7 | -22.3 | -20.7 | -19.0 | -18.8 |
| Current account balance (excluding current official transfers) | -22.8 | -48.1 | -38.1 | -21.4 | -20.9 | -18.4 | -34.0 | -30.5 | -26.2 | -23.9 | -22.1 |
| Gross Official Reserves in months of imports | 2.0 | 1.8 | 2.2 | 2.1 | 4.1 | 3.8 | 3.3 | 3.0 | 3.3 | 3.5 | 3.5 |
| **Debt Indicators (end of period)** | | | | | | | | | | | |
| Total Public Debt to GDP | 45.2 | 44.0 | 37.2 | 32.1 | 34.5 | 41.9 | 54.8 | 60.8 | 62.7 | 63.6 | 64.0 |
| External Public Debt | 30.4 | 32.4 | 25.8 | 21.3 | 22.9 | 29.3 | 36.8 | 41.9 | 43.2 | 44.1 | 44.6 |
| Domestic Public Debt | 14.8 | 11.6 | 11.4 | 10.8 | 11.6 | 12.6 | 18.0 | 18.8 | 19.5 | 19.5 | 19.3 |
| **Government finance (% GDP at current market prices)** | | | | | | | | | | | |
| Current revenues | 9.9 | 11.5 | 12.2 | 12.6 | 11.0 | 10.8 | 12.2 | 13.5 | 14.2 | 15.1 | 15.9 |
| Current expenditures | 12.5 | 12.6 | 13.6 | 12.1 | 13.2 | 13.0 | 15.0 | 14.9 | 14.7 | 14.4 | 14.5 |
| o/w wages and salaries | 5.2 | 5.3 | 6.1 | 5.9 | 7.2 | 7.4 | 7.7 | 6.6 | 6.0 | 6.0 | 6.0 |
| Capital expenditures | 7.7 | 9.0 | 8.2 | 6.3 | 6.0 | 7.5 | 8.6 | 7.5 | 7.2 | 7.7 | 8.0 |
| Overall fiscal balance excluding grants (commit. basis) | -10.3 | -10.1 | -9.6 | -4.9 | -8.9 | -9.9 | -11.3 | -9.1 | -7.8 | -7.1 | -6.7 |
| Overall fiscal balance including grants (commitment basis) | -5.0 | -4.6 | -5.5 | -1.9 | -4.1 | -4.5 | -8.2 | -6.2 | -5.6 | -5.0 | -4.8 |
| External borrowing (net) | 1.6 | 2.4 | 3.4 | 1.6 | 1.3 | 1.6 | 1.7 | 2.8 | 2.9 | 2.8 | 2.8 |
| Domestic borrowing (net) | 3.5 | 2.1 | 2.2 | 0.3 | 2.6 | 3.0 | 6.5 | 3.5 | 2.7 | 2.2 | 2.0 |
| **Monetary indicators** | | | | | | | | | | | |
| Broad money (M3) (% annual growth) | 29.5 | 22.2 | 22.4 | 17.1 | 16.8 | 5.8 | 17.9 | 11.0 | 14.3 | 9.0 | 9.5 |
| Net Claims on Central Government (% annual growth) | 63.2 | 6.2 | 20.4 | -3.2 | 46.6 | 55.4 | 32.7 | 29.4 | 16.1 | 10.9 | 9.8 |
| Credit to the economy (% annual growth) | 31.5 | 21.8 | -6.9 | 11.9 | 5.4 | 9.1 | 16.7 | -1.5 | 10.0 | 10.0 | 10.0 |
| Credit to the economy (in % of GDP) | 7.7 | 7.5 | 5.8 | 5.5 | 5.2 | 5.3 | 5.7 | 4.8 | 4.7 | 4.6 | 4.5 |
| Velocity (GDP/M2; end of period) | 4.3 | 4.4 | 4.6 | 5.1 | 4.6 | 4.2 | 3.9 | 4.1 | 4.1 | 4.2 | 4.3 |
| **Memo:** | | | | | | | | | | | |
| **GDP at current market prices (Le billion)** | 10,256 | 12,798 | 16,515 | 21,232 | 22,364 | 21,627 | 23,869 | 27,955 | 31,338 | 35,191 | 39,560 |
| **Non iron-ore GDP at current market prices (Le billion)** | 10,256 | 12,768 | 15,386 | 18,074 | 20,216 | 21,581 | 23,725 | 27,752 | 31,102 | 34,930 | 39,263 |
| **GDP at current market prices (USD million)** | 2,578 | 2,943 | 3,802 | 4,896 | 4,935 | 4,261 | 3,720 | 3,700 | 3,817 | 3,996 | 4,209 |

* Public investment refers to the net increase in physical assets (Gross fixed capital formation (GFCF) in the Natianal Accounts (SNA)) within the measurement period. It differs with the capital expenditure by the government which includes non-physical assets

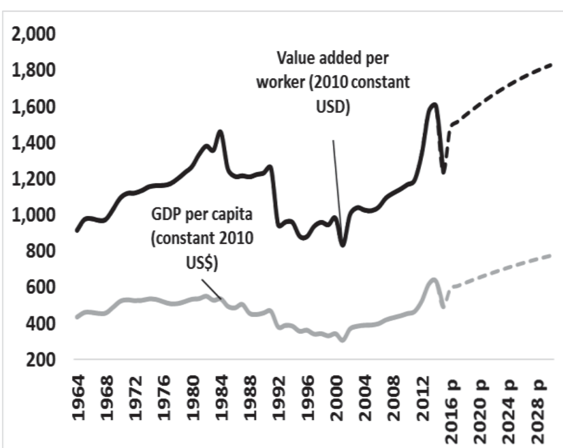
Source: Ministry of Finance, IMF, and World Bank

## B. Macroeconomic Outlook and Debt Sustainability

**2.9 Sierra Leone's medium term outlook is marked by gradual economic recovery contingent on successful macroeconomic stabilization**. In the short to medium term, the economy is expected to grow at five to six percent per year, as the lingering effects of the Ebola epidemic and the downturn in iron ore price continue to ease and participation in economic activity increases. Growth is expected to be driven by continued recovery in agriculture, mining, and services sectors (trade, transport, and telecommunication). On the demand side, private consumption and foreign direct investment will continue to be the main drivers of the economy, while export earnings are expected to gradually increase as well (though still below potential) as global commodity prices firm and the business environment improves. This positive trajectory will need to be supported by better macroeconomic management and structural reforms, including in agriculture, energy, fisheries, and mining.

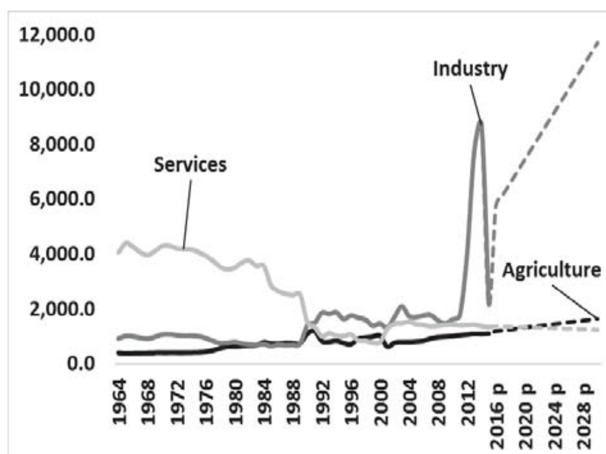
**2.10 Without significant improvement in the overall business environment, Sierra Leone's economy is expected to continue growing but at a slightly lower pace.** If the current trends in labor productivity are maintained in the next fifteen years, total value added would increase by 5.0 percent on average per annum in 2016-2030 down from 5.3 percent on average per annum in 2002-2015, reflecting slower growth in agriculture and services that will offset the effects of the higher growth expected in industry driven by the extractive sector. Under these hypotheses, value added per worker would increase by 2.6 percent on average per annum to reach US$1,830 in real terms (2010 constant US$) by 2030, up from US$1,235 in 2015. Taking into account the declining share of the non-working age population, GDP per capita would increase 3.1 percent on average per annum in the period, to reach US$770 in real term by 2030.

**Figure 3: GDP per Capita and Value Added per Worker (projection 2016-2030)**




Source: WBG WDI (2016) and staff projection

**Figure 4: Value Added per Worker by sector (projection 2016-2030)**




Source: WBG WDI (2016) and staff projection

**2.11 However, there are high risks to the sustainability of this growth path.** First, it is very likely that the expected growth in value added per worker and GDP per capita will not be translated into faster poverty reduction. In fact, as in the period 2011-2014, it can be expected that labor productivity growth will be driven mainly by the mining sector, provided that the commodity prices, mainly iron ore, stay at relatively high level (above US$70 per metric ton). However, the sector does not create enough jobs for a direct access to and a wider sharing of the generated prosperity. Second, without significant change in the policy making in Agriculture and fisheries, labor productivity will continue to growth slowly in the primary sector, keeping the majority of the population into poverty. Third, without significant improvement in the business environment and access to energy in particular, labor productivity in the non-resource sectors (industry excluding mining and services) will continue to stagnate or even decline. Recent demographic trends suggest that rural to urban migration would continue in the coming decade and it is very likely that the majority of the new urban dwellers will find job in the low productive informal sector. In addition, the overall level of education of the population needs to be significantly increased to create the condition of rapid skills development to respond to the growing private sector demand.

**2.12 Despite the outlook, the overall macroeconomic environment will remain very challenging for policymaking as the country moves toward the presidential election on March 7, 2018.** The 2017 budget presented to the Parliament in November 2016, seeks to achieve fiscal sustainability by improving domestic revenue mobilization and rationalizing public expenditures. Domestic revenues are slated to increase by 29.9 percent in 2017 to reach 13.5 percent of GDP, up from 12.2 percent in 2016, as the effects of the eliminated tax exemptions (electricity and fuel) materialize, royalties on mineral sales increase, and the fiscal base expands. Total expenditures and net lending are expected to growth by 14.4 percent to stabilize at 22.6 percent of GDP, with recurrent and capital spending increasing respectively by 16.6 percent and 10.2 percent to reach at 14.9 percent and 7.5 percent of GDP respectively. The increase in current spending is driven by a one-off expenditure related to the election and a tripling of interest payments due to the rising cost of borrowing the domestic market. Consumption spending by the Government is expected to decrease in percentage of GDP but will remain well above the average in 2013-2015. The wage bill is expected stay flat in nominal terms leading to a contraction by 1.1 in percentage of GDP. As a result, the overall fiscal deficit is targeted at 6.2 percent of GDP in 2017, with a primary fiscal deficit set at 4.4 percent of GDP.

**2.13 The need for a sustainable financing of the fiscal deficit challenges the Government to rely less heavily on stimulus measures and shift to stronger structural reforms to promote private sector development and boost productivity.** As in 2016, the large fiscal deficit is expected to be financed by substantial domestic borrowing (3.5 percent of GDP), including for the clearing of the arrears accumulated in 2016. The recourse to domestic financing of the fiscal deficit would have been much higher if access to concessional borrowing remained at its level in the last three years. Foreign concessional borrowing is also expected to increase from 1.7 percent of GDP in 2016 to 2.8 percent of GDP in 2017, reflecting mainly the expected disbursement of the World Bank budget support of US$30 million, of which US$22 million are standard International Development Association (IDA) credit. This amount includes US$22 million from the Crisis Response Window to help the country absorb the commodity price shock. Nevertheless, the total public debt is expected to increase to 60.8 percent of GDP, of which 42.5 percent of GDP are external. However, multilateral creditors account for the largest share, about 85 percent, of public and publicly guaranteed external debt.

**2.14 On the external side, the current account deficit is expected to widen further, despite stronger mining prospects and improved local supply of food.** Despite uncertainties in the evolution of the iron ore prices, the mining sector is expected to continue its recovery from its deep contraction in 2015. Outside of iron ore, earnings from rutile and bauxite exports are expected to rise on the back of new investments. Overall, earnings from merchandize exports are expected to grow by 29 percent, reflecting mainly the low levels in 2015 and 2016. However, imports of goods and services is also expected to increase by 11 percent despite the expected depreciation of the leone, improved domestically produced food, and lower Ebola related medical service imports as the domestic demand grows with the Government spending. As a result, the current account deficit is expected to increase to 22.3 percent of GDP, up from 19.7 percent in 2016, maintaining pressure on the exchange rate. In the medium term, the current account deficit is expected to decline to 18.8 percent of GDP by 2020.

**2.15 In this context, monetary policy stance is expected to put greater focus on reducing inflation while exchange rate policy will continue to help stabilize the impact of external shocks.** Inflation is expected to rise in the short term to 17 percent in 2017 but is expected to fall back in single digits over the medium term, provided that global fuel prices remain stable, the bottlenecks on agriculture activities continue to ease. Inflationary pressures are projected to be driven mainly by expansionary fiscal policy and additional currency depreciation to close the external gap. The BSL increased the MPR rate by 100 basis points on March 30, 2017, to 12 percent, the third time in a row, after a 100 basis points increase in September to 10.5 percent and an additional 50 basis points in December to 11 percent. The BSL is committed to further tighten monetary policy if necessary to achieve its inflation target but additional fiscal slippage would be a threat to the central bank's efforts to bring down inflation and would further crowd out credit to the private sector. Broad money (M3) growth is expected to slow to 11 percent with an expected contraction by 1.5 percent in the credit to private sector while the claim on central government would continue its robust growth since 2014.

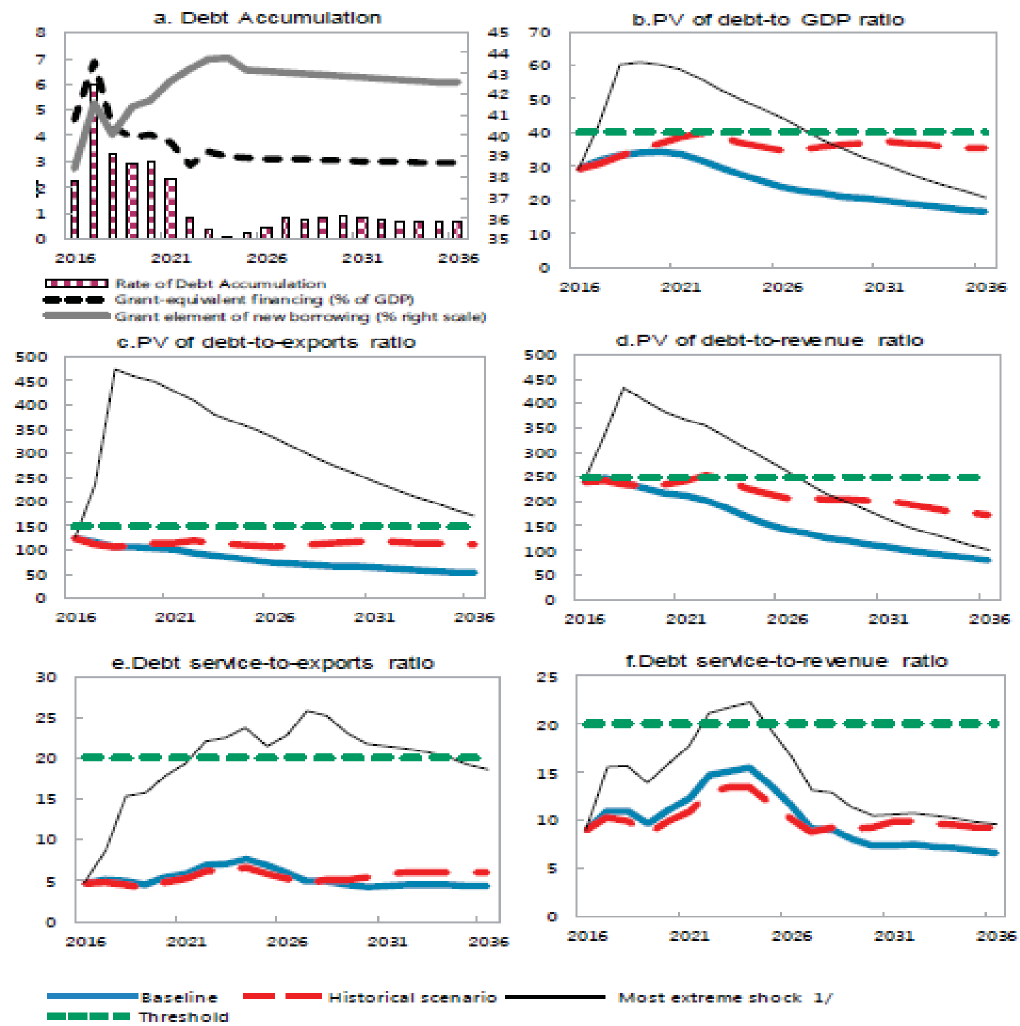
**2.16 There are significant downside risks that could affect the medium term macroeconomic and fiscal outlook.** First, there is a risk of an uneven commitment to reforms, including weak expenditure control, granting of new tax exemptions, and decline in overall fiscal transparency as the country moves towards the next presidential elections currently scheduled on March 7, 2018. As in past electoral cycles (2007 and 2012), spending pressures could lead to a deterioration of the fiscal position, while governance slippages and slow implementation of public finance managemet (PFM) reforms could impact donor support. Large fiscal slippages occurred in the last quarter of 2016 and the first quarter of 2017. Budget execution in the first quarter of 2017 has already reached one-third (33 percent) of the annual budget appropriations for 2017, with current expenditure at 27.8 percent of the annual appropriations and capital expenditure already at 47 percent of the annual appropriations. In contrast, domestic revenue mobilized was only at 19.4 percent of the annual projections of the budget. As a result, domestic financing of the fiscal deficit continued to increase, including from the central bank in March 2017 compared to December 2016. Second, aid inflows could also fall short of projections, particularly if development partners perceive a weaker Government commitment to reforms. Third, a deterioration in the terms of trade, particularly an increase in fuel prices in the medium term coupled with new decline in iron ore prices could lead to higher currency depreciation, inflation and, possibly, to social unrest. The energy sector is particularly vulnerable to currency depreciation with the growing share of imported fossil fuel in the country's energy mix. In addition, close to one third of the total domestic revenue increase is expected to come from the excise on petroleum products. Such a large tax increase could be very difficult to achieve and sustain if the exchange rate depreciates further and/or crude oil prices increase. Iron ore prices have declined by close to 30 percent, from US$88 per metric ton in mid-March to US$61 per metric ton in early May 2017. Fourth, a protracted or deepening macroeconomic downturn in the main trading partners, mainly China and in Europe, including United Kingdom (UK[5]), still represents a significant risk.

**2.17 Sierra Leone remains at moderate risk of debt distress over the medium term.** Total public debt to GDP ratio stood at 41.9 percent in 2015 and increased 54.8 percent in 2016. The restarting of iron ore production and related export receipts, as well as the improved fiscal revenue profile are expected to ease fiscal vulnerabilities over the medium term. The baseline scenario of the Debt Sustainability Analysis (DSA) indicates that none of the debt ratios breach their respective thresholds on a protracted basis throughout the projection period (2016-2036) (Figure 5). However, the present value of debt to revenue ratio is expected to hit the ceiling of 250 percent in 2017 on temporarily basis while the downside risk scenarios

[5] Over a quarter of Sierra Leone's exports went to EU countries in 2012-2014, of which over one half went to UK, while imports from EU represented more than 20 percent in 2015. DFID is one of the major donors in Sierra Leone while significant part of FDI were received from UK.

indicates more protracted breaches. This, together with an ambitious target for domestic revenue in 2017 and uncertainties in outlook in the iron ore sector constitutes a major downside risk to the DSA. Furthermore, the high current account deficit continues to keep the economy vulnerable to nominal depreciation. To mitigate these risks, there is an urgent need for decisive fiscal consolidation and stronger commitment to prudent borrowing policies, and promotion of private sector led-growth and economic diversification, including the reform agenda supported by the proposed series.

**Figure 5: Indicators of Public and Publicly Guaranteed External Debt[6]**
**(Baseline scenario 2016-2036)**




Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

**2.18 Despite these downside risks, the macro-framework is considered adequate for development policy lending.** The authorities have taken a number of strong policy measures to enhance domestic revenue, including: (i) a 60 percent increase in the price of retail petroleum products; (ii) elimination of all

[6] Joint World Bank and IMF Debt Sustainability Analysis, May 2018.

duty and tax waivers, including GST on electricity, except those covered by international agreements and contracts approved by parliament and imported rice; (iii) application of mineral royalty taxes to market prices rather than prices declared by mining companies; and (iv) introduction of excise duty of 20 percent on luxury vehicles. For the medium term, the Government is committed to improve the efficiency of tax collection and reduce resource leakages. A new Tax Administration Bill has been submitted to the Parliament. On the expenditure side, the authorities have made efforts to reduce the fiscal deficit, confirming commitment to effective spending management. They have identified capital projects worth 1.3 percent of GDP that can either be delayed until 2018 or the execution rate slowed. They are also rolling out the Integrated Financial Management Information System (IFMIS) to make sure that it is utilized by all MDAs, and that all modules of the IFMIS are fully functional, allowing more effective expenditure regulation and control from commitment to payment. On the external side, the authorities have maintained a flexible exchange rate policy to adjust the economy to the new environment and are committed to ending routine foreign exchange auctions under the new IMF program. The successful implementation of the IMF program is critical to maintain sustainability. In the medium term, the Government aims to pursue reforms that will place the country on a sustained path toward macroeconomic stability, economic diversification, inclusive growth, and employment creation, consistent with the objectives of the AfP. By focusing on the critical areas (Agriculture, fisheries, education, energy, procurement, and anti-corruption), the proposed program will help the country's macroeconomic stabilization efforts, in the medium term. Productivity growth in agriculture is expected to increase food production, reduce inflation in the long term, and reduce food imports while fiscal savings will be encouraged by the proposed interventions in the energy and education sectors as well as procurement. Greater availability of energy would also expand the tax base in the medium to long term.

Table 2: Government fiscal 2010-2020 (in % of GDP)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Est. | Est. | Proj. | Proj. | Proj. | Proj. |
| **Total revenue and grants** | **15.2** | **17.0** | **16.3** | **15.6** | **15.8** | **16.2** | **15.2** | **16.4** | **16.4** | **17.2** | **17.8** |
| **Total Revenue** | **9.9** | **11.5** | **12.2** | **12.6** | **11.0** | **10.8** | **12.2** | **13.5** | **14.2** | **15.1** | **15.9** |
| **Tax revenue** | **9.0** | **10.8** | **11.5** | **11.7** | **10.3** | **10.0** | **11.4** | **12.5** | **13.2** | **14.1** | **14.9** |
| Personal income tax | 2.0 | 3.1 | 3.7 | 3.6 | 3.1 | 3.0 | 3.9 | 3.2 | 3.2 | 3.4 | 3.6 |
| Corporate income tax | 0.9 | 0.6 | 1.3 | 1.5 | 1.3 | 1.1 | 1.4 | 1.4 | 1.5 | 1.7 | 1.9 |
| Goods and services tax | 2.4 | 2.8 | 2.7 | 2.4 | 2.3 | 2.7 | 2.8 | 3.1 | 3.5 | 3.9 | 4.1 |
| Excises | 1.4 | 0.4 | 0.6 | 1.2 | 1.1 | 1.0 | 0.8 | 1.8 | 1.3 | 1.2 | 1.1 |
| Customs and other import duties | 1.9 | 2.2 | 1.5 | 1.5 | 1.4 | 1.5 | 1.6 | 1.9 | 2.2 | 2.3 | 2.5 |
| Mining royalties and licenses | 0.2 | 1.6 | 1.4 | 1.3 | 0.9 | 0.4 | 0.7 | 0.9 | 1.2 | 1.2 | 1.3 |
| Other taxes | 0.3 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Non-tax revenue | 0.9 | 0.6 | 0.7 | 0.9 | 0.7 | 0.8 | 0.7 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Grants** | **5.3** | **5.6** | **4.1** | **3.0** | **4.7** | **5.4** | **3.1** | **2.9** | **2.2** | **2.0** | **2.0** |
| Budget support grants | 2.6 | 2.2 | 2.1 | 0.9 | 3.4 | 3.0 | 0.8 | 1.3 | 1.2 | 1.1 | 1.1 |
| Project grants | 2.7 | 3.4 | 2.0 | 2.1 | 1.4 | 2.4 | 2.3 | 1.6 | 1.0 | 1.0 | 0.8 |
| **Total expenditure and lending minus repayment** | **20.2** | **21.6** | **21.8** | **17.5** | **19.9** | **20.7** | **23.5** | **22.6** | **22.0** | **22.2** | **22.6** |
| **Current expenditure** | **12.5** | **12.6** | **13.6** | **12.1** | **13.2** | **13.0** | **15.0** | **14.9** | **14.7** | **14.4** | **14.5** |
| Wages and salaries | 5.2 | 5.3 | 6.1 | 5.9 | 7.2 | 7.4 | 7.7 | 6.6 | 6.0 | 6.0 | 6.0 |
| Goods and services | 4.2 | 3.1 | 3.0 | 2.9 | 3.4 | 3.2 | 4.8 | 3.8 | 3.8 | 3.7 | 3.7 |
| Subsidies and transfers | 1.6 | 2.2 | 2.6 | 1.7 | 1.5 | 1.6 | 1.7 | 2.4 | 2.0 | 1.8 | 1.8 |
| Interest payments | 1.6 | 2.0 | 1.9 | 1.7 | 1.1 | 0.8 | 0.9 | 2.1 | 2.9 | 2.9 | 3.0 |
| Domestic | 1.4 | 1.8 | 1.6 | 1.5 | 0.9 | 0.6 | 0.6 | 1.9 | 2.5 | 2.5 | 2.5 |
| Foreign | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 |
| **Capital expenditure** | **7.7** | **9.0** | **8.2** | **6.3** | **6.0** | **7.5** | **8.6** | **7.5** | **7.2** | **7.7** | **8.0** |
| Foreign financed | 4.2 | 6.2 | 5.2 | 4.0 | 3.1 | 4.5 | 4.4 | 4.4 | 4.1 | 4.0 | 4.0 |
| Domestic financed | 3.5 | 2.8 | 3.0 | 2.3 | 2.8 | 3.0 | 4.2 | 3.1 | 3.1 | 3.7 | 4.0 |
| **Net lending** | **0.0** | **0.0** | **0.0** | **-0.9** | **0.1** | **0.0** | **-0.6** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Contingency spending (Ebola)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.7** | **0.3** | **0.5** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Overall balance incl. grants** | **-5.0** | **-4.6** | **-5.5** | **-1.9** | **-4.1** | **-4.5** | **-8.2** | **-6.2** | **-5.6** | **-5.0** | **-4.8** |
| **Overall balance excl. grants** | **-10.3** | **-10.1** | **-9.6** | **-4.9** | **-8.9** | **-9.9** | **-11.3** | **-9.1** | **-7.8** | **-7.1** | **-6.7** |
| **Domestic primary balance** | **-5.9** | **-3.7** | **-4.2** | **-0.7** | **-5.5** | **-5.3** | **-6.7** | **-4.4** | **-3.3** | **-2.7** | **-2.2** |
| **Total Financing** | **5.0** | **4.6** | **5.5** | **1.9** | **4.1** | **4.5** | **8.2** | **6.2** | **5.6** | **5.0** | **4.8** |
| Foreign Borrowing | 1.6 | 2.4 | 3.4 | 1.6 | 1.3 | 1.6 | 1.7 | 2.8 | 2.9 | 2.8 | 2.8 |
| Domestic Borrowing | 3.5 | 2.1 | 2.2 | 0.3 | 2.6 | 3.0 | 6.5 | 3.5 | 2.7 | 2.2 | 2.0 |
| **Poverty reducing expenditures** | **2.7** | **4.2** | **5.6** | **4.9** | **6.1** | **5.8** | **5.3** | **5.5** | **5.5** | **6.0** | **7.0** |
| **Public debt** | **45.2** | **44.0** | **37.2** | **32.1** | **34.5** | **41.9** | **54.8** | **60.8** | **62.7** | **63.6** | **64.0** |

Source: Ministry of Finance, IMF, and World Bank

## C. IMF Relations

**2.19 In December 2016, Sierra Leone successfully completed an Extended Credit Facility (ECF) program with the IMF, covering the period 2013-2016.** The three-year arrangement was approved by the IMF Executive Board in October 2013, for an amount of SDR 62.2 million or an equivalent of US$86.9 million. The program was augmented twice in 2014 and 2015 in response to the Ebola epidemic, bringing total disbursements under the arrangement to SDR186.66million (about US$253.81 million). The sixth and last review was concluded on December 6, 2016, with all performance criteria observed and satisfactory progress on structural reforms, albeit with some delays. The ECF achieved its key objectives despite the exogenous shocks of the Ebola epidemic and the collapse of iron ore prices, as conditionalities were met with only a few slippages and structural benchmarks were implemented, although often with significant delays.

**2.20 The authorities have requested a new three-year arrangement under the ECF.** The program proposes an access to the IMF resources up to 78 percent of the country's quota. Total access is projected at SDR 161.7 million, of which SDR 45 million would be for budget support in 2017 and 2018. The purpose of the program would be to assist the Government's efforts to recover from Ebola, diversify the economy, and promote inclusive and sustainable economic growth. Discussion indicates that the program may focus on: (i) enhancing efforts to increase domestic revenue, and begin implementing the new PFM Law; (ii), Increasing spending on critical infrastructure and strengthening the social safety net program, and enhancing financial stability, inflation control and exchange rate management. The program will promote prudent borrowing policies, including by not borrow for the proposed new airport project. The new program is already submitted to the IMF Board of Executive Director and will be discussed on June 5, 2017.

## III. GOVERNMENT'S PROGRAM

**3.1 The Government's priorities are presented in Agenda for Prosperity (AfP).** The Afp covers the period 2013-2018 and sets out Sierra Leone's vision to become a middle-income country by 2035. This strategy follows the *Agenda for Change,* the second Poverty Reduction Strategy Paper - PRSP that covered the period 2008-2012. The Agenda includes eight pillars covering: (i) Diversified Economic Growth; (ii) Managing Natural Resources; (iii) Accelerating Human Development; (iv) International Competitiveness; (v) Labor and Employment; (vi) Social Protection; (vii) Governance and Public Sector Reform; and (viii) Gender and Women's Empowerment. The AfP includes targets for selected outcome indicators broken-down by MDAs as well as district level. MDAs are responsible for implementation which will be reviewed through Performance Management Contracts monitored by the Strategy and Policy Unit in the Office of the President.

**3.2 The implementation of the AfP was disrupted by the Ebola outbreak that temporarily shifted the country priority towards health and social protection.** With the advent of Ebola, the Government adopted a National Ebola Response Plan to eradicate the disease, restore basic socio-economic services across the country, and lift economic growth rates. The Plan included three sequential steps (i) getting to and maintaining zero new cases of Ebola; (ii) implementing immediate recovery priorities, including restoring health services, reopening schools, ensuring food security, and expanding water and sanitation services; and (iii) transitioning back to the Agenda for Prosperity, which remains the overall development strategy of the country. The implementation of the plan has led to the completion of the first two steps. In June 2016, Sierra Leone launched the President Recovery Priorities (PRP) that aim to accelerate the country's transition back to the AfP. In addition to health and education, the priorities include agriculture, fisheries, as well as access to water and energy.

**3.3 Increasing productivity, efficiency, and accountability is at the core of the Agenda for Prosperity and the President's Priorities**. Increasing agriculture productivity and developing fisheries are among the top priorities of the first pillar of the AfP. In the agriculture sector, transformative interventions driven by greater private sector participation combined with an improved agricultural extension services are expected to introduce productivity and enhancing crop technologies to increase crop yields and improve household incomes. In the fisheries sector, the overall goal of the AfP is to generate value addition and jobs, ensure food security, and increase exports, while maintaining sustainability. In addition to the direct interventions in agriculture and fisheries, the AfP promotes productivity growth through increased access to and improved quality of electricity as well as skills development. At the same time, the AfP and the President's recovery priorities pay closer attention to addressing resource wastage, efficiency gaps, and fiscal leakages through increased transparency and accountability. In this regards, promoting a culture of zero-tolerance for corruption through a strengthened anti-corruption system and improved procurement processes has been identified as an important challenge.

## IV. THE PROPOSED OPERATION

**4.1 This operation is the first of a programmatic series of three operations to support the implementation of the country's third Poverty Reduction Strategy, the AfP.** The aim of this series is to contribute to the Government's objective of achieving sustainable and inclusive economic development through: (i) increasing productivity in selected economic sectors and (ii) improving transparency and accountability in selected government decision making processes. The proposed PTSC series covers six policy areas namely: agriculture and land, fisheries, energy, education, procurement, and asset disclosure. These areas are consistent with the Government's AfP and President's priorities as well as the World Bank's Country Assistance Strategy for FY10-13[7]. The design of the series has incorporated lessons from previous development policy operations and taken into account preliminary findings of the Systematic Country Diagnostic (SCD). The program will focus on a limited number of transformational structural reforms included in the AfP and geared to unlocking inclusive growth. The series shifts focus from traditional PFM type of reforms which are already supported by donors, including European Union (EU), the United Kingdom Department for International Development (DFID), the African Development Bank (AfDB), the International Monetary Fund (IMF), and World Bank Group (WBG) investment project, to concentrate on productive sectors (agriculture fisheries, energy, and education) critical for inclusive growth. Domestic revenue mobilization is a key component of the forthcoming IMF ECF program and is also supported by AfDB and DFID while expenditure management is supported by EU (payroll in education, external oversight, etc.), AfDB (Single Treasury Account), DFID (budget credibility) and the IMF. Transparency and accountability issues will be mainstreamed into the framework for the four mentioned productive sectors as well as in education.

### A. Link to the Government Program and Operation Description

**4.2 The proposed series supports six of the eight pillars of the AfP**. The proposed reforms to increase productivity in agriculture and fisheries and improve management in the education and energy sector will support diversified economic growth, better natural resources management, labor and employment promotion and women empowerment. These areas of focus of the first pillar of the PTSC series play pivotal roles in four pillars of the AfP. The series also supports transparency and accountability in key decision making processes which are identified in the seventh pillar of the AfP related to governance and public sector reform. The link between the proposed series and the Government agenda is summarized on the table 3 below.

[7] The last CAS (Report No. 52297-SL) was approved by the Board on April 6, 2010. The preparation of the new CPF was delayed by the Ebola outbreak in 2014-2015. The CAS progress report (report No. 69913-SL) was approved in August 2012.

**Table 3: Link between the proposed series and the AfP**

| Agenda for Prosperity | Proposed PTSC series | Policy areas |
|---|---|---|
| Pillar 1: Diversified Economic Growth | Pillar 1: Increasing productivity in selected economic sectors | Agriculture and land, fisheries, and energy |
| Pillar 2: Managing Natural Resources | | |
| Pillar 5: Labour and Employment | | |
| Pillar 8: Gender and Women's Empowerment | | |
| Pillar 7: Governance and Public Sector Reform | Pillar 2: Increasing transparency and accountability in selected Government decision making processes | Public procurement and anti-corruption |
| Pillar 3 – Accelerating Human Development | | Education |
| Pillar 4 – International Competitiveness | Covered by other Bank operations and donors | Supportive Business environment |
| Pillar 6 – Social Protection | | Social protection |

**4.3 The proposed operation builds on the lessons from previous development policy operations and similar operations in fragile countries.** The proposed operation incorporates lessons from the previous programmatic series of Governance Reform and Growth Credits[8]**.** (GRGC I-III, GRGC IV-VI) as well as the Emergency Economic and Fiscal Support Operation (EEFSO) and its supplemental. Main lessons derived from these experiences state that: (i) For a fragile country, the benefits of a programmatic approach outweigh the risks in a post-conflict country in a state-building process and that it may be unrealistic to expect rapid changes to economic and social conditions in fragile countries; (ii) objectives should be commensurate with local capacity; and (iii) using budget support in tandem with investment lending and technical assistance can be very effective in a fragile country. Such linkages have been established for example between the series and the Smallholder Commercialization and Agribusiness Development Project (SCADP, P153437), the Revitalizing Education Development Project (REDP, P163161), the Energy Sector Utility Reform Project (ESURP, P120304), and the West Africa Regional Fisheries Program (WARFP, P162343).

## B. Prior Actions, Results, and Analytical Underpinnings

**4.4 The proposed operation supports eight prior actions (Table 4).** These prior actions were identified in close coordination with the authorities, and are based on a range of analytical work completed in Sierra Leone (see Table 5).

**Table 4: Summary of Proposed Prior Actions for PTSC-I**

| Proposed prior action for PTSC-I | Implementation status |
|---|---|
| **Pillar 1: increasing productivity in selected economic sectors** | |
| 1. The Recipient has introduced legislation to regulate and promote foundation seed production, multiplication and distribution by the private sector, and, to such end, the Minister of Agriculture has duly submitted the Bill entitled "The Sierra Leone Seed Certification Act of 2017" to Parliament for its approval. | Completed |
| 2. The Recipient has taken decision in Cabinet, approving a new fertilizer policy committing the Recipient to progressively reduce direct supply and distribution of fertilizer to farmers, in order to encourage private sector participation in the supply and distribution of fertilizers. | Completed |
| 3. The Recipient, acting through its Ministry of Lands, has adopted the Land Policy Implementation Framework and Land Policy Implementation Plan (2016-2026) and submitted the same to Cabinet for endorsement. | Completed |
| 4. The Recipient, acting through its Ministry of Fisheries, has published on its public website a list of all industrial vessels with an active license and certified in writing to the Association that all | Completed |

[8] The First series of Governance Reform and Growth Credit (GRGC I-III) was approved by the Board on December 14, 2006 while the second and last series (GRGC IV-VI) was approved by the Board on December 20, 2010.

| | |
|---|---|
| licensed vessels (other than tuna vessels) have a Vessel Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, in order to increase transparency and reinforce monitoring, control and surveillance of fishing activities. | |
| 5. The Recipient, acting through its Electricity Distribution and Supply Authority ("EDSA"), has approved a strategic plan to improve the financial situation of EDSA and reduce technical and commercial losses. | Completed |
| 6. The Recipient's Ministry of Education, Science and Technology (MEST) has issued a transition plan defining the timeline and milestones for the transfer of files, records and functionaries from MEST to the Teaching Service Commission ("TSC"), in accordance with the Teaching Service Commission Act of 2011. | Completed |
| **Pilar 2: Improving transparency and accountability in selected government decision making processes** | |
| 7. The Recipient has taken a decision in Cabinet approving the development of an e-procurement system in order to increase transparency in procurement processes. | Completed |
| 8. The Recipient, acting through its ACC, has issued a public notice urging all public officers who had not filed with the ACC a sworn declaration of income, assets and liabilities, as required by Section 119 of the Anti-Corruption Act of 2008, to comply with said requirement no later than October 31, 2016. | Completed |

## Table 5: Analytical Underpinning

| Proposed Prior Actions | Analytical Underpinning | Key findings and recommendations |
|---|---|---|
| **Pillar 1: Increasing productivity in selected economic sectors** | | |
| 1. The Recipient has introduced legislation to regulate and promote foundation seed production, multiplication and distribution by the private sector, and, to such end, the Minister of Agriculture has duly submitted the Bill entitled "The Sierra Leone Seed Certification Act of 2017" to Parliament for its approval. | AfP (2013-2018), NSADP (2010-2030), SDC- (2016), Agriculture PER (2015), CFSA (2015), Poverty Assessment (2014), Agricultural Sector Review (2014), Labor Force Survey (2014), Agriculture Value Chain Analysis, (USAID, 2016), NRDP (CARD 2009) | Productivity growth in agriculture is constrained by very low access to improved seeds and low incentives for the private sector's participation to the seed market. |
| 2. The Recipient has taken decision in Cabinet, approving a new fertilizer policy committing the Recipient to progressively reduce direct supply and distribution of fertilizer to farmers, in order to encourage private sector participation in the supply and distribution of fertilizers. | AfP (2013-2018), SDC (2017), NSADP (2010-2030), Agriculture PER (2015), CFSA (2015), Poverty Assessment (2014), Agricultural Sector Review (2014), Labor Force Survey (2014), Agriculture Value Chain Analysis, (USAID, 2016), NRDP (CARD 2009) | Productivity growth in agriculture is constrained by very low access to improved fertilizer and low incentives for the private sector's participation to the fertilizer market. |
| 3. The Recipient, acting through its Ministry of Lands, has adopted the Land Policy Implementation Framework and Land Policy Implementation Plan (2016-2026) and submitted the same to Cabinet for endorsement. | AfP (2013-2018), SDC-PCN (2015), NSADP (2010-2030), Agriculture PER (2015), CFSA (2015), LGAF (2015) Poverty Assessment (2014), Agricultural Sector Review (2014), Labor Force Survey (2014), Agriculture Value Chain Analysis, (USAID, 2016), Land Policy (2015), NRDP (CARD 2009). | To modernize the agricultural sector in Sierra Leone, the existing land tenure system needs to be reformed to provide for sufficient security and safeguards that could enable banks and other financial institutions to provide credit to farmers using land holding as collaterals. |
| 4. The Recipient, acting through its Ministry of Fisheries, has published on its public website a list of all industrial vessels with an active license and certified in writing to the Association that all licensed vessels (other than tuna vessels) have a Vessel | AfP (2013-2018), SDC-PCN (2015), NSADP (2010-2030), Agriculture PER (2015), Poverty Assessment (2014), Agricultural Sector Review (2014), Labor | Large number of industrial vessels and, illegal, unreported and unregulated (IUU) fishing practices is threatening the sustainability of the fisheries sector in Sierra Leone. The current number of licensed trawlers is more than the double |

| | | |
|---|---|---|
| Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, in order to increase transparency and reinforce monitoring, control and surveillance of fishing activities. | Force Survey (2014), EJF (2009), MRAG (2005). | what is estimated to be sustainable by Marine Resources Assessment Group (MRAG). |
| 5. The Recipient, acting through its Electricity Distribution and Supply Authority ("EDSA"), has approved a strategic plan to improve the financial situation of EDSA and reduce technical and commercial losses. | AfP (2013-2018), SDC (2015), Poverty Assessment (2014), Labor Force Survey (2014), Western Area Power Generation Project (WAPGP 2016), Energy Sector Utility Reform Project (ESURP 2013), Energy Access Project (EAP 2013). | The financial situation of the electricity sector is not sustainable because of low cost recovery, with high energy line losses at about 38 percent and low revenue collections at around 74 percent of total sales |
| 6. The Recipient's Ministry of Education, Science and Technology (MEST) has issued a transition plan defining the timeline and milestones for the transfer of files, records and functionaries from MEST to the Teaching Service Commission ("TSC"), in accordance with the Teaching Service Commission Act of 2011. | TSC Act 2011, ASC (2015), Situation Room Reports (2016), CSR (2013), PAD REDP (2014), Payroll Verification Pilot (2017), Gbamanja Commission of Enquiry Report (2010) | Learning outcomes in Sierra Leone are among the lowest in the region, reflecting in part the poor quality, performance, and management of the teaching workforce. Half of teachers are qualified for their level and position. The problem is most acute at primary. |
| **Pilar 2: Improving transparency and accountability in selected government decision making processes** | | |
| 7. The Recipient has taken a decision in Cabinet approving the development of an e-procurement system in order to increase transparency in procurement processes. | AfP (2013-2018), SDC-PCN (2015), Evaluation of Budget Support to Sierra Leone 2002 – 2015, PEFA (2007, 2010, 2014), TI-CPI (2010-2015), TI Global Corruption Barometer (2010-2015), SL National Integrity System Survey (2014) | Despite improvement in the legal and regulatory framework, overall compliance with procurement policy from the preparation of procurement plans to the singing of contracts is extremely low in Sierra Leone. The share of public procurement transactions conducted through open competition less than 50 percent. |
| 8. The Recipient, acting through its ACC, has issued a public notice urging all public officers who had not filed with the ACC a sworn declaration of income, assets and liabilities, as required by Section 119 of the Anti-Corruption Act of 2008, to comply with said requirement no later than October 31, 2016. | AfP (2013-2018), SDC (2015), Evaluation of Budget Support to Sierra Leone 2002 – 2015, PEFA (2007, 2010, 2014), TI-CPI (2010-2016), TI Global Corruption Barometer (2010-2015), SL National Integrity System Survey (2014) | Despite this improvement, the perception of corruption remains relatively high in Sierra Leone. The country is ranked 123th out of 167 countries in the TI Corruption Perception Index (CPI) for 2016. Developing a more effective asset disclosure system and integrating it into wider anti-corruption programs can be a critical element for preventing corruption. |

**Pillar 1: Increasing productivity in selected economic sectors**

**4.5 In this first pillar, the proposed series supports reforms in the four most critical areas for productivity growth.** The pillar focuses on two productive sectors, agriculture and fisheries, and two cross-cutting areas, energy and education. The two productive sectors represent more than a half of the nominal GDP, two third of total employment and three quarters of employment outside Freetown, constitute the second contributor to the country's export earnings after mining and have the biggest potential for economic diversification. Outside the natural resource sector (agriculture and mining), boosting productivity and job creation, whether in Freetown and other urban areas, requires significant increase in capital per worker and skills making critical access to improved quality supply of energy and education.

**Policy area 1: Agriculture and land**

***Policy context***

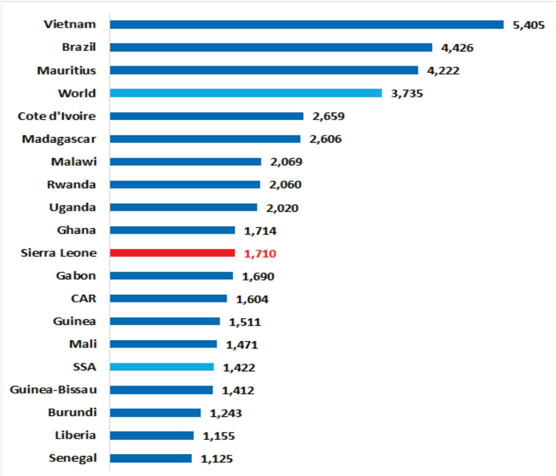
**4.6 Agriculture is essential to growth and to reducing mass poverty and food insecurity in Sierra Leone.** According to the labor force survey (2014), agriculture represents 61 percent of all jobs in the economy and 74 percent of employment in rural areas. In terms of value added, the sector represented more than a half of the economy (52 percent of GDP) in the last decade (2005-2015). Crop production alone represented one third of the economy in the same decade and contributed up to 32 percent to GDP growth, despite the emergence of large scale mining over the 2012-2014 period. Improved security, increased private investment and better policy contributed to the achievement of the strong performance. Sierra Leone has experienced steady increase in medium to large-scale investment (up to 7 percent of GDP) in agriculture in the decade since the end of the civil war. Promoting private sector investment in commercial agriculture is one of the objectives of the National Sustainable Agriculture Development Plan (NSADP 2010-2030). At the same time, the Smallholder Commercialization Program (SCP 2010-2015) helped organize the smallholders by establishing and equipping 193 Agribusiness Centers (ABCs), involving a total of about 122,500 farmers, of which 30 percent are from female-headed households. The successor of the SCP, the Inclusive Comprehensive Agricultural Development Program (ICADEP) covering the 2016-2020 period will continue support to smallholder commercialization as a basis for inclusive sector growth.

***Problem identification***

**4.7 Despite growing private investment in the last few years, the productivity of Sierra Leone's agriculture is low and dominated by low-input, low-output subsistence agriculture.** Natural factors of production (land, labor, water, and sunlight) for agriculture are abundant in Sierra Leone. According to the last household survey, approximately 85 percent of crop producing households owned land. With a working age population of 3 million, almost 2 million are in the workforce of which, over 1.3 million, predominantly women, are occupied in agriculture. Despite these favorable conditions, Sierra Leone has not been able to adequately feed its population as production falls well below its potential. Increase in cultivated areas has been the main driver of output growth in the past decade, as farmers returned to their agricultural settlements after the civil war[9]. Rice harvested areas almost doubled between 2001 (300,000 ha) and 2014 (650,000 ha), more than 6 percent increase per year in the period. Given the limited scope for area expansion for the majority of farming households, most of the increase in production in the future should come from increase in yields, resulting from adoption of new technologies by small-scale farmers. There is a huge margin for productivity increase in Sierra Leone's agriculture. ***Yields are too low for most crops, standing at about a third of their potential levels***. According to Food and Agriculture Organization (FAO), average cereal yield was at 1,710 kg per hectare on average in 2010-2014, less than a half of the world average and a third of cereal yield level in Vietnam.

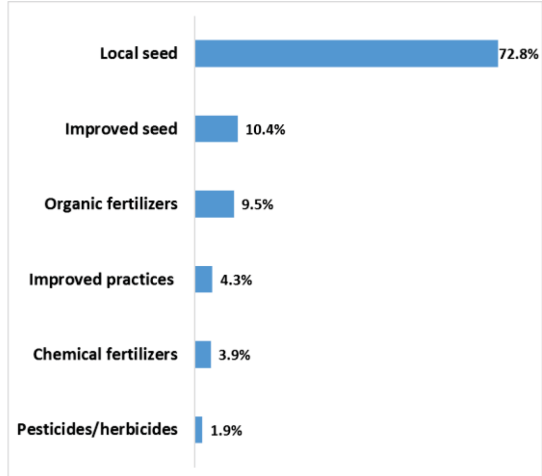
[9] The civil war caused the displacement of 30 percent of the population with farms abandoned for Freetown and other cities or neighboring countries.

**Figure 6: Cereal yield[10], average 2010-2014 (kg/ha)**




Source: FAOSTAT

**Figure 7: Percentage of farmers using the selected inputs/technologies**




Source: WFP (CFSVA 2016)

***Policy objective***

**4.8** The objective of the proposed series in this policy area is to support the AfP's strategic objective #1: to increase productivity and production of rice, cassava, and livestock. The series will focus only on crop production and will not cover livestock.

***Actions formulation***

**4.9 Increasing agriculture productivity to the world average (see Figure 6 above) would be very challenging within the time horizon of the series, but reaching the level of Cote d'Ivoire is a reasonable and feasible target for Sierra Leone.** Cereal yield has increased by 72 percent from 2002 (996kg/ha) to 2014 (1,721kg/ha) but the level in 2014 is only 7.5 percent higher than its level four decades ago, in 1969 (1,600kg/ha). According to the recent comprehensive food security assessment[11], use of improved seeds and fertilizers by farmers is low for all commodities. Around 73 percent of farmers use recycled seeds from previous harvest[12] while less than 10 percent apply organic fertilizer, with overall use falling at 4kg/ha compared to 9kg/ha for Sub-Saharan Africa and over 100kg/ha for developed countries. The country's ability to further increase productivity depends largely on farmers' facility to access reliable sources of quality improved agricultural inputs at reasonable prices. The Government has implemented policy reforms aimed at liberalizing production and distribution of agricultural inputs which enabled the emergence of limited private agro-dealers. However, the policy does not define clearly the role and responsibilities of the stakeholders. The Government, through the Ministry of Agriculture Forestry and Food Security (MAFFS), continues to compete with the private sector in the production, purchase, and distribution of seeds and fertilizer creating distortions in the market and discouraging private investment

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[10] Cereal yield, measured as kilograms per hectare of harvested land, includes wheat, rice, maize, barley, oats, rye, millet, sorghum, buckwheat, and mixed grains. Production data on cereals relate to crops harvested for dry grain only. Cereal crops harvested for hay or harvested green for food, feed, or silage and those used for grazing are excluded. The FAO allocates production data to the calendar year in which the bulk of the harvest took place. Most of a crop harvested near the end of a year will be used in the following year.

[11] Comprehensive Food Security and Vulnerability Assessment (CFSVA) undertaken by World Food Program (WFP/MAFFS/FAO, 2016) indicates that use of improved high-yielding seed varieties as well as chemical and organic fertilizer is very low in Sierra Leone compared to other countries in Sub-Saharan Africa. About 4 percent of the farmers apply chemical fertilizers, about 10 percent apply organic fertilizer and have access to and use improved seeds.

[12] Sierra Leone Agricultural Value Chain Analysis, USAID, October 2015.

in the sub-sector. A clear lesson from the past experiences is that Government must restrict its interventions to broad policy formulation and support to private sector engagement in production and marketing. The proposed series supports the clarification of agricultural input policies and the effective phasing out of the Government interventions.

**4.10 The proposed operation supports a critical action aiming at clarifying the Government and private sector roles in the supply of seed and fertilizer.** The seeds that farmers grow are commonly certified seeds. The certification of seeds is a legally sanctioned system for quality control of seeds that are used for crop cultivation. The certified seeds are grown under some production requirements and they have improved traits such as better yield, pest resistance, climate tolerance, herbicide tolerance etc. The certified seeds are outcome of years of research and development to get these improved traits. Sierra Leone is implementing a National Seed Policy, which encourages private sector production of certified seeds. The policy is implemented through different institutions including the MAFFS, the Sierra Leone Agricultural Research Institute (SLARI), and other entities. These institutions also include the National Seed Board, the Seed Industry Development Unit, the Seed Quality Control Unit; the Sierra Leone Seed Certification Agency (SLSCA), and the Variety Release Committee. The mechanism provides a comprehensive means to identify varieties, oversees the standard approval process, and ensure quality. A seed bill that clarifies the roles and responsibilities of the government and the private sector has been gazetted and ready to be submitted to the parliament (Prior action #1). A seed regulation has also been drafted and waiting to be submitted to the Cabinet after the approval of the seed law by the Parliament (PTSC-II Indicative Trigger #1). This regulatory framework is expected to encourage production of certified seed, increase their supply by the private sector and contribute to creating the conditions for productivity increase.

***Prior action #1:*** *The Recipient has introduced legislation to regulate and promote foundation seed production, multiplication and distribution by the private sector, and, to such end, the Minister of Agriculture has duly submitted the Bill entitled "The Sierra Leone Seed Certification Act of 2017" to Parliament for its approval.*

**4.11 The proposed operation also helps clarify the roles of Government and private sector in the fertilizer supply chain.** In Sierra Leone, only 9.5 percent and 3.9 percent of farmers use respectively organic and chemical fertilizers and those who do, use poor quality fertilizer and apply rates significantly below those recommended. This extremely low level of fertilizer use is primarily due to very limited access and relatively high cost. Just as in the seed sub-sector, there is no clear policy or regulations that defines who should supply fertilizer in the country and of what quality. Currently, the MAFFS sets the rules (policy guidelines) and competes with the private sector at the same time. For example, in 2014 the private sector supplied most of the fertilizer in the country, but in 2015, the MAFFS ordered the largest quantity of fertilizer, which arrived with huge delay to the farmers. The quality of imported fertilizer is another problem as there is no effective quality assurance organization. Fertilizer is retailed in the local markets in cups or unlabeled plastic bags. To correct these weaknesses, the proposed operation supports the adoption of a new fertilizer policy that encourages private sector participation in the supply and distribution of fertilizer (Prior action #2). The implementation of the regulation is expected to be gradual with the Government phasing out progressively its fertilizer supply to the market. The Government is committed to adopt a new fertilizer regulation that is consistent with the National Fertilizer Policy and the Economic Community of West African States (ECOWAS) regulation on fertilizers. (PTSC-II Indicative Trigger #2) to encourage higher private sector participation. These actions will complement initiatives aimed at stimulating farmers' demand of fertilizers.

***Prior action #2:*** *The Recipient has taken decision in Cabinet, approving a new fertilizer policy committing the Recipient to progressively reduce direct supply and distribution of fertilizer to farmers, in order to encourage private sector participation in the supply and distribution of fertilizers.*

**4.12 Sierra Leone is still a net-importer of many food commodities, including the staple rice.** Domestic consumption increased by 5.7 percent on average per annum between 2001 and 2015, driven mainly by local production, which increased by 10.4 percent on average per annum. Rice imports continue to increase by 3.4 percent per annum, a slower pace than local production, leading to a decline of its market share to 20 percent in 2015, down from 56 percent in 2001. In 2015, total consummation was estimated at 1,00,000 tons of milled rice with 800,000 tons of local production and 200,000 tons of imports. A large proportion of the imported rice is consumed in Freetown and to a lesser extend in the other urban areas. Only small proportion of imported rice is consumed in rural areas mainly in July and August during the lean season where the stock of locally produced rice is the lowest. Given, the country's natural comparative advantage in rice production, developing the rice value chain is a plausible policy. Pursuing import substitution policy can benefit both rice producers and consumers, improve food security and save the country's scarce foreign exchange (more than US$100 million per year since 2012, or one fifth of the international foreign reserves). For this to happen, there is a need to improve the productivity and the competitiveness of domestic rice, including the regulatory framework that would attract strong private sector investment in rice milling and trading. The actions supported by this operation to liberalize the agriculture input market are expected to improve farmers' access to improved technology but the incentives need also to be aligned. Currently, the duty on imported rice (15 percent) is waived discouraging investment in the value-chain. The proposed program supports the elimination of the waiver on rice import ((PTSC-II Indicative Trigger #3) to encourage fair competition, save foreign reserves, and enhance domestic resource mobilization.

**4.13 In addition, to facilitate farmers' access to quality inputs, the proposed operation supports the reform of the existing land tenure system in order to create a functional land administration system which is critical for promoting land tenure security – which is one of the key factors for sustainable agricultural sector growth.** According to the Agricultural Sector Review, the existing land tenure system in Sierra Leone is adequate for the small scale subsistence agriculture prevalent in the country though it does not provide the needed security to owners. The system needs to be streamlined to provide for sufficient safeguards that could enable banks and other financial institutions to provide credit to farmers using land holding as collaterals. To address these issues, the Government has developed a comprehensive National Land Policy (NLP) in a largely participative process. The adoption of the NLP by the Government's Cabinet in 2015 set in motion the process to develop an implementation plan. The proposed series supports continued inclusive dialogue among different stakeholders throughout the reform process. A first step toward the implementation of the reform of the land tenure system is the adoption by Cabinet of the Land Policy Implementation Framework and the National Land Policy Implementation Plan (Prior action #3) developed by the Government in participatory manner. The Government has also established a Multi-Stakeholder Platform and an institutional framework, based on the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests (VGGT), including an Inter-Ministerial Task Force, a Steering Committee, a Technical Working Group, National Land Policy Reform Steering Committee, and a VGGT-Secretariat in the country to support and facilitate tenure governance reforms in the land, fisheries and forestry sectors. The VGGT multi-stakeholder institutional framework will ensure an inclusive and participatory implementation of the NLP reform process. The proposed series supports the operationalization of the Regional NLPR Oversight Committee (PTSC-II Indicative Trigger #4) that is expected to take into account the voice of the citizens in remote areas, including women. This is critical to maintain a consensual process toward the preparation of a new land law.

***Prior action #3****: The Recipient, acting through its Ministry of Lands, has adopted the Land Policy Implementation Framework and Land Policy Implementation Plan (2016-2026) and submitted the same to Cabinet for endorsement.*

***Policy monitoring evaluation***

**4.14 For the monitoring and evaluation of the series in this policy area, the average yield of rice will be used as result indicator.** The indicator is a subset of the key outcome indicator #1 of the Agenda for Prosperity.

***Result indicator #1:*** *Average yield of rice, measured as production in kilogram per hectare. Baseline (2015): 1.50. Target (2020): 2.00.*

**Policy area 2: Fisheries**

***Policy context***

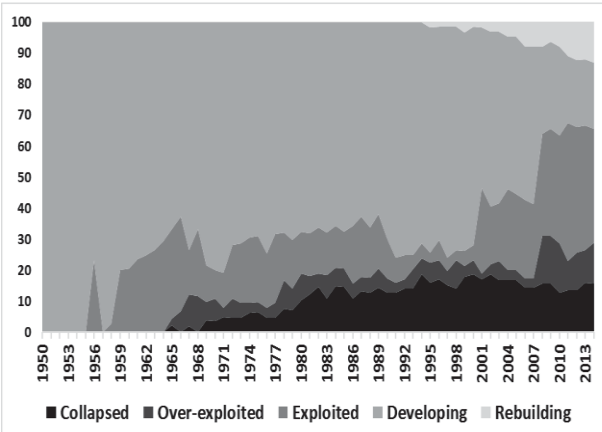
**4.15 Sierra Leone has a valuable marine ecosystem able to support populations of demersal fish and crustaceans and attract large and small pelagic stocks shared with regional countries.** Total production from the industrial and artisanal fisheries is estimated at about 200,000 metric tons per year, representing a nominal value of Le 2,750 billion (about US$541 million per annum), or 12 percent of GDP in 2015. Fish is a major source of animal protein for over 80 percent of the country's population and the sector currently employs thousands of Sierra Leoneans, with women at the forefront of many activities (particularly fish processing and marketing). The artisanal fishery is open access with no effective control over fishing effort, there is further competition over resources from industrial vessels and, illegal, unreported and unregulated (IUU) fishing practices is threatening the sustainability of the sector. With support from the West Africa Regional Fisheries Program (WARFP), the Government improved fisheries management by defining and enforcing a six miles Inshore Exclusion Zone (IEZ) and applied satellite monitoring. As a result, the number of industrial trawlers were reduced and industrial vessels reduced competition with artisanal fishing, leading to 35 percent increase in landing by 2013. However, Monitoring, Control and Surveillance (MCS) of fishing activities weakened and the numbers of licensed industrial vessels increased in an attempt to raise licensing revenue starting in 2014.

***Problem identification***

**4.16 Due to excess industrial fishing effort, the fish resources are deteriorating and the sector's sustainability is threatened.** As in many other countries, fisheries in Sierra Leone is characterized by overexploitation of fish resources. Current levels of fishing efforts of both industrial and artisanal sectors are too high relative to the estimated level that ensures biological sustainability with highest yield (MSY – maximum sustainable yield). The damage can even be higher since the actual catches are based on reported rather than observed. It is widely believed that there are considerable illegal and underreported fishing practices. Artisanal fishing communities report reduced landings and incursions in the IEZ by trawlers, not seen for some years. This contrast with the situation in 2013 where reduced numbers of trawlers resulted in an increase in artisanal fish landings. This trend has been reversed since 2014, with catch levels between 2 and 5 tones per fishing day by a typical trawler, depending on method used. The current number of licensed trawlers is more than double what is estimated to be sustainable by Marine Resources Assessment Group (MRAG).

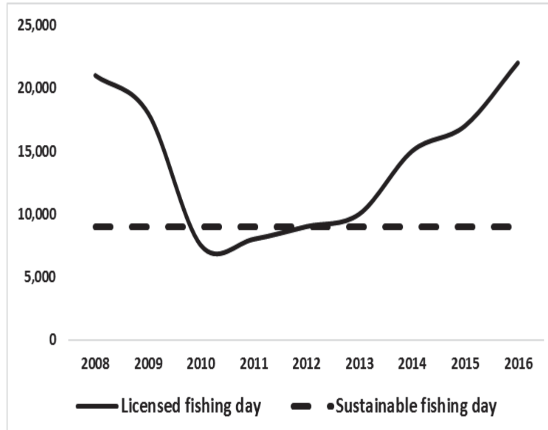
**4.17 The root cause of the excess fishing effort is the weak governance of the fisheries sector**. IUU[13] fishing remains a significant issue in Sierra Leone. Efforts to fight IUU Fishing are insufficient as monitoring, control and surveillance of fishing activities weakened and this has led to the country receiving a warning (yellow card) by the EU. If no corrective action is taken, fish from Sierra Leone's sea will be suspended from entering to EU as three other countries are currently.

**Figure 8: Status of fish stock (composition in % of total stock)**




Source: Sea Around US

**Figure 9: Licensed and sustainable fishing level (mt/day)**




Source: WARFP estimates

***Policy objective***

**4.18** The objective of the proposed series in this policy area is to support the AfP's strategic objectives #5 and #8: (#5) to increase the supply of fish for the domestic market by at least 15 percent annually, particularly from semi-industrial, artisanal, inland, and aquaculture fisheries activities and (#8) to promote and enforce sector-wide enhanced sustainable fishing practices, community management of artisanal fisheries and regulations. The series will focus only on marine resource exploitation and will not cover inland and aquaculture fisheries.

***Actions formulation***

**4.19 Sierra Leone's ability to increase the supply of fish for its domestic market in a sustainable manner is closely linked to its ability to control fishing capacity**. According to Marine Resources Assessment Group (MRAG-2014), the precautionary maximum sustainable annual yield (MSY) is estimated at 17,400 mt for demersal industrial fisheries, 1950 mt for shrimp and crustacean. Other estimates suggest about 10,000 mt for large pelagic (tuna), and at about 100,000 mt for small pelagic. Therefore, the annual ex vessel value that Sierra Leone could generate in a sustainable manner is estimated at US$186 million, including the artisanal catch valued at international trading rates, out of which US$74 million could be generated from the industrial segment targeting high value species (demersal). This amount could be generated by 30 trawlers[14], this would not impact the ability of the marine resource to renew itself and trawling vessels would be profitable. As of end June 2016, Sierra Leone has licensed 85 trawlers, close to three times the precautionary sustainable capacity. Therefore, introducing institutional arrangements that align individual fisher incentives to limit the aggregate fishing effort to an optimal level is prerequisite for achieving the potential of the sector. There is also a need to

[13] IUU catches was estimated to reach 103,000-127,000 mt per year by MRAG (2005). Aerial surveys in 2000-2001 found that 30-51 percent of actively fishing vessels were operating illegally, and some reports have estimated that IUU fishing may account for over 26 percent of total fish catch in Sierra Leone (Kelleher 2002; EJF 2009).

[14] Assuming retention rates of total 1.5 tons per fishing day in a 12-month- license period.

adjust the monitoring arrangements to allow more reliable observers on vessels to report fish catch. The proposed operation supports the publication of the list of industrial vessels and the confirmation that all licensed vessels have Vessel Monitoring System (VMS) transponders and independent observers on board, to increase transparency and to reinforce monitoring, control and surveillance of fishing activities (Prior action #4). The series supports also the changes in legislation to return the industrial fishing capacity to a sustainable level. The submission of the new Fisheries Bill to the Parliament is a trigger for the next operation (PTSC-II Indicative Trigger #5).

***Prior action #4:*** *The Recipient, acting through its Ministry of Fisheries, has published on its public website a list of all industrial vessels with an active license and certified in writing to the Association that all licensed vessels (other than tuna vessels) have a Vessel Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, in order to increase transparency and reinforce monitoring, control and surveillance of fishing activities.*

***Policy monitoring evaluation***

**4.20 For the monitoring and evaluation of the series in this policy area, the number of active industrial fishing license will be used as result indicator.**

***Result indicator #2:*** *Number of active industrial fishing license. Baseline (2016): 85. Target (2020): 30.*

**Policy area 3: Energy**

***Policy context***

**4.21 Electricity access in Sierra Leone is among the lowest in the world with less than 15 percent of the population connected to the electricity grid**. According to the Government, only 125,000 households have access to electricity with a high concentration in Freetown. According to the SLIHS, more than half of Freetown residents (56 percent) used electricity as the main source of lighting in 2011, compared with only 0.1 percent of rural residents. In total, the country has only 100 MW of installed generation capacity on which only 75MW are operational. The majority of installed capacity in Sierra comes from renewable energy (hydropower) mainly Bumbuna, but the country uses of heavy fuel oil (HFO) and Diesel plants to supplement renewable technologies. There has been modest improvement in electricity supply over the last few years, but with the sustained economic growth in the decade before 2014, the demand for energy exceeds the supply by more than 30 percent. As a result, a large part of businesses runs private diesel power to generate high-cost electricity, thus limiting productivity growth and job creation. Underinvestment in power generation, transmission and distribution and weak sector management are the main constraints to the expansion of electricity supply in Sierra Leone. In 2011, the Government started the reform of the sector with the adoption of the National Electricity Act, 2011 (the Electricity Act)[15] which unbundled the National Power Authority (NPA) into the Electricity Generation and Transmission Company (EGTC) and the Electricity Distribution and Supply Authority (EDSA). EGTC and EDSA became operational in January 2015. The Electricity and Water Regulatory Commission (EWRC) was also established in 2011 with the mandate to determine and review tariffs.

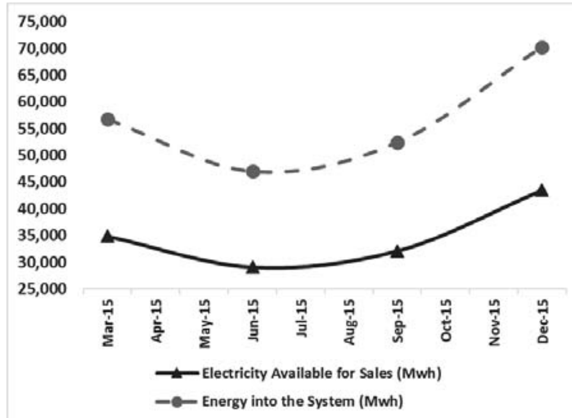
***Problem identification***

**4.22 Expending access to electricity depends critically on the financial viability of EDSA.** EDSA is the sole responsible for collecting and delivering

**Figure 10: Electricity generated and available for sales (in Megawatt-hour (Mwh))**

[15] Electricity Act 2011, Supplement to the Sierra Leone Gazette CXLII, No. 62, dated 22nd September 2011.

electricity to customers in Sierra Leone and its performance impacts the entire value chain. Despite relatively high average tariffs of US$0.22 per kilowatt-hour (kWh[16]) in 2015, the electricity sector is not recovering its costs because of high energy line losses at about 38 percent and low revenue collections at around 74 percent of total sales the sector display and a cash flow deficit of about US$8 million, equivalent to 27 percent of EDSA's total revenue for 2015.



Source: WAPGP (2016)

***Policy objective***

**4.23** The objective of the proposed series in this policy area is to support the AfP's strategic objectives (#5) to enhance access to reliable and cost effective energy supply. The series will focus on the financial viability of EDSA mainly through the reduction of commercial losses and the increase of collection rate.

***Actions formulation***

**4.24 EDSA's ability to improve its financial situation depends critically on its capacity to reduce revenue losses.** The Government adopted in June 2016 a Policy Letter to ensure financial and operational sustainability in the electricity sector. The Letter outlines the measures that the Government is committed to implement over the coming years to: (i) attract and ensure sustainability of private sector investments in the electricity sector, including the Western Area Power Generation Project; (ii) ensure that EDSA becomes an independent, and commercially viable distribution entity with a credible track-record of making due and timely payments to its power producers and fuel suppliers; (iii) improve transparency and predictability of cash flows in the electricity sector; and (iv) reduce the burden of the electricity sector on the fiscal budget of Sierra Leone. The authorities are committed to reducing system losses and increase revenue collection during the period from 2016 to 2022. However, technical losses reduction requires huge network investment and would take longer time to achieve. Therefore, the focus in the short term would be on reducing commercial losses and increasing collection rate. The Government is committed to increasing revenue ratio and improving revenue management for the electricity sector, including installing pre-paid meters, deploying advanced metering infrastructure for large consumers, and developing data and information system for EDSA. The Government has also transferred the management of EDSA to a management contractor. With the help of the management contractor, the Board of EDSA has approved a strategic plan to improve the operation and financial performance of EDSA, which includes reduction of technical and commercial losses and increase of collection rate (Prior action #5). EDSA is also committed to approve a Network Configuration Optimization Plan (NCOP) and completed the installation of control metering points at source to manage system losses (PTSC II Indicative Trigger #6).

***Prior action #5:*** *The Recipient, acting through its Electricity Distribution and Supply Authority ("EDSA"), has approved a strategic plan to improve the financial situation of EDSA and reduce technical and commercial losses.*

[16] As a comparison the average tariffs in Ghana and Cote D'Ivoire are US$0.09 and US$0.11 per kWh, respectively.

*Policy monitoring evaluation*

**4.25 For the monitoring and evaluation of the series in this policy area, the revenue recovered as percentage of the total revenue which could be theoretically recovered will be used as result indicator.**

***Result indicator #3:*** *Revenue recovered as percentage of the total revenue which could theoretically be recovered (Revenue ratio of EDSA). Baseline (2015): 49.6%. Target (2020): 63%.*

**Policy area 4: Education**

*Policy context*

**4.26 Access to education increased significantly in Sierra Leone in the postwar period but learning outcomes remains among the lowest in the region.** The primary gross enrolment rate (GER) has been maintained above 100 percent in most of the postwar period and the net primary enrollment rate (NER) exceeds 95 percent. The gender gap in access to primary education has been closed but girls' access to secondary and tertiary education is significantly lagging compared to boys. The primary completion rate increased from 55 percent in 2004 to 75 percent in 2011 but has declined to 66 percent in 2015 to fall below the average of Sub-Saharan Africa (69 percent), though it remains above that of its neighbors Guinea (62 percent) and Liberia (59 percent). Despite these performances, Pupils' learning outcomes are generally very poor at all levels. The Early Grade Reading Assessment (EGRA) results show 87 percent of pupils in second grade were unable to read a short text compared to 40 percent in Gambia, 30 percent in Liberia and 53 percent in Uganda. By the end of third Grade, over 50 percent of the children are still lacking the most basic reading, writing and comprehension skills. Exam performance at the end of Junior Secondary School (JSS) and Senior Secondary School (SSS) also attest to poor learning. Sierra Leone education system in comprised of government and nongovernmental (mission, community, and private) providers and is under the control of the Ministry of Education, Science and Technology (MEST) and, as far as basic education is concerned, the Ministry of Local Government as well. Progression from primary onwards is subject to passing each end of cycle exam. More than a decade of research finds unequivocal the connection between teacher quality and student learning. Also, it is widely recognized that teaching time is a key correlate of learning outcomes, especially for disadvantaged children who may have very few opportunities to learn outside school. Teacher absenteeism is high (30 percent) and their allocation is inefficient. Only half of teachers are qualified for their level and position. In 2011, a Teaching Service Commission (TSC) was created to teaching services to address these weaknesses.

*Problem identification*

**4.27 Improving the quality of education depends critically of the quality of the management of teaching services.** According to the Education Country Status Report (2010), close to 78 percent of the recurrent expenditures on education are on wages and salaries but the quality of teaching is very poor. In response to the poor performance of students in BECE and WASSCE, a commission of enquiry (Gbamanja Commission) was set up to identify the causes and propose solutions. The commission main recommendation was to professionalize teaching with a view to fostering effective teaching and learning. This led to the creation of a semi-autonomous body in 2011, the TSC, to address all issues concerning teachers, including governance and transparency aspects. As a result, all function related to teacher management have to be transferred from the MEST to the TSC, including teacher registration and licensing; teacher management (i.e. recruitment, transfer, dismissal, promotion, and retirement), teacher records and payroll; teacher professional development and performance; and teacher-employer relations. However, since its creation by an Act of Parliament in 2011, the TSC is not yet functional. While the TSC was created in 2011, the TSC Chair was only appointed in July 2015 and received parliamentary approval in October 2015. Bay July 2016, all sixteen commissioners were appointed and the inaugural meeting of the TSC was convened in August 2016. The TSC office has been equipped, refurbished and furnished; staff recruitment is ongoing; and technical assistance is being provided to TSC to develop policy guidelines and district operations manual in the TSC mandate areas. The main bottleneck to the TSC functionality is the absence of any concrete agreement between MEST and TSC on the timeline, sequencing, triggers, and other specifics on transfer of assets, functions and functionaries from MEST to TSC.

***Policy Objective***

**4.28** The objective of the proposed series in this policy area is to support AfP's strategic objective (#34) to improve teaching/learning quality and relevance. This series will focus on the implementation of the TSC Act by promoting a phased transmission of assets, functions and functionaries from MEST to TSC.

***Action formulation***

**4.29 Sierra Leone's capacity to increase labor productivity in the long run depends on its ability to develop skills of its workers and improve the overall level of education of its citizen**. A necessary step toward the achievement of this objective is to improve the current quality of learning, starting from improving the quality of teaching. There are significant systems inefficiencies and failures that continue to persist leaving adverse fiscal, social, and economic cost to the country, while undermining the country's current and future development potential. In addition, the reform is largely overdue, since it has been nearly six years since TSC was created by the Act of Parliament and TSC is not yet fully operational. Correcting all the identified weaknesses is a long term agenda that goes beyond the horizon of this program. Nevertheless, the proposed series will start the process by supporting the full functionality of the Teaching Service Commission to enable it to execute its functions in the mandated areas of teacher registration and licensing, teacher management, teacher development and performance, and teacher-employer relations. This will require the complete transfer of asset, functions and functionaries from MEST to TSC to be effected on a phased basis, which is formulated as triggers for the next operation (PTSC-II Indicative Trigger #7). In the meanwhile, the proposed operation supports the signing of a plan by the which clearly articulates the timeline, sequencing, milestones, and other criteria for transfer of assets, functions and functionaries from MEST to TSC (Prior action #6), as a starting point and to signal commitment. Teacher absenteeism might be reduced through improved management practices at the school level, including close monitoring of teacher attendance by school heads. The TSC will focus on increasing teacher attendance to demonstrate early results. With the transfer of the function, the TSC will be able to enhance the management of the teachers to: (i) reduce the absenteeism rate and improve teacher attendance; (ii) improve the spatial and per level allocation of the teachers; and (ii) provide training to improve teachers' qualification.

***Prior action #6****: The Recipient's Ministry of Education, Science and Technology (MEST) has issued a transition plan defining the timeline and milestones for the transfer of files, records and functionaries from MEST to the Teaching Service Commission ("TSC"), in accordance with the Teaching Service Commission Act of 2011.*

***Policy monitoring evaluation***

**4.30 For the monitoring and evaluation of the series in this policy area, the teacher absenteeism rate will be used as result indicator.**

***Result indicator #4:*** *Absenteeism rate of teacher on payroll. Baseline (2015): 30%. Target (2020): 15%.*

**Pillar 2: Improving transparency and accountability in selected government decision making processes**

**4.31 In this second pillar, the proposed series supports transparency and accountability through public procurement and asset disclosure.** Sierra Leone's ability to further increase its per capita GDP depends on the strategic management of its natural resources, including agriculture, fisheries and mining, which requires a significant increase in the country's institutional capacity and the overall public sector governance. Improvement in sectoral policy have attracted significant private sector investments, especially in agriculture and mining. Unfortunately, except for agriculture, the benefits to the population are not commensurate with the exploited resources, because of substantial leakages due to lack of accountability and transparency in several decision making processes. The proposed series supports the reduction of these weaknesses by building complementarities with other development partners. Public Finance Management (PFM) is well supported by the donors, including the World Bank, through an Investment Project Financing (IPF). Efficiency in domestic revenue mobilization is supported by the World Bank, IMF (Fiscal Affairs Departments - FAD and AFRITAC West), AfDB and DFID while better expenditure management is supported by the World Bank and EU (IFMIS, payroll, external oversight, etc.), AfDB (Single Treasury Account, STA), DFID (budget credibility) and the IMF (STA, payroll). Therefore, the series shifts concentration from traditional PFM type of reforms to focus on transparency and accountability through strengthened public procurement and anti-corruption systems. Strengthening these two transparency and accountability systems will shed light on procurement transactions and public official's assets, respectively the biggest potential source and destination of leaked public resources. These systems will provide cross-cutting support to improve the sectors' policy environment and complement the reforms promoted in the first pillar of the proposed series which already entail policy and institutional measures to address sectoral governance issues.

**Policy area 5: Public procurement**

***Policy context***

**4.32 Sierra Leone's demand for better public procurement has increased significantly in the last few years.** In the last decade, total public spending on goods and services and domestically financed investment increased more than fivefold to stand at Le 1.4 billion in 2015, representing 30 percent of the budget. This illustrates the number of decisions taken by public officials that have procurement implications. Managing this high level of expenditure requires openness, transparency and non-discriminatory action to ensure equity and efficiency. Therefore, citizens place an inherent requirement that the funds provided are managed in a manner that is accountable and demonstrates both probity and value for money. The Government is fully aware of this as well as the need to ensure value-for-money. In this vein, the new procurement cadre has been established by the Public Procurement Act (2004), which has been revised and enacted into law in 2015. The establishment of the National Public Procurement Authority (NPPA) has improved the regulation and harmonization of the public procurement processes in the public sector. Procurement officers have been assigned to MDAs and local councils, and procurement officers trained. Despite these improvements, the implementation of the public procurement framework has been difficult. Overall compliance with procurement policy from the preparation of procurement plans to the signing of contracts has been low. For example, the share of public procurement transactions conducted through open competition was only at 42 percent in 2014.

***Problem identification***

**4.33 Sierra Leone's procurement system has not been effective in providing value for money.** The country is rate C on the performance indicator for transparency, competition and complaints mechanisms in procurement (PI -19) of the 2014 PEFA. The rating has virtually remained the same since 2007 indicating no significant improvement in the procurement system. In addition, the Auditor General has regularly identified irregularities in public procurement and raised concerns over the low value for money being achieved, due mainly to huge share of public contracts awarded on a sole source basis. Wide ranging anecdotal evidence suggests also that the quality of procured goods and services is poor. According to the AfP, the effectiveness of the procurement system is undermined by frequent interference from various sources and the tendency for other government officials to micro-manage the activities of NPPA. Sierra Leone's procurement system is decentralized, with accounting officers in MDAs subject only to ex-post controls on procurement decisions. These ex-post controls are ineffective and insufficiently strong to ensure adequate compliance.

***Policy objective***

**4.34** The objective of the proposed series in this policy area is to support the AfP's strategic objective (#75) to achieve a strengthened and professionally qualified role of Auditing Services for better governance, included enhanced transparency and accountability of the use of public funds. The proposed series will focus on procurement.

***Actions formulation***

**4.35 Sierra Leone capacity to improve its procurement system depends on its ability to increase transparency and accountability.** The AfP has defined six strategic priorities in the area of procurement including intensifying and expanding the monitoring of procurement processes and procedures, to enhance value-for-money. To achieve this priority, the Government will ensure that all procuring entities are fully monitored with high compliance and performance. An efficient, effective and user-friendly data management and reporting system will be established at the NPPA. In addition, the Government mentioned in the AfP its intension to create an effective and efficient e-procurement framework and make it operational. The proposed series will support the development of the e-procurement framework which could help tackle some of the weaknesses mentioned above. An e-procurement system allows more efficient integration of supply chains and provide better organization and tracking of transaction records and data gathering. Transactions can be standardized and bids for products and services tracked more easily, allowing the Government to use the information to obtain better pricing. Due to faster exchanges of information, e-procurement also promotes faster delivery of goods and services. As a starting point, the proposed operation will support a Cabinet decision to develop an integrated web-based procurement management solution (e-procurement) to increase transparency in procurement processes (Prior action #7). A feasibility study will be conducted to objectively and transparently uncover the strengths and weaknesses of the existing system and evaluate the opportunities offered by an e-procurement system and resources required to carry through. The system will then be rolled-out on two MDAs on a piloted basis (PTSC-II Indicative Trigger #8) before being extended to other MDAs. The Government will also audit the procurement transactions in 2016 and make the report available to the public in an official government website (PTSC-II Indicative Trigger #9).

***Prior action #7****: The Recipient has taken a decision in Cabinet approving the development of an e-procurement system in order to increase transparency in procurement processes.*

***Policy monitoring evaluation***

**4.36 For the monitoring and evaluation of the series in this policy area, the share of procurement contracts processed through the e-procurement porta will be used as outcome indicator.**

***Result indicator #5:*** *Share of procurement transactions processed through the e-procurement portal. Baseline (2015): 0%. Target (2020): 20%.*

**Policy area 6: Asset disclosure**

***Policy context***

**4.37 The contrast between the country's huge natural wealth and the high prevalence of poverty has created huge demand for curbing corruption and promoting a better form of governance in Sierra Leone.** To respond to this demand and ensure an effective service delivery towards the welfare and wellbeing of its citizens, the Government adopted a National Anti-Corruption Strategy (NACS) covering the period 2014-18. The general goal of the NACS is to contribute to consistent reduction of corruption, strengthen the integrity system and build public trust in government institutions and promote zero tolerance on corruption. The NACS looks at various aspects of integrity system in the public sector which encompasses facets of accountability, transparency and the rule of law. The NACS has also incorporated strategies to align intervention in controlling corruption, with the view of tackling poverty and improving the living standard of the ordinary Sierra Leonean. The Anti-Corruption Commission (ACC) was established to provide a framework for implementation of NACS. ACC has powers to independently investigate and prosecute its cases without recourse to the offices of the Attorney General and Ministry of Justice. This reform led to a dramatic increase in the number of cases prosecuted from 2008 to 2014 and a remarkable success in monetary recoveries, with a total of over Le10 billion paid back to the Consolidated Fund between 2008 and 2012. Despite this improvement, the perception of corruption remains relatively high. The country is ranked 119$^{th}$ out of 167 countries in the Transparency International Corruption Perception Index (CPI) for 2015, compared with 134$^{th}$ out of 178 countries in 2010.

***Problem identification***

**4.38 The perception of corruption in Sierra Leone is in part driven by the weak and ineffective Asset Disclosure System.** Developing a more effective asset disclosure system and integrating it into wider anti-corruption programs can be a critical element for preventing corruption. When such systems are linked to codes of conduct, that can enforce and uphold integrity standards of officials, such tools can be a powerful checks and balance to prevent corruption and detect the theft of public assets. Prevention is a core principle prioritized by ACC and asset disclosure regime obliging both civil and public servants to declare their assets and liabilities was set as a means of upholding integrity in public life. Section 119 of the Anti-Corruption Act (2008) made it imperative within three months of becoming a public officer to deposit at the Commission a sworn declaration form containing income, assets and liabilities, not later than March 31 in the subsequent year and when leaving the office. Making false report or refusing to comply constitutes an offence liable to a fine not less than Le 20 million or imprisonment for a term not less than one year or both such fine and imprisonment. However, the Act targeted all civil and public servants, around 55,000 staff as of October 2016, regardless their level of exposure and their involvement in the management of public fund. Further, effective sanctions are, most of the time, neither implemented nor applied to address non-compliance by officials with asset disclosure obligations. When implemented, enforcement is entirely selective which undermines credibility of the entire asset disclosure system as a tool for preventing and detecting corruption. As a results, the compliance rate had been extremely low (less than 40 percent), including for the senior management and high ranked public officials.

***Policy objective***

**4.39** The objective of the proposed series in this policy area is to support the AfP's strategic objective (#74) to support the implementation of government's policy of strengthening effectiveness of the asset disclosure system as a tool for ensuring accountability and integrity of officials within the overall governance structure. Enhancing the ability of the ACC to undertake investigations and prosecutions starts with implementing more credible regulatory enforcement of asset disclosure obligations that are uniformly, rather than selectively enforced. The proposed series will focus on improving regulatory effectiveness of the asset disclosure system.

***Action formulation***

**4.40 Sierra Leone's capacity to reduce corruption, foster public accountability, trust, and governmental legitimacy can be greatly enhanced by a well-functioning asset disclosure system**. There are several advantages that the society could gain from a goods asset disclosure system. A credible and effective asset declaration system helps to prevent abuse of power by holders of public office, protect public assets, promote the integrity of public officials, foster public accountability and enhances the legitimacy of government in the eyes of the public. At the same time, a credible asset disclosure system helps to protect the private assets of public officials from illegal confiscation, protect public officials from unwarranted mistrust, unjustified accusations of misconduct, and all kind of defamation. The proposed series supports the reform of the existing asset disclosure system to redefine the scope of covered officials in all branches of government service including civil service, executive appointees, judiciary, parliament, diplomatic service, military and SOEs (PTSC-II Indicative Trigger #10). The series will support the inclusion of an effective and non-discretionary administrative sanction for non-compliance with asset disclosure filing obligations. This will require a change in the regulation proposed as trigger for the next operation. In the meanwhile, the proposed operation supports asset disclosure by all Public Officials with a rank of director or above as a starting point and to signal commitment. The ACC issued of a public notice requesting the defaulting public officials to comply with the ACC law before October 31, 2016 (Prior action #8) which led to significant increase in the compliance rate. Out of 55,000 forms distributed, 35,000 were collected by ACC in 2016 versus 20,000 in 2015. Among the public officials under the category of directors and above, a 70 percent compliance rate was observed while the its reached 90 percent among the ministers and deputy ministers.

***Prior action #8****: The Recipient, acting through its ACC, has issued a public notice urging all public officers who had not filed with the ACC a sworn declaration of income, assets and liabilities, as required by Section 119 of the Anti-Corruption Act of 2008, to comply with said requirement no later than October 31, 2016.*

***Policy monitoring evaluation***

**4.41 For the monitoring and evaluation of the series in this policy area, the share of public officials that have submitted asset declaration form will be used as outcome indicator.**

***Result indicator #6:*** *Share of public officials that have submitted asset declaration form. Baseline (2015): 20%. Target (2020): 90%.*

## C. Link to the CAS and other Partners' Operations

**4.42 The proposed PTSC series is fully consistent with the Joint Assistance Strategy (JAS) prepared in collaboration with the AfDB and the International Finance Corporation and discussed by the Board on April 6, 2010.** A Country Assistance Strategy (CAS) Progress Report[17] prepared in 2012 emphasizes the centrality of Development Policy Financing (DPF) to the World Bank's continued engagement in Sierra Leone and introduces a third pillar on Natural Resources Management in addition to the CAS two pillars on Human Development and Promoting Inclusive Growth. Other World Bank operations in agriculture, fisheries, minerals sector, and governance are linked to the proposed series and also provide valuable

[17] The CAS progress report (report No. 69913-SL) was approved in August 2012.

support through Technical Assistance. A new Country Partnership Framework (FY18-21) is under preparation to support the Agenda for Prosperity. The draft Systematic Country Diagnostic emphasized the criticality of boosting productivity in agriculture, manufacturing and services in promoting inclusive growth and poverty reduction. It also emphasizes the need to improve overall governance to build resilience and improve overall service delivery.

### D. Consultations and Collaboration with Development Partners

4.43 **Sierra Leone has an established system of undertaking consultations with relevant stakeholders where legislative reforms are to be undertaken.** These are largely confined to the government sphere but are nevertheless important in ensuring consistency and ownership. The World Bank collaborates closely with the IMF, the Multi-Donor Budget Support (MDBS) partners comprising the AfDB, DFID, and the European Union as well as IFAD, FAO, and USAID. This extends to close discussion and collaboration on macro-fiscal and financial sector issues and structural reforms with the IMF. Close collaboration with the MDBS partners encompasses program design and implementation. The IMF and MDBS partners have been providing financial support to Sierra Leone since the end of the civil war in 2002. This collaboration has been vastly expanded during the Ebola crisis and extends to all the main actors that were involved in the fight to contain the spread of Ebola, including the United Nations Mission for Ebola Emergency Response, the World Health Organization, Médecins Sans Frontières and the United States Centers for Disease Control. The collaboration has been maintained with the National Ebola Recovery Plan.

## V. OTHER DESIGN AND APPRAISAL ISSUES

### A. Poverty and Social Impacts

5.1 **The reforms supported by this series are expected to have a significant positive impact on poverty reduction in Sierra Leone.** Agriculture and fisheries employs more than 60 percent of the country's workers and represents the most direct channel for the population to harness the benefits of the country's natural resources. Near 70 percent of the poor households have agriculture as their primary source of livelihood. Close to 95 percent of the rural household have access to land and agriculture is their main source of income. Rice, the main food crop is produced by more than 90 percent of agricultural households. Therefore, the proposed series is expected to have significant positive social and poverty reduction impact. Higher private sector participation in the seed and fertilizer markets is expected to: (i) increase access to improved inputs (seeds and fertilizers) and create conditions for growth in yield; and (ii) promote private sector development and job creation both which are expected to have significant positive impacts on poverty. The reforms supported by this series in agriculture and fisheries could also have positive impacts on food security and the prevalence of malnutrition by increasing the provision of micronutrients, including protein, to the population and reducing the country's vulnerability to food price shocks. In addition, reduction is electricity losses is expected to improve the financial situation of EDSA and increase the utilities' capacity to supply electricity to household and businesses. Higher electricity supplied is expected to lead to increased activities and investments in manufacturing and services and lead to poverty reduction through creation of better paying jobs

5.2 **The focus on public procurement and asset disclosure will likely help curb corruption and improve public service delivery.** A more transparent procurement system and a strengthened asset disclosure system are expected to improve oversight of public resource management, improve efficiency of public resource management, increase value for money, and reduce opportunities for corruption.

## B. Environmental Aspects

5.3 **The reforms supported by the proposed PTSC are likely to have some positive effects on the environment but there could also be moderate negative effects.** The Environmental Protection Agency (EPA) established an environmental assessment compliance system to be adhered to by developers/proponents with environmental Impact Assessment (EIA) licenses. The Agency ensures that operational procedures and guidelines on environmental inspections, environmental audits and manual for field operations are followed by environment officers of both the agency and companies with EIA licenses. The EPA also ensure that routine monitoring and inspections exercises are undertaken in collaboration and fully participation with MDAs, non-governmental organziations, Civil Society and farmer based organizations (FBOs) to ensure transparency and accountability in the protection and management of the environment and use of our natural resources. A computerized system, including planning, reporting, monitoring and evaluation used to detect, record and address concerns reported to the Agency and all EIA licensed companies are required to submit quarterly and annual environmental reports to the Agency. This said, most of the policy measures supported in this series are expected to have neutral environmental impact. However, the reinforcement of the fishing monitoring system supported by the propose operation is expected to reduce illegal fishing and use of fishing methods such as channel fishing; use of poisons, explosives, and monofilament nets; incursion of trawlers into the Inshore Exclusive Zone. This is expected to reduce the over-exploitation of some fish stocks and treat to species such as sea turtles and marine mammals. The only reform supported by the proposed series that may have a negative effect on the environment is the liberalization of the fertilizer market. However, an increase in the agricultural productivity resulting from increased use of fertilizer could reduce the pressure on agricultural land and slow the rate of deforestation for agriculture. Nevertheless, it is planned to mitigate any environmental risk through the Smallholder Commercialization and Agribusiness Development Project (SCADP) in compliance with the EPA Act. The Environmental Category assigned to the SCADP is B (Partial), since it is expected that environmental and social impacts will be moderate and in most cases manageable. The likely environmental and social impacts as well as the mitigation measures have been developed through the detailed Environmental and Social Management Framework (ESMF) which has been undertaken as part of project preparation and publicly disclosed. Where required, after further assessments, other safeguard instruments with mitigation measures will be put in place to address any potential or real negative social and environmental impacts. The SCADP will finance training and capacity building activities on environmental and social safeguard issues. The World Bank will continue to provide technical oversight towards the implementation of the management tools that have been developed during project preparation to address the identified risks. This will support the Sierra Leone Environmental Protection Agency (EPA) which has the national mandate to ensure compliance with environmental and social safeguard issues.

## C. PFM, Auditing, and Disbursement Aspects

*Public Financial Management Systems*

5.4 **While weaknesses continue to manifest themselves within the overall PFM environment in Sierra Leone, there have been progressive improvements in key areas under the previous series.** These include: (a) improvements in the quality of the budget documents; (b) enhanced comprehensiveness of and transparency in budget documentation, and publication of the budget document; (c) improved collection and monitoring of tax payments; (d) improvements in cash management, notwithstanding the short-termism focus in the arrangements in the absence of a well-functioning Treasury Single Account; (e) improvements in account reconciliations and timeliness in, and quality of, financial reporting; (f) improved effectiveness of internal audit across MDAs; and (g) significant improvements in external audit oversight and audit quality. Weaknesses remain, especially in the credibility of the budget due to inherent capacity constraints of PFM actors, resulting from the spill-over from the country's historical fragility and weak oversight. The PFM Act (2016) provides rules to guide fiscal policy formulation and identification of governments fiscal objectives for the medium term.

5.5 **With the establishment of a Procurement Regulatory Authority and procurement units in MDAs, and the procurement regulations, important parts of the institutional framework for strong value for money procurement arrangements across government is established.** Nevertheless, there is scope to strengthen not only the capacity of the regulatory authority to monitor performance and compliance, but also the capacity of the procurement staff assigned to MDAs at the central and sub-national governments. In addition, strengthening the complaints mechanisms and appeals processes will scale up the contribution of public procurement to the overall expenditure management outcomes in Sierra Leone. These and other reforms are included in the 2015 Public Procurement Act with a view to improving value for money and transparency in the use of public funds.

*Disbursement and auditing issues*

5.6 **Recipient and Financing Agreement:** The proposed operation is a one-tranche IDA credit of SDR 16.1 million (US$22 million equivalent), including a US$12 million equivalent from IDA CRW, and an IDA CRW grant of SDR 5.9 million (US$8 million equivalent). The credit disbursement will follow the standard World Bank procedures for DPF. The administration of this credit will be the responsibility of the Ministry of Finance and Economic Development.

5.7 **Funds flow arrangements**: The Government of Sierra Leone shall identify a Foreign Exchange Account with the Bank of Sierra Leone, and which forms part of the country's official foreign exchange reserves, into which the proceeds of the credit will be disbursed upon credit effectiveness, subject to meeting the agreed prior actions. The Sierra Leone 'Leones' equivalent of the funds in the account will, within two working days, be transferred into the Consolidated Fund of the Government of Sierra Leone, and the amount recorded appropriately in the budget management system of the Government.

5.8 **Disbursements from the Consolidated Fund by the Government of Sierra Leone shall not be tied to any specific purchases and no special procurement requirement shall be needed**. The proceeds of the grant shall, however, not be applied to finance expenditures on the negative list as defined in Schedule 1 of the Financing Agreement. If any portion of the grant is used to finance ineligible expenditures as so defined in Schedule 1 of the Financing Agreement, IDA shall require the Government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the grant.

5.9 **The IMF conducted Safeguards Assessments of the Bank of Sierra Leone (BSL) in 2002, 2006, 2010, and as recently as February 2014.** The safeguards framework of the Bank has been strengthened since 2010 in the areas of internal audit and legal, and the accountability framework has also remained adequate. The 2014 assessment report however highlighted further recommendations in the following key areas: (a) appointment of Directors to avoid gaps in the governance structure of the Bank; (b) strengthening the role of the Audit Committee over the external audit oversight function; and (c) strengthening the Bank's financial autonomy through its re-capitalization, consistent with the BSL Act, 2011. The BSL and the Government of Sierra Leone have begun the process of addressing the identified weaknesses.

5.10 **Assurance Requirements**: Within 30 days of the disbursement of the grant by IDA, however, the Financial Secretary of the Ministry of Finance and Economic Development (MOFED) of Sierra Leone shall provide written confirmation to IDA, certifying the receipt of the 'Leones' equivalent of the grant into the Consolidated Fund Account of the Government of Sierra Leone, the number of the account, the date of the receipt, and the exchange rate applied to translate the grant currency into *Leones.* In addition, as the Auditor General is required by law to submit its annual report and the audited accounts on the public consolidated fund to Parliament within 12 months of the end of the fiscal year, a copy of the said reports and accounts shall be provided to IDA within one month after the lapse of the 12-month period. The Government shall equally ensure that the annual entity financial statements of the Bank of Sierra Leone, audited in accordance with international standards on auditing as promulgated by the International Federation of Accountants, are publicly available.

5.11 The expected closing date of the operation is December 31, 2018.

### D. Monitoring, Evaluation and Accountability

5.12 **The Government of Sierra Leone, through the Ministries, in charge of finance, agriculture, fisheries, energy, and education will be responsible for the overall execution of measures implemented under this program**. Ministry in charge of Finance (MOFED) is responsible for the coordination of the program. MOFED has the requisite experience including technical skills and coordination experience for this task, some elements of which it will undertake in conjunction with BSL. Given the large number of line ministries participating, for the first time, in the implementation of development policy financing, a committee in charge of the monitoring of the program will be created with focal points in each line ministries, 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 result indicators which will be used to monitor the progress over the proposed operation. The monitoring of the series will be closely linked to the Agenda for Prosperity, since their results matrix 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.

5.13 “**Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.”

## VI. SUMMARY OF RISKS AND MITIGATION

6.1 **The overall risk rating for the operation is ‘high’, with five main sources of risk that could potentially jeopardize the expected outcomes and benefits of this operation**. These 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 (Table 6). Risk mitigation measures, should they be warranted, are outlined below. The potential benefits of the proposed operation, however, outweigh the residual risks and warrant IDA’s assistance to provide critical financial support at this difficult time for Sierra Leone and for implementing reforms and policy actions in coordination with other development partners.

**Table 6: Risk Rating**

| Risk Categories | Rating (H, S, M or L) |
|---|---|
| 1. Political and governance | H |
| 2. Macroeconomic | H |
| 3. Sector strategies and policies | M |
| 4. Technical design of project or program | M |
| 5. Institutional capacity for implementation and sustainability | H |
| 6. Fiduciary | H |
| 7. Environment and social | M |
| 8. Stakeholders | L |
| 9. Other: Epidemiological | S |
| **Overall** | **H** |

H=High S=Substantial M=Moderate L=Low

*Political and Governance Risks*

6.2 **Political and governance risk are judged to be high in terms of their effect on the program development objectives**. Political risk in particular is considered high given the fragile context and the upcoming elections scheduled in March 2018 and the likelihood that it could affect the development objective supported by the operation.

6.3 Despite high alignment with the country's agenda for prosperity, there is a risk of uneven commitment to reforms, especially in the reduction of the industrial vessel capacity, the complete transfer of the teacher's management to the Teaching Service Commission, and the sequencing of the reform agenda in the energy sector which requires reduction in electricity losses prior any significant increase in generation capacity. The phasing out of the Government involvement on the seed and fertilizer distribution as well as the removal of the hurdles in the rice value chain may also be delayed. Overall transparency, including in procurement, could also decline as the country moves towards the next presidential elections schedule on March 7, 2018. As in in past electoral cycles (2007 and 2012), spending pressures could lead to a deterioration of the country's fiscal position, while governance slippages and slow implementation of PFM reforms, including on procurement, could impact donor support. Fiscal slippages occurred in late 2016 and in the first quarter of 2017, that could have negative impact on the implementation of the program. Payment arrears and unpaid bill were accumulated and that could have negative impact on business production and productivity. Additional fiscal slippages could also increase extra-budget expenditure and reduce transparency and accountability. These risks are mitigated by: (i) the program's alignment with AfP priorities that benefit from wide popular support; and (ii) active dialogue with civil society and the private sector to ensure demand side pressure for reforms.

*Macroeconomic Risk*

6.4 **The risk of continuing domestic and external imbalances is high, and the consequent macroeconomic effects could undermine the achievement of the development objective.** Macroeconomic risks are judged to be high with four components—lower than expected domestic revenue, decline in foreign aid, deterioration in terms of trade, and economic downturn in trade partner, including UK. First, the projected increase in domestic revenue (29.9 percent) appears too optimistic compared to the last few years and the actual number in the first quarter of 2017, on which domestic revenue increased by 10 percent only on a y-o-y basis. Gain expected from new tax policy measures (adjustment of retail fuel prices, introduction of GST on electricity) effective before January 2017, may continue to fall short of expectations as in the first quarter of 2017, where total domestic GST fell by 10 percent. The shortfall in domestic revenue mobilization could lead to a larger fiscal deficit than expected and thus lead to more accumulation of arrears. Second, aid inflows could also fall short of projections, particularly if development partners perceive a weaker Government commitment to reforms. Third, a deterioration in the terms-of-trade, particularly an increase in fuel prices in the medium term coupled with further decrease in iron ore prices could lead to higher depreciation and inflation and, possibly, to social unrest. Fourth, a protracted or deepening macroeconomic downturn in main trading partners, mainly China and in Europe, including United Kingdom (UK[18]), still represents a significant risk. Macroeconomic risks are judged to be substantial in terms of their effect on the project development objectives. These risks are mitigated by a close monitoring under the proposed series and the Authorities' forthcoming ECF program with the IMF.

*Institutional capacity for implementation and sustainability*

6.5 **Weak institutional capacity for implementation and sustainability is judged a high risk.** While institutional capacity in Sierra Leone remains inadequate in most areas, the requirement in the areas supported by this series are quite modest but meeting them could be challenging in some sectoral ministries. The support from existing World Bank projects will help mitigate the risks with deployment technical assistance and intensive international monitoring.

*Fiduciary*

6.6 **Overall fiduciary environment is weak.** There is little evidence that key principles including value for money, economy, efficiency, effectiveness, integrity, transparency, and accountability are followed. Expenditure overruns occurred in late 2016 and there is high likelihood that appropriations for 2017 be diverted reducing the predictability of allocated funds. There are long and regular delays in approving the finance act, including for 2017. The fiduciary arrangements under the proposed operation are designed to mitigate this risk.

*Epidemiological Risk*

6.7 **The epidemiological risk is substantial though the country has been declared Ebola free.** Evidence shows that the virus can remain in the semen of a small number of survivors for as long as one year. A new outbreak of Ebola could reshift the Government priorities back to health services and other humanitarian needs. The risk is mitigated by the existence of an alert and surveillance system.

[18] Over a quarter of Sierra Leone's exports went to EU countries in 2012-2014, of which over one half went to UK, while imports from EU represented more than 20 percent in 2015. DFID is one of the major donors in Sierra Leone while significant part of FDI were received from UK.

## ANNEX 1: POLICY AND RESULTS MATRIX

| Prior actions and Triggers | | | Results |
|---|---|---|---|
| **Prior Actions under DPO 1** | **Triggers for DPO 2** | **Triggers for DPO 3** | |
| | ***Pillar 1 - Increasing productivity in selected economic sectors*** | | |
| **Prior action #1** The Recipient has introduced legislation to regulate and promote foundation seed production, multiplication and distribution by the private sector, and, to such end, the Minister of Agriculture has duly submitted the Bill entitled "The Sierra Leone Seed Certification Act of 2017" to Parliament for its approval. | **(Indicative) Trigger # 1** The Recipient has promulgated the Seed Act and has taken a decision in Cabinet to adopt Seed regulations consistent with the Seed Act. | **(Indicative) Trigger # 1** The Recipient has made operational the Seed Certification Agency established by the Seed Act. | **Result Indicator 1** Average yield of rice, measured as production in kilogram per hectare.<br>Baseline (2015): 1.5<br>Target (2020): 2.0 |
| **Prior action #2** The Recipient has taken decision in Cabinet, approving a new fertilizer policy committing the Recipient to progressively reduce direct supply and distribution of fertilizer to farmers, in order to encourage private sector participation in the supply and distribution of fertilizers. | **(Indicative) Trigger # 2** The Recipient has taken a decision in Cabinet to adopt a new fertilizer regulation consistent with the ECOWAS regulation on fertilizers and the National Fertilizer Policy (2017)<br><br>**(Indicative) Trigger # 3** The Recipient taken a decision in Cabinet to eliminate the waiver on rice import duty and apply ECOWAS Common External Tariff (CET) on rice. | **(Indicative) Trigger # 2** The Recipient has established and made operational the National Committee for Fertilizer Control (NaCoFeC) to ensure that the National Fertilizer Policy is executed in harmony with ECOWAS regulation. | |
| **Prior action #3** The Recipient, acting through its Ministry of Lands, has adopted the Land Policy Implementation Framework and Land Policy Implementation Plan (2016-2026) and submitted the same to Cabinet for endorsement. | **(Indicative) Trigger # 4** The Recipient has made functional the gender balanced Regional Land Oversight Committees (Community representation) to ensure smooth coordination of regional and local level implementation activities and broad participation. | **(Indicative) Trigger # 3** The Recipient has taken a decision in Cabinet to adopt a new Land Bill and has duly submitted the bill to said effect to Parliament for its approval. | |

| Prior actions and Triggers | | | Results |
|---|---|---|---|
| **Prior Actions under DPO 1** | **Triggers for DPO 2** | **Triggers for DPO 3** | |
| **Prior action #4** The Recipient, acting through its Ministry of Fisheries, has published on its public website a list of all industrial vessels with an active license and certified in writing to the Association that all licensed vessels (other than tuna vessels) have a Vessel Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, in order to increase transparency and reinforce monitoring, control and surveillance of fishing activities. | **(Indicative) Trigger # 5** The Recipient has taken a decision in Cabinet to adopt a new Fisheries Bill, that includes a that includes a minimum amount for industrial vessel license fee and has duly submitted the bill to said effect to Parliament for its approval. | **(Indicative) Trigger # 4** The Recipient has taken a decision in Cabinet to revise the fishing licensing regulation to limit access and prevent overfishing. | **Result Indicator 2**<br>Number of active industrial fishing license.<br>Baseline (2016): 85<br>Target (2020): 30 |
| **Prior action #5** The Recipient, acting through its Electricity Distribution and Supply Authority ("EDSA"), has approved a strategic plan to improve the financial situation of EDSA and reduce technical and commercial losses. | **(Indicative) Trigger # 6** The Board of EDSA has approved a Network Configuration Optimization Plan (NCOP), completed installation of control metering points at source and to manage system losses. | **(Indicative) Trigger # 5** The Recipient's EDSA has completed installation of control metering at selling point and has made functional the monitoring and fraud control on the distribution network to minimize non-technical losses. | **Result Indicator 3**<br>Revenue recovered as percentage of the total revenue which could theoretically be recovered.<br>Baseline (2015): 49.6%<br>Target (2020): 63% |
| **Prior action #6** The Recipient's Ministry of Education, Science and Technology (MEST) has issued a transition plan defining the timeline and milestones for the transfer of files, records and functionaries from MEST to the Teaching Service Commission ("TSC"), in accordance with the Teaching Service Commission Act of 2011. | **(Indicative) Trigger # 7** The Recipient's MEST has referred all assets, functions and functionaries linked to teacher management (namely, approval, recruitment, transfer, promotion, retirement, dismissal), teacher records, and teacher payroll to the Recipient's TSC as agreed in the plan. | **(Indicative) Trigger # 6** The Recipient's TSC has adopted a teacher incentive strategy and a teacher monitoring system to increase teacher retention, improve teacher attendance and combat the issue of teacher absenteeism. | **Result Indicator 4**<br>Absenteeism rate of teachers on payroll<br>Baseline (2015): 30%<br>Target (2020): 15% |

| Prior actions and Triggers | | | Results |
|---|---|---|---|
| **Prior Actions under DPO 1** | **Triggers for DPO 2** | **Triggers for DPO 3** | |
| ***Pillar 2*- Improving transparency and accountability in selected government decision making processes** | | | |
| **Prior action #7** The Recipient has taken a decision in Cabinet approving the development of an e-procurement system in order to increase transparency in procurement processes. | **(Indicative) Trigger # 8** The Recipient has rolled out the integrated web-based procurement management solution in two MDAs on a piloted basis.<br><br>**Indicative) Trigger # 9** The Recipient has published in an official government website, an audit report of the procurement transactions in 2016. | **(Indicative) Trigger # 7** The has rolled out the integrated web-based procurement management solution in five MDAs with link to IFMIS.<br><br>**Indicative) Trigger # 8** The Recipient has published in an official government website, an audit report of all the procurement transactions in 2017. | **Result Indicator 5**<br>Share of procurement transactions processed through the e-procurement portal.<br>Baseline (2015): 0%<br>Target (2020): 20% |
| **Prior action #8** The Recipient, acting through its ACC, has issued a public notice urging all public officers who had not filed with the ACC a sworn declaration of income, assets and liabilities, as required by Section 119 of the Anti-Corruption Act of 2008, to comply with said requirement no later than October 31, 2016. | **(Indicative) Trigger # 10** The Recipient's ACC has adopted a new Asset Disclosure Regulation defining scope of covered officials all branches of government service including civil service, executive appointees, judiciary, parliament, diplomat service, military and SOEs, that includes an effective, non-discretionary administrative sanction for non-compliance with AD filing obligations. | **(Indicative) Trigger # 9** The Recipient's ACC has published a detailed report on corruption that includes the status of compliance with the new Asset Disclosure regulation by end March 2018. | **Result Indicator 6**<br>Share of public officials that have submitted asset declaration form<br>Baseline (2015): 20%<br>Target (2020): 90% |

## ANNEX 2: LETTER OF DEVELOPMENT POLICY

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Ministry of Finance and
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Secretariat Building
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30th May, 2017

Dr. Jim Yong Kim
President
The World Bank
Washington D.C.
U.S.A.

**FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT (PTSC-I)**
**LETTER OF DEVELOPMENT POLICY**

1. I am writing on behalf of the Government of Sierra Leone to request the approval of the First Productivity and Transparency Support Credit (PTSC-I) in the sum of US$30 million to support the financing of Government's development program articulated in the Agenda for Prosperity and the President's Recovery Priorities. In particular, this credit aims to support the Government's efforts to achieve sustainable and inclusive economic development through: (i) increasing productivity in selected economic sectors; and (ii) improving transparency and accountability in selected government decision making processes.

2. This letter of development policy summarizes the recent economic development in 2014-2016, presents the medium term macroeconomic outlook in 2017-2020, and describes the reform the Government is undertaking to support the medium term outlook and how the proposed credit contribute to reaching them.

## I. RECENT ECONOMIC DEVELOPMENTS 2014 – 2016

3. Sierra Leone's economy is recovering following the twin shocks of the Ebola and collapse of iron ore prices in 2014 and 2015. The early recovery was assisted by the implementation of the Post-Ebola Recovery Strategy, the first phase (6-9 months) of which was completed in April 2016. The second phase or the Presidential Recovery Priorities aims to consolidate the early gains and bring the country back on track for the Agenda for Prosperity. It focused on seven sectors –health, education, water, energy, social protection, governance and private sector development, which includes agriculture and fisheries– and will be completed in June 2017.

4. Following robust economic growth in 2013 of 20.7 percent, growth slowed down to 4.6 percent 2014 and contracted by 20.5 percent in 2015 on account of negative impact of the Ebola on key sectors and the price shock of the main export commodity, iron ore. As a result of a combination of increased support from our development

partners and the implementation of sound economic policies, the economy is on a positive growth trajectory once again.

5. Economic growth is estimated at 6.1 percent in 2016 as iron ore production and export resume at the Tonkolili Mines, although the Timis Mining Company remains closed. Excluding iron ore, the economy is estimated to grow by 4.1 percent driven mainly by recovery in agriculture, manufacturing, construction and services including transport, tourism and trade. Efforts continue to diversify the economy and reduce reliance on the mining sector as the key driver of growth with increased support to other sectors including agriculture, fisheries and tourism sectors.

6. Inflationary pressures receded considerably starting from 2013, with the year on year rate falling to a low of 6.4 percent in April, 2014. However, with the outbreak of the Ebola and the disruption of supply of basic commodities, inflationary pressures started to build up reaching 7.9 percent in December 2014 and 8.9 percent in December 2015. Although inflation was contained in single digit during this period largely due to a combination of pro-active monetary policy, stable exchange rates, and stable world food prices, inflation jumped to double digits in the second half of 2016, on the account of the steep depreciation of the Leone against major international currencies. The national monthly average inflation rose to 17.4 percent in December 2016.

7. Reflecting the impact of the Ebola and the closure of the iron ore sector, domestic revenues declined from 12.6 percent of GDP in 2013 to 10.8 percent in 2015. Domestic revenues started to recover to an estimated 12.2 percent of GDP in 2016. In order to enhance revenue mobilization, Government implemented key measures in 2016 including: i) the introduction of an excise duty on alcohol content of imported beverages; ii) a new excise regime and higher import duty rates on cigarettes; and iii) a 15 percent Goods and Services (GST) Tax on electricity tariff. In November 2016, the Government also removed subsidy on petroleum products and at the same time restored excise and import duty and Road User Charges on these products. The objective was to eliminate the subsidy that was not affordable in the budget and also increase revenue mobilization.

8. Government expenditure increased to 19.5 percent of GDP in 2015 from 17.5 percent in 2013 largely reflecting the increased spending on Ebola related activities and investments in capital projects. Government expenditures are estimated at 23.4 percent of GDP in 2016 mainly due to scaling up of both recurrent and capital spending. During the last quarter of 2016, Government announced a number of austerity measures intended to be applied through the first quarter of 2017 including no new procurement of government vehicles, furniture and fittings; a 50 percent cut in monthly office supplies; official travel restrictions; and elimination of overtime payments.

9. The fiscal deficit is estimated to have increased from 4.6 percent in 2015 to 8.3 percent in 2016. The budget was under severe pressure, leading to expenditure overruns in goods and services, as well as domestic capital expenditures, late in the year. While government was able to raise some financing from the domestic market to finance the deficit, an estimated Le 460 billion in arrears were unfortunately accumulated to domestic contractors and suppliers.

10. Exports deteriorated sharply during the period falling by 55.4 percent in 2015 from an increase of 47.4 percent during 2013 on account of the collapse of the iron ore sector.

Exports recovered by an estimated 15.2 percent in 2016 driven by minerals, agricultural commodities and timber. During the same period, imports continued to decline by 18.1 percent in 2015 following an earlier decline of 19.9 percent in 2013 due to lower international petroleum prices and reduction in Ebola related imports. Imports are estimated to recover moderately by 2.3 percent in 2016 driven by the resumption of iron ore mining and related need for machinery and fuel products.

11. The current account deficit including official grants, improved from 20.5 percent in 2013 to 17.5 percent in 2015. The current account deficit is estimated to have deteriorated 19.9 percent of GDP in 2016. Services and transfers are estimated to have reduced modestly. Re-newed iron-ore exports contributed to a strengthening of the trade balance, but it was not enough to compensate for the decline in donor support as the fight against Ebola wound down.

12. Gross foreign reserves increased from US$514 million (2.1 months of imports) in 2013 to US$580 million (3.8 months of import) in 2015. Gross foreign reserves are estimated to decline to US$ 548 million (3.3 months of imports) in 2016. If imports related to iron ore mining are excluded, the gross foreign reserves cover 4.8 months on imports by end 2016.

13. The Leone, which was stable during 2013-2015 due in part to increased donor inflows, depreciated sharply in 2016 reflecting the reduced exports earnings and reduction in Ebola-related inflows combined with the increased demand for foreign exchange on the market.

## II. MEDIUM-TERM MACROECONOMIC OUTLOOK

14. The macroeconomic outlook in the medium term is expected to improve although challenges remain. Overall economic growth is projected at 6.0 percent 2017, 6.1 percent in 2018 and above 6.8 percent in 2019 and 2020. The non-iron ore economy is projected to continue its strong recovery from Ebola, estimated at 4.0 percent in 2017, 5.1 percent in 2018 and above 6.0 percent in 2019 and 2020. Commercial agriculture is expected to be a key driver of growth supported by infrastructure investments, in particular in energy to promote growth in manufacturing and services, the main area of diversification.

15. Inflationary pressures are expected to moderate in the medium term as the exchange rate stabilizes combined with prudent fiscal and monetary policies. However, the challenges will remain high in 2017 as the prices continue to adjust to the removal of the fuel subsidy. Inflation is projected to increase to an average of 15.8 percent in 2017 before returning to single digit of 9.4 percent by in 2018 and 8.3 percent in 2019. Monetary policy was tightened to respond to growing inflation pressures. The BSL increased the Monetary Policy Rate (MPR) by 100 basis points in September to 10.5 percent and by an additional 50 basis points in December to 11 percent.

16. The objective of fiscal policy in the medium term will be to limit net domestic financing of the budget at no more than 2.8 percent of GDP in 2017- 2019 and revert to 2 percent from 2019 onwards as well as maintain a moderate risk of external debt distress. Although these anchors have delivered generally sound macroeconomic outcomes and remain appropriate to current circumstances, the limited domestic financing together with the external debt anchor are binding constraints on our objective of ramping up infrastructure spending and expanding the social safety net.

Therefore, there is need for strong domestic revenue mobilization to create fiscal space for scaling up priority spending.

17. Consistent with this objective, the 2017 and the Medium-Term Fiscal Framework envisage a gradual fiscal adjustment. Gradual fiscal adjustment will be achieved through a combination of (i) slower growth of current spending; and (ii) a further mobilization of revenues, through both broadening the tax base and improving revenue administration. To strengthen our revenue mobilization efforts, the government will adopt a *Revenue Mobilization Strategy*. Our efforts to develop this strategy will be informed by a background paper on revenue mobilization options, which will be prepared jointly by representatives of Ministry of Finance and Economic Development (MoFED), National Revenue Authority (NRA), Bank of Sierra Leone (BSL), the IMF's Africa (AFR) and Fiscal Affairs (FAD) departments, and AFRITAC West. To achieve better synergy in the budgetary preparation process, we will henceforth submit the Appropriation and Finance Bills to Parliament at the same time, and seek their simultaneous passage. This will reduce the risk of mismatch between planned expenditure and approved financing measures.

18. **Fiscal stance:** fiscal target under the program for 2017 is an overall deficit including grants of 6.1 percent of GDP. The revised budget keeps the growth of most recurrent spending categories in line with inflation, while allowing for increased capital expenditure. Consistent with our commitments, we intend to adopt additional revenue raising measures that would allow us to reduce gradually the overall fiscal deficit to 4.8 percent by 2020, while at the same time preserving adequate space for priority social and infrastructure spending.

19. **Revenue mobilization:** We recognize that our rate of revenue mobilization is insufficient to finance effective service delivery, provide critical infrastructure and expand social protection, given the limited available domestic and external financing. In late 2016 and in the context of the 2017 budget, we took several steps to broaden the tax base and improve revenue administration, including a 60 percent increase in the pump price of retail petroleum products. At that time, our plan was to completely eliminate the remaining subsidy in the pump price of retail petroleum products no later than July 1, and allow the price to be market determined. However, it is becoming increasingly clear that we will not be able to meet this commitment because despite our best efforts, the reach of our social safety net programs remains limited. We are now committed to making faster progress on the safety net programs, especially public transportation. We are also renewing our commitment to implement the fuel subsidy reform, floating the retail fuel prices with a fixed excise collection, no later than by the completion of the second ECF review.

20. The non-implementation of retail fuel price liberalization has cost us some potential revenue in 2017. Considering our continuous spending pressures, and to offset the revenue loss, we have recently adopted the following policies and revenue enhancing measures, aimed at increasing domestic revenue in 2017 by approximately 0.5 percent of GDP: i) Elimination of all duty and tax waivers, except those covered by the Vienna convention, international bilateral agreements, donor-funded projects, and contracts or MOUs approved by Parliament. Existing contracts and MOUs will not be renewed when they expire, and no new request for exemptions will be entertained; ii) Application of mineral royalty taxes to market prices rather than company prices

implied by export receipts; iii) Introduction of excise duty of 20 percent on luxury vehicles, defined as vehicles with CIF values in excess of US$25,000.

21. Furthermore, in addition to collecting a one-time dividend from profitable SOEs in 2017 of at least 0.1 percent of GDP, going forward, we will collect at least 10 percent of their gross profits as annual dividends to the budget.

22. Finally, we will pursue several policies to improve the efficiency of tax collection and reduce the scope for leakages. We have submitted to Parliament the new Tax Administration Bill, and will seek swift Parliamentary adoption. We are also working with FAD staff to identify measures to address problems flagged in our recent Tax Administration Diagnostic Assessment Tool (TADAT) exercise. In this regard, we will aim to implement the following measures: i) Improve the capacity of NRA to understand and address transfer pricing issues, especially in the extractive and telecommunications sectors; ii) Expand the taxpayer base through systematic use of third party information to detect unregistered taxpayers. A key aspect of this exercise is to implement the Block Management System (BMS) recommended by the recent FAD mission. A full report and planned follow-through actions will be prepared by end-December for sustainable compliance and measuring success; iii) Undertake a compliance project, using intelligence garnered through data-matching; iv) Undertake a compliance/audit project of employers' classification of employees, which has become prone to wide-spread abuse through the mis-classification of employees as contractors, thereby shifting the burden of the final tax. This exercise will be completed by end-September; v) Pass the Extractive Industry Revenues Bill (EIRB), to consolidate all mining tax and non-tax obligations under common terms. This Bill will be submitted to Parliament by end September 2017.

23. **Expenditure Management:** Our goal is to contain recurrent expenditures, while reorienting spending towards infrastructure and social protection. In 2017, we will rationalize expenditure in key areas, while increasing expenditure on social safety net programs. In the medium term, we will contain the wage bill and moderate the growth of expenditures on goods and services. To this end, we plan to i) Reduce expenditure on civic registration in the 2017 budget by Le 125 billion due to donor support covering specific areas, and reduce subsidies and transfers by Le 38 billion; ii) Increase expenditures on our social safety net program. In particular, the World Bank is currently aiding us in implementing a cash transfer scheme. The current program allocates US$5 million per year to the most vulnerable in society mostly in the rural areas. We are committed to adding to this program an additional $5 million per year from the budget, starting this year, to expand the social safety net program in the rural areas as well as provide additional public transportation in the urban areas, especially in Freetown; iii) Produce a comprehensive *Wage Reform Strategy* that will be approved by Cabinet by end-2017; iv) Institutionalize the Expenditure and Contracts Management Committee (ECMC) with a broader membership including the Law Officer's Department and the NPPA, and ensure checklist of conditions to be fulfilled is developed and enforced before the approval is granted for award of contract. The committee will be operational by end-June; v). Ensure that the Integrated Financial Management Information System (IFMIS) is fully rolled out and utilized by all MDAs, and that all modules of the IFMIS are fully functional, allowing for the most up to date information for cash and public finance management; We will continue to rely on World Bank support for technology procurement to realize this; vi) Adopt a

Public Investment Plan by the time of the first review of this program. The plan will identify the key projects we hope to implement during the course of the program, consistent with maintaining a moderate risk of debt distress. Moreover, Government is committed to clearing the arrears accumulated in 2016 during the current year.

24. Given preparations for the 2018 General Elections and the fact that Parliament will prorogue by end November, 2017, efforts are being made to submit the 2018 budget to Parliament by end September 2017, a month before the legal due date. The aim is to give Parliament enough time to approve the budget. Hence, all revisions to 2017 budget will be submitted together with the 2018 budget to Parliament for ratification.

25. The current account deficit is expected to improve to an average of 18.6 percent of GDP during in the medium-term (2017-2019). The steady improvement is underlined by sustained growth in exports. Although current transfers are projected to decrease in the medium term due to a reduction in off-budget grants. The capital account is expected to improve gradually with higher FDI, growing over the course of the projection period.

26. Gross foreign exchange reserves are expected to average 3.3 months of imports in the medium-term. The depreciation of the exchange rate is expected to moderate in the medium term as exports increase supported by prudent fiscal and monetary policies.

## III. POLICY REFORMS IN 2017-2020

27. Mr. President, achieving the medium term outlook requires effective implementation of carefully designed policy reforms. The implementation of the Poverty Reduction Strategy suffered a severe setback through the Ebola epidemic and the collapse of iron ore prices, but our country has shown its resilience and has continued to achieve progress by implementing the Post-Ebola Recovery Strategy and the President's Recovery Priorities.

28. The first phase (6-9 months) of the Post-Ebola recovery focused on four key sectors (health, education, social protection and private sector) that provided immediate and direct relief to Sierra Leoneans and maintained a zero rate of Ebola infections. This first phase was completed in April 2016. The second phase consisting of the President's Recovery Priorities, which aims to put the country on track for a transition back to the Agenda for Prosperity (AfP) by mid-2017 and focused on seven key sectors: health, social protection, education, water, energy, governance and private sector development, which includes agriculture and fisheries. This transition was necessary to allow a gradual shift from the short actions which focusing on providing direct relief to the medium term interventions which will align incentives for inclusive growth and poverty reduction.

29. The twin shocks have uncovered the weaknesses of our economic system and have made urgent the need to diversify the economy to reduce the high dependency on the mining sector. By focusing on agriculture, fisheries, energy, and education, the Government aims to make the assets of the poor (land and labor) more productive for a sustainable increase in income. In the process, the Government will make sure that the decision making processes are transparent and accountability mechanisms are enforced.

30. The policy direction the Government is taking on agriculture, fisheries, energy, education, and governance in presented below.

**Increasing productivity in selected sectors**

31. **Agriculture and lands** – The Government has implemented numerous interventions aiming at increasing agricultural productivity and output through a range of projects. For example, 979 hectares of inland valley swamps (IVS) were cultivated and planted with 2,448 bushels of NERICA seed rice, a higher yielding seed variety. Targeting 50,000 farming families, around 50,000 bushels were distributed in total, together with 35,761 bags of fertiliser. Under Institutional Feeding, the Government also obtained commitments from processors and producers to supply 10 percent of the rice needed for the Sierra Leonean military, police and fire forces. To deepen market access and support commercial development, 922.5 km of feeder roads are currently being rehabilitated and an additional 52 Agricultural Business Centres are being transformed into viable processing and marketing entities, amongst other projects. Also, we have undertaken a number of initiatives to improve farm families' access to finance and farming skills.

32. Despite these numerous interventions to increase crop production and productivity, crop yields continue to fluctuate, undermining government's effort towards achieving food security in the country. Access and use of high quality agriculture inputs (seeds, fertilizers, etc.) has remained extremely low (4 percent for chemical fertilizers, 9.5 percent for organic fertilizer, and 10.4 percent for improved seed varieties). A key constraint to access to productivity-improving inputs is the lack of regulatory framework for private sector participation. Marketing of seeds and fertilizers has not been regulated. Given the current socioeconomic status of farmers in Sierra Leone, the need for a policy environment to ensure adequate and timely availability of improved seeds and fertilizers at affordable prices is crucial. To this end, the Government has developed the National Fertilizer Policy to support the implementation of a private-sector led and competitive fertilizer sub-sector in Sierra Leone. A fertilizer regulation consistent with the ECOWAS regulation, will be developed and submitted to Parliament before June 2018. The regulation will detail the mechanism and process through which the policy will be implemented. The Government has submitted a new seed bill to the Parliament to promote private sector participation in the multiplication and marketing of seeds. The seed regulation will also be submitted to the Parliament before June 2018. This new policy direction aims at increasing yield per hectare for rice from 1.5 tonnes currently to 2.5 tonnes by 2020, through creating an environment for private sector participation. It incorporates gender and environmental concerns as well as foster linkages with stakeholders in the sub-sector.

33. Food policy will remain of paramount concern to our economic development efforts for the next decade and rice will place a significant role on its success or failure. Rice is our most cultivated and consumed staple food and has retained the Government attention for several years. In addition to the efforts to facilitate access to improved inputs, the Government is committed to adjust its trade policy regarding rice to provide the needed incentives for private investment in the value chain. The transformation of the rice produced by farmers into a competitive staple food purchased and eaten by consumers in Sierra Leone is a great challenge. The costs of storage, transportation, and processing are an integral component of food price formation. Prices provide producers and consumers with signals about how to allocate

their inputs and household budgets. Therefore, how the price of rice is set and what impact it has on both producers and consumers is an important analytical question. .In light of the above, the Government is committed to the full implementation of the Finance Bill 2017, which contains provision for the implementation of the ECOWAS Common External Tariff (CET).

34. The Government has since 2009 driven a consultative process to develop a comprehensive National Land Policy (NLP), which received Cabinet approval on November 11, 2015. The NLP vision is to move towards a clearer, more efficient and just land tenure system that shall provide for social and public demands, stimulate responsible investment and form a basis for the nation's continued development. The principles of gender equality, protection of legitimate tenure rights (with a specific focus on customary rights and women's rights) and of fostering sustainable use of natural resources guided the development of the policy.

35. A National Land Policy Implementation Plan (NLPIP) has been designed to address the institutional, legal and technical capacity requirements of the relevant national government departments, provincial and local government, and where necessary, to provide the private sector and general public with a sound understanding of the NLP and their respective roles and responsibilities. The plan addresses the diverse needs of a broad spectrum of audiences, by providing both formal capacity building programs, as well as informal education, awareness and communication strategies and programs.

36. A Multi-Stakeholder Platform and VGGT (Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security) Institutional Framework – including an Inter-Ministerial Task Force, a Steering Committee, a Technical Working Group and a VGGT-Secretariat in the country to support and facilitate tenure governance reforms in the land, fisheries and forestry sectors. The VGGT multi-stakeholder institutional framework will provide an inclusive and participatory framework for facilitating implementation of the NLP reform process. The Land Policy was re-submitted together with implementation framework and implementation plan to Cabinet on May 17, 2017.

37. **Fisheries** – Fish production provides a major source of protein for a significant portion of the population; and it is estimated to employ around half a million Sierra Leoneans, mostly women especially in fish processing, marketing, etc). With support from the West Africa Regional Fisheries Program (WARFP), the Government improved fisheries management by defining and enforcing a 6 mile Inshore Exclusion Zone (IEZ) and applied satellite monitoring. This resulted in the reduction in the industrial fishing vessel with the consequent increase in fish landed for the domestic market in 2014.

38. Despite these efforts, the fisheries sector is challenged by the over-exploitation of the fisheries resources, which threatens the sustainability of the sector. For artisanal fisheries sector, it is still managed under open access scheme. The increase in the number of fishing trawlers is attributed to the low license fees. This will cause a significant degradation and depletion of the fishery resources, which will jeopardize the economic gain of the sector in the long term. Therefore, Government has increased licensed fees by 30 percent and is committed to increase them further through the harmonization of fees with other West African countries. The objective is to improve the livelihood of the fishing population and make the sector sustainable over the long run. A related challenge facing the sector is the illegal, unreported and

unregulated (IUU) fishing practices mostly by foreign trawlers through poaching into our Inshore Exclusive Zone (IEZ) and IUU fishing among the artisanal fishery sector. This is due to inadequate monitoring, control and surveillance capacity and lack of funding to support the Joint Maritime Committee (JMC)'s function. Additionally, the infractions when notified are not always prosecuted according to the law. This threatens the sustainability of the sector and reduces the supply of fish in the local market.

39. The objective of the Government going forward is to increase the supply of fish in the local market and generate employment and income for the local communities while maintaining the sustainability of the sector. In order to reach this objective, the Government is committed to reduce the number of fishing license granted to foreign industrial vessel to 30, the number considered sustainable by the Marine Resources Assessment Group (MRAG) by 2030. The government is also committed to improve the transparency, monitoring, control and surveillance of fisheries activities of the sector and has published the list of all industrial vessels with active licenses and ensured that all licensed vessels have Vessel Monitoring Systems (VMS) and independent observers on board. A fisheries bill is under preparation and will be approved by Cabinet and submitted to Parliament before June 2018.

40. **Energy.** The unreliable supply of electricity remains a binding constraint to economic growth in Sierra Leone. It is estimated that less than 15% of the population is connected to the electricity grid. Electricity supply has increased in recent years from about 7MW in 2007 to the current installed capacity of 100MW. This includes 50 MW of hydro power from Bumbuna Hydro Dam and a number of thermal plans installed in Freetown, Bo, Makeni, Kono, Lungi and Lunsar. Despite these efforts, the expansion in economic activities prior to Ebola and iron ore crisis increased the demand for electricity, which currently outstrips the supply.

41. The sectors suffer from significant technical and commercial losses, which undermine the operational and financial sustainability of the sector due to under-investments in the sector over the years and high prevalence of fraud. As part of reforms to address these challenges, Government adopted the Electricity Act, 2011, which paved the way for the unbundling of the National Power Authority (NPA) into the Electricity Generation and Transmission Company (EGTC) and the Electricity Distribution and Supply Authority (EDSA). EDSA is currently not financially viable due to line losses estimated at 38 percent and low rate of revenue collection estimated at 74 percent of revenue due to be collected. The Government objective is to reduce the losses to 22 percent by 2020 and increase the share of revenue collected from electricity sales in the total electricity bought by EDSA.

42. The Government will focus on improving the financial viability of EDSA through measures to reduce technical and commercial losses. To this end, the Board of EDSA has approved a strategic plan that will include measures to improve the financial situation of the utility as well as reduce technical and commercial losses. Going forward, the EDSA Board will approve a network Configuration Plan, complete installation of control metering points at source and manage system losses. The Government is aware that increasing generation capacity without investment in the network and adequate increase in demand could increase the technical losses and further affects the financial viability of EDSA or increase the subsidy requirement. The Government is committed to assess the impact on the Government's fiscal and EDSA's financial situation prior to signing any new power purchasing agreement.

43. Electricity theft and illegal connections from top-end customers cause financial loss to EDSA. To detect these illegal connections or identify gaps in the reporting system, EDSA has decided to update its systems and processes that enable remote monitoring of consumption for the large clients. To reinforce this mechanism and effectively tackle the rate and spate of electricity theft in the country, the Government has launched an Electricity Offence Committee. The comprises officials from the Ministry of Energy, Ministry of Internal Affairs, Ministry of Justice, Office of National Security (ONS), Electricity Contractors Association, EDSA, Director of Public Prosecution, among others. The Committee will be in charge of pursuing the offenders.

44. **Education-** The government increased significantly access to education but the learning outcomes remain among the lowest in the region due to the poor quality, performance, and management of the teaching workforce. The Government recognizes that teacher management should be improved. Teachers absenteeism is high and their location in the schools difficult thereby undermining the integrity of the payroll. To address the numerous issues concerning teachers, including registration and licensing; management (i.e. recruitment, transfer, dismissal, promotion, and retirement), records and payroll; professional development and performance; and teacher-employer relations, a Teaching Service Commission (TSC) was created in 2011. However, the TSC was made operational only recently with the appointment of its chair, the nomination of the 16 commissioners; and the holding of inaugural meeting in August 2016. The staff recruitment and the development of the policy guidelines and district operations manual is ongoing.

45. The Government is committed to make the TSC fully functional and will transfer the asset, functions and functionaries from the Ministry of Education to the TSC in a phased basis. MEST and TSC have agreed on a transition plan for the transfer of functions to the TSC. MEST has forwarded a letter to MOFED as evidence of this agreement. This decision is expected among others, to reduce teacher absenteeism in schools.

46. Increasing Transparency and accountability in selected Government decision making processes

47. Improving transparency remains an important component of the Government's reform agenda. Such improvements will help to ensure that increased resources generated from the agriculture, land, fisheries and energy productivity accrue to the general public and improve overall government delivery and public perceptions. Improving oversight of the decision making and spending processes of government, and ensuring that anti-corruption efforts are strengthened and public procurement processes are enhanced will be key components of this effort.

48. **Public Procurement.** Government recognises that improving public procurement is critical to ensuring value for money in the delivery of public services. A revised Public Procurement Act, 2016 has been enacted to replace the Public Procurement Act, 2004. A cadre of Procurement Officers has also been established and Procurement Officers deployed in MDAs. A Public Procurement Directorate has also been established in the Ministry of Finance and Economic Development to oversee the activities of Procurement Officers in MDAs.

49. However, there have been challenges in ensuring value for money as only a small proportion of public procurement transactions are conducted through open competition. The Auditor-General's Report also contained several concerns on public procurement.

50. Against this background, Government is committed to improving the transparency and accountability of public procurement to ensure value for money. To this end, Government has adopted a decision to implement e-procurement to improve transparency and accountability in public procurement transactions and ensure value for money. This will facilitate efficient integration of supply chains, better organisation and tracking of transactions records and data gathering. It also promotes faster delivery of goods and services. Going forward, the Government will hire an eProcurement consultant to provide technical guidance to the entire eProcurement process by the end of 2017. Government will also publish on an official Government website, an audit report of selected procurement transaction in 2016.

51. **Asset Disclosure.** As a demonstration of its commitment to fight corruption, Government adopted the National Anti-Corruption Strategy (NACS) covering the period 2014-2018. The general goal of the NACS is to contribute to consistent reduction of corruption, strengthen the integrity system and build public trust in government institutions and promote zero tolerance on corruption. The NACS is being successfully implemented through a continued sector wide approach in the coordination of the implementation by Ministries Departments and Agencies (MDAs).

52. Key instruments such as integrity pacts and integrity pledges to enhance transparency and eliminate the opportunity for bribery was instituted. Public accountability, integrity management committees have been established in MDAs to enable them to take ownership of the fight against corruption in their respective institutions by addressing at first hand issues of corruption and maladministration.

53. In response to the ever growing concerns about bribery, the Government of Sierra Leone through the ACC is collaborating with the Government of Great Britain through the Department for International Development (DFID) agreed for the implementation of a 3 year "Pay no Bribe" (PNB) project. The PNB is an innovative reporting mechanism for citizens to anonymously reports incidents of bribery and petty corruption in key service sectors.

54. Sierra Leone improved its ranking in the Transparency International Corruption Perception Index to 119th out of 167 countries in 2015 from 134th out of 178 countries surveyed in 2010. The number of corruption cases increased to 93 in 2015 from 37 in 2014. Revenue recovered from stolen assets amounted to Le 63,967,000 in 2015.

55. Despite these achievements the perception of corruption in Sierra Leone is still very high partly due to the weak implementation of the Asset Declaration. Government will therefore strengthen the effectiveness of the asset disclosure system as a tool for ensuring accountability and integrity of officials within the overall governance structure. As a first step, the Anti-Corruption Commission issued a public notice in October 2016 urging public officials to comply with section 119 of the ACC Act of 2008, relating to the filing of Asses Declaration by October 31, 2016. This resulted in improved compliance rate from 35 percent in 2015 to 63 percent in 2016. For public officials with the rank of Director or above, compliance rate was 70 percent while it was 90 percent among Cabinet Ministers and their Deputies. The ACC is considering

to refocus its asset disclosure system on the most exposed persons covering officials of all branches of government service including civil service, executive appointees, judiciary, parliament, diplomat service, military and SOEs. The government is committed to enforce sanctions, including an effective, non-discretionary administrative sanction for non-compliance with AD filing obligations.

**Conclusion**

56. Mr. President, the Government is confident that if implemented adequately, this program of reforms will help our country accelerate growth, increase the income of the poor households, and diversify the economy. However, the Government will need financial support in the short run to ease the lingering impact of the Ebola crisis and collapse in iron ore prices which continue to adversely affect the performance of the economy. Domestic revenue, though improving, is still below the pre-crisis level and the amount required to promote Government's development agenda. At the same time, expenditure pressures persist to improve service delivery in the social and economic sectors. Though the envisioned reform will generate some savings, a severe expenditure cut should be avoided. While Government is implementing reforms to improve domestic revenue mobilisation, the provision of budget support by our development partners including the World Bank remains critical in the implementation of the Agenda for Prosperity and the Presidential Recovery Priorities.

57. In the absence of external budget support, the Government will have to excessively borrow from the domestic economy with attendant consequences on macroeconomic stability and economic growth.

58. Your approval of this disbursement request, therefore, will enable Government to deliver the planned level of services to the people of Sierra Leone.

Yours sincerely,

**Foday B. L. Mansaray**
**Acting Minister of Finance and Economic Development**

**Annex 3: FUND RELATIONS ANNEX**

## IMF Executive Board Completes Sixth Review Under ECF Arrangement for Sierra Leone and Approves US$33.23 Million Disbursement

December 7, 2016

- The review's completion enables the disbursement of US$33.23 million, bringing total disbursements under the program to US$253.81 million.
- Economic policy should continue to focus on anchoring economic stability through sound fiscal, monetary, and debt policies.
- Diversifying growth, making it more inclusive and distributing its benefits more widely should be the overriding focus of economic policy.

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Sierra Leone's performance under the economic program supported by an Extended Credit Facility (ECF) arrangement[19]. Completion of the review enables the disbursement of SDR24.44million, about US$33.23 million, bringing total disbursements under the arrangement to SDR186.66million (about US$253.81 million). The decision was made on a lapse of time basis[20].

In completing the review, the Executive Board also approved a request for waiver for the non-observance of the continuous performance criterion on the net present value of the external debt and the non-introduction of multiple currency practices given corrective measures taken by the authorities.

Sierra Leone's ECF arrangement was approved by the Executive Board for SDR 62.22 million (about US$86.86 million) on October 21, 2013 (see Press Release No. 13/410) and was augmented twice (see Press Release 15/86 and Press Release 14/441). It was subsequently extended until end-December 2016 ( see PR No 16/314).

The government's economic reform program supported by the ECF has achieved its key objectives despite the exogenous shocks of the Ebola epidemic and the collapse of iron ore prices and associated loss of production in 2014-2015. It aims at ensuring stronger and more inclusive growth and plays a catalytic role for bilateral and multilateral assistance.

The economy proved resilient, supported by sound macroeconomic policies, together with generous support from development partners that helped ensure fiscal and external sustainability, while providing resources to begin implementing the post-Ebola Recovery Strategy. However, the authorities need more resources to mitigate the long – lasting impact of Ebola and commodities prices shocks.

Despite this improvement, challenges persist. Looking ahead, policy should focus on continuing to anchor economic stability through sound fiscal, monetary, and debt policies while making faster progress on structural reforms. Diversifying growth, making it more inclusive and distributing its benefits more widely should be the overriding focus of economic policy.

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[19] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems

[20] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions

# ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

| Proposed Prior Actions | Significant positive or negative environment effects | Significant poverty, social or distributional effects positive or negative |
|---|---|---|
| **Pillar 1: Increasing productivity in selected economic sectors** | | |
| 1. The Recipient has introduced legislation to regulate and promote foundation seed production, multiplication and distribution by the private sector, and, to such end, the Minister of Agriculture has duly submitted the Bill entitled "The Sierra Leone Seed Certification Act of 2017" to Parliament for its approval. | **Neutral**: This action is not expected to have any environmental effects. | **Positive:** Higher private sector participation in the seed market is expected to: (i) increase access to improved seeds and create conditions for growth in yield and (ii) promote private sector development and job creation both which are expected to have significant positive impacts on poverty. |
| 2. The Recipient has taken decision in Cabinet, approving a new fertilizer policy committing the Recipient to progressively reduce direct supply and distribution of fertilizer to farmers, in order to encourage private sector participation in the supply and distribution of fertilizers. | **Negative**: The liberalization of the fertilizer market may have a negative effect on the environment. It is planned to mitigate any environmental risk through the Smallholder Commercialization and Agribusiness Development Project (SCADP).<br>**Positive**: An increase in the agricultural productivity resulting from increased use of fertilizer is expected slow the rate of deforestation for agriculture. | **Positive:** Higher private sector participation in the fertilizer market is expected to: (i) promote timely and increased access to fertilizers which are necessary for yield growth and (ii) promote private sector development and job creation, both which are expected to have significant positive impacts on poverty. |
| 3. The Recipient, acting through its Ministry of Lands, has adopted the Land Policy Implementation Framework and Land Policy Implementation Plan (2016-2026) and submitted the same to Cabinet for endorsement. | **Neutral**: This action is not expected to have significant environmental effects. Nevertheless, the LPIF addresses issues related to: land use and land development; sustainable management of land resources and the environment; integrated land use planning and regulation of development; land quality and productivity assurance and issues related to human settlement, agriculture and climate change. | **Positive**: The implementation of the land policy is expected to provide for sufficient security and safeguards that would enable banks and other financial institutions to provide credit to farmers using land holding as collaterals. This is expected to have significant positive impacts on poverty over the medium to long term. |
| 4. The Recipient, acting through its Ministry of Fisheries, has published on its public website a list of all industrial vessels with an active license and certified in writing to the Association that all licensed vessels (other than tuna vessels) have a Vessel Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, in order to increase transparency and reinforce monitoring, control and surveillance of fishing activities. | **Positive:** The reinforcement of the fishing monitoring system is expected to reduce illegal fishing and use of fishing methods such as channel fishing; use of poisons, explosives, and monofilament nets; incursion of trawlers into the Inshore Exclusive Zone. This is expected to reduce the over-exploitation of some fish stocks and treat to species such as sea turtles and marine mammals. | **Positive**. A reduction in the number of industrial trawlers and vessels is expected to reduce competition between industrial fishing and artisanal fishing, and lead to a reduction in the cost of artisanal fishing and an increase in landing. Increase in landing from artisanal fishing is expected to have positive impacts on poverty. |
| 5. The Recipient, acting through its Electricity Distribution and Supply Authority ("EDSA"), has approved a strategic plan to improve the financial situation of EDSA and reduce technical and commercial losses. | **Neutral**: This action is not expected to have any environmental effects. | **Positive:** Reduction is electricity losses in expected to improve the financial situation of EDSA and increase its capacity to supply electricity to household and businesses. Higher electricity supplied is expected to lead to increased activities and investments in manufacturing and services and lead to lower poverty through creation of better paying jobs. |
| 6. The Recipient's Ministry of Education, Science and Technology (MEST) has issued a transition plan defining the | **Neutral**: This action is not expected to have any environmental effects. | **Positive**: Better and more transparent management of teaching and is expected to improve the learning |

| | | |
|---|---|---|
| timeline and milestones for the transfer of files, records and functionaries from MEST to the Teaching Service Commission ("TSC"), in accordance with the Teaching Service Commission Act of 2011. | | outcome over the medium to long term. |
| **Pilar 2: Improving transparency and accountability in selected government decision making processes** | | |
| 7. The Recipient has taken a decision in Cabinet approving the development of an e-procurement system in order to increase transparency in procurement processes. | **Neutral**: This action is not expected to have any environmental effects. | **Positive**: A more transparent procurement system is expected to improve oversight of public resource management, improve efficiency of public resource management, increase value for money, and reduce opportunities for corruption. |
| 8. The Recipient, acting through its ACC, has issued a public notice urging all public officers who had not filed with the ACC a sworn declaration of income, assets and liabilities, as required by Section 119 of the Anti-Corruption Act of 2008, to comply with said requirement no later than October 31, 2016. | **Neutral**: This action is not expected to have any environmental effects. | **Positive**: Expected to improve oversight of public resource management and reduce opportunities for corruption both of which are expected to have positive impacts on poverty over the medium to long term. |