INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED DEVELOPMENT CREDIT

TO

SIERRA LEONE

FOR AN

INTEGRATED AGRICULTURAL DEVELOPMENT PROJECT

June 8, 1972
CURRENCY EQUIVALENT

US$1.00 = Le 0.767
Le 1.00 = US$1.303
1. I submit the following report and recommendation on a proposed development credit to Sierra Leone for the equivalent of US$4.3 million on standard IDA terms to help finance a project to assist 2,500 smallholders in growing rice, cocoa and oil palm; to construct a palm oil mill and 20 small rice mills and to prepare an agricultural development project in the north and a forestry project in the central region of Sierra Leone.

PART I - THE ECONOMY

2. An economic mission was in Sierra Leone in November and December, 1969 and its report entitled "The Current Economic Position and Prospects of Sierra Leone" (AW-20a), dated October 9, 1970, was distributed to the Executive Directors. Discussions on the economy were held in Sierra Leone in November 1971 and again in March 1972. Country data and an economic memorandum are given in Annex II. The main conclusions of this memorandum are summarized in the following paragraphs.

3. The basic development need in Sierra Leone is to broaden economic growth outside the export-oriented enclave mining sector. In the past decade, this sector, which consists largely of diamond mining, accounted for almost all of the economy’s growth, which averaged about 4 percent per year. In order to devise an appropriate development strategy, the Government has obtained assistance from the UNDP. Recent Government statements have given priority to agriculture, education and transport, all of which are of key importance to economic and social development. The main emphasis on agriculture is appropriate not only because Sierra Leone has good agricultural resources, but also because about 75 percent of the population is engaged in agriculture. The expansion of manufacturing is limited by the size of the market and should become more important when possibilities for economic integration in West Africa improve. Some encouraging discussions on this subject between Sierra Leone and Liberia have recently taken place.

4. The development of agriculture will provide foreign exchange savings through import substitution and the expansion of exports. In addition, it can help reduce the migration from the countryside which is already causing
mounting urban unemployment. Improvements in transport are an important corollary to agricultural development. In recent years, some progress has been made by dismantling the outdated and uneconomic railway system. Meanwhile, construction has begun on important road links between the main agricultural areas and coastal population centers, which are also the main export outlets. Progress is being made in education, where the system is being reformed to help provide manpower requirements and to serve development needs. The main constraints to development are the absence of development planning and the shortage of identified and prepared projects, and of managerial and technical skills and the limited public savings.

5. In 1969 and 1970, Sierra Leone's economic position deteriorated, because of a depression in the diamond market, difficulties in fiscal and debt management, and political problems. Government revenues dropped sharply while extra budgetary recurrent expenditures increased and a substantial amount of new external debt on commercial terms was incurred. In September 1971 the Government introduced measures to limit external commercial credits, mobilize government revenues, reduce recurrent expenditures, and prepare guidelines for economic development. Significant progress has been achieved since then in implementing these measures, which together with a recovery in the diamond market at the end of 1971, and a stabilization of the political situation, has improved the economic situation substantially. (See Annex II).

PART II - BANK GROUP OPERATIONS IN SIERRA LEONE

6. The Bank Group has loaned US$17.9 million for power, roads and education. Annex I contains a summary statement of Bank loans and IDA credits as of April 30, 1972 as well as notes on existing projects.

7. The principal objective of Bank Group lending in Sierra Leone will be to help Government develop and modernize agriculture. The Government plans to diversify and expand smallholder production of export crops and to initiate agricultural development in new areas. The Bank can help promote these goals through the financing of relatively small but high priority projects embracing a variety of components -- research, infrastructure, provision of credit and extension services for smallholders, training of Sierra Leonean nationals for key administrative posts and for the management of future agriculture projects. The proposed project contains some of these elements and is designed to provide a foundation for further assistance in this sector. For example, it includes studies that should lead to project proposals within the next two years for forestry development in the central region and for an integrated agricultural development scheme in the north.

8. Assistance for education will also play a larger role in Bank Group lending to Sierra Leone. Under the education project (Credit 170-SL), Government is preparing an educational development plan and an associated
A manpower survey. These are expected to provide the basis for future projects. Some lending for transport will continue and the Government has indicated that it might request Bank financing for part, or all, of the Freetown-Waterloo road. Feasibility studies for this road are being financed under the First Highway Project.

9. An important feature of Bank Group operations is to relate lending to continued improvement in economic policies. When Sierra Leone's financial position deteriorated in 1970 and 1971, understandings were reached with Government on the corrective measures to be taken. Further Bank Group lending was made dependent on the implementation of these measures (see Annex II, page 6).

10. The financing of development in the next several years is expected to require external assistance averaging US$14 million a year. Germany and the United Kingdom, Sierra Leone's two major donors, can be expected to provide assistance in transportation and agriculture, but the current shortage of viable projects is a constraint for any significant expansion of aid. This underlines the need, which is recognized and provided for in the proposed project, for expediting project identification and preparation. Sierra Leone's external assistance requirements, past and future, are detailed in Annex II, pages 8 and 9.

**PART III - AGRICULTURE IN SIERRA LEONE**

11. Sierra Leone has two major agricultural zones; the northern with a long dry season where cattle and annual crops predominate and the southern with rainfall and climate suitable for cocoa, coffee and oil palm — its main export crops. The south also contains all the known diamond, timber, titanium and bauxite reserves. This uneven development has accentuated the country's political and tribal differences.

12. Agriculture contributes about one-third of GNP and about 16 percent of exports. Of the estimated one million acres under crop each year, only about 23,000 acres (2.3%) are large farms and plantations. The remainder are farmed by about 250,000 families. Over 95% of cultivated holdings are under 10 acres, and the average is about four. Only about a quarter of all farmers receive significant cash income; the majority are engaged in subsistence farming.

13. Rice is the staple food, and until the early 1960's the country was self-sufficient. With the onset of the diamond boom in the early 1950's and the associated movement of workers from their farms, rice production fell. In 1970 rice to the value of about US$6 million was imported and this was equivalent to more than a third of the value of agricultural exports. The principal exports are palm kernels, coffee, cocoa, piassava and ginger.

14. Government policy is to increase production of crops for domestic consumption and for exports by diversifying and expanding smallholder cropping;
it is also aimed at strengthening support for agriculture in the northern region. Past efforts to encourage smallholder farming through cooperatives have been unsuccessful owing to inadequate management and the failure of the Sierra Leone Cooperative Marketing Federation in 1967. The primary responsibility for government support in agricultural development, research and extension services lies with the Ministry of Agriculture and Natural Resources. Its impact on the sector has not been very significant so far, largely owing to the dispersal of its limited staff and financial resources and its lack of planning and management capability. Government has now recognized these weaknesses and has decided to strengthen the institutions and the management of its agricultural program. The U.K. Government has recently provided six technicians to help reorganize and strengthen the Ministry and to prepare projects. Agricultural research has been initially insignificant, apart from certain rice research programs in the early 1960's. UNDP is now considering assistance in this field, based on a plan prepared by the International Institute of Tropical Agriculture.

15. An important obstacle to agricultural development has been past failures of agricultural credit schemes in Sierra Leone. At present there is no official source of agricultural credit, and farmers are forced to depend either on their own savings or borrowings from non-institutional sources of credit. New development projects in agriculture, therefore, will have to include full provisions for credit facilities in order to be effective.

16. The marketing of Sierra Leone's main export crops is handled by the Sierra Leone Produce Marketing Board, which is responsible, in conjunction with the Government, for fixing cocoa, coffee and palm kernel producer prices. It is required to maintain a price stabilization fund, which, since 1967, has contributed Le 500,000 annually from its operating surplus to Government for development purposes. The Board operates through licensed buying agents; its marketing arrangements are satisfactory.

17. Sierra Leone's future economic prospects depend largely on development of its agriculture. Major emphasis is now being placed on institution building in this sector. Further assistance must be directed to weaknesses in public administration, particularly with respect to project management, and also to providing better coordination of agricultural policies.

PART IV - THE PROJECT

18. The proposed project is based on a plan prepared for Government by the Commonwealth Development Corporation (U.K.) under contract to the Bank in 1970. It was appraised in February/March 1971, but was delayed by the Government's financial difficulties. By early 1972, measures taken by the Government brought about considerable improvement. Negotiations were therefore held in Washington on May 22 and 23. Mr. A.G. Sembu Forna, the Minister of Agriculture and Natural Resources, headed the Sierra Leonean delegation.
19. The proposed project will largely be carried out within an area of about 1.5 million acres in eastern and southern regions—involving nearly 2,500 near subsistence smallholders. This area has good agricultural potential, adequate rainfall and extensive uncultivated land with good soils. The farmers are receptive to change and have experience in growing cocoa, rice and oil palm, but the yields which they obtain are far less than those which could be obtained with better farming methods. An important constraint to higher yields in cocoa and rice has been the absence of farm credit to purchase important inputs, such as fertilizer and pesticides, and the absence of effective extension services. The proposed project builds on the experience of an oil palm estate established in 1968 by the Ministry of Agriculture and Natural Resources, which has encouraged smallholder oil palm plantings in the surrounding area. The project will complete palm plantings on this 2,000 acre nucleus estate and will at the same time encourage and diversify the smallholder farming.

20. The project would be carried out over a three year period, 1973-1975, as the first phase of a program designed to raise the living standards of the smallholders. It would include:

(a) completing the establishing of a 2,000 acres oil palm plantation by planting 510 acres, and constructing a palm oil mill to service the estate and associated smallholder plantings;

(b) providing smallholders with credit for labor, pesticides, fertilizers and improved high yielding planting materials to:

(i) clear and bring into production up to 6,000 acres of inland swamp rice;
(ii) plant up to 750 acres of cocoa; and
(iii) plant up to 1,830 acres of oil palm;

(c) constructing up to 20 small rice mills;

(d) training project farmers in efficient rice, cocoa and oil palm production techniques;

(e) carrying out studies to prepare an agriculture development project in the Northern province, a commercial forestry project in the Tama forestry reserve, and detailed studies of Sierra Leone's domestic oil palm requirements, the marketing and processing of domestic rice, and the marketing of imported rice;

(f) establishing an Agricultural Development Authority (ADA) to own and operate the oil mill and nucleus estate;

(g) establishing a project management unit in the Ministry of Agriculture and Natural Resources.
21. At full development, the project would produce 1,239 tons of cocoa and 860 tons of palm kernels for export annually. In addition, import substituting crops would increase as follows: palm oil, by 4,300 tons and rice, by 2,900 tons, annually. The net value of foreign exchange benefits over the life of the project would be US$21.8 million. The average annual incremental net farm income per family at full development would be: cocoa, Le 132 (US$172); oil palm, Le 462 (US$602); rice, Le 143 (US$186). The economic return, assuming a project life of 25 years and when hired labor is shadow priced, is about 15 percent. Costing hired labor at its actual price would reduce the rate of return to 13 percent.

22. Project paddy would be milled at the small village mills to be set up by the project management unit (PMU). PMU would retain rice to cover milling costs and credit repayments; the remainder would be returned to farmers. The milled rice would be sold domestically on the open market. Project cocoa would be sold through SLPMB licensed buying agents.

23. The project would be managed by a project unit responsible to the Ministry of Agriculture and Natural Resources. The oil palm estate and outgrowers scheme would require a plantation manager; a managing director would be required for the Agricultural Development Authority. Consultants would be needed in connection with construction of the oil palm mill, and for studies related to integrated development in the north, forestry, domestic palm oil requirements and the marketing of rice.

24. The Agricultural Development Authority (ADA) would be a statutory board established by Act of Parliament no later than March 31, 1974 or one month prior to the expected commissioning date of the oil mill, whichever is the earlier. At first, ADA's only responsibility would be to own and operate the oil mill and nucleus estate. Eventually, it would be responsible for providing credit, technical and managerial services generally to agricultural projects and for preparing agricultural projects. ADA would be appointed a licensed buying agent of the Sierra Leone Produce Marketing Board and would make deliveries of palm kernels produced by the project mill direct to SLPMB in Freetown.

25. An important feature of the project is the training of local counterpart staff to help provide experts needed to prepare and manage future agriculture projects. Suitably qualified and experienced persons would be sought for senior management positions. Some of these posts would be filled by expatriates, but provision has been made for Siarians to be trained to assume their responsibilities in due course.

26. Loans to project farmers would be made by PMU for cocoa, oil palm and swamp rice development. These loans would bear interest at 8%, which is 1% below commercial bank lending rates for short-term loans. While this rate would be sufficient to cover the costs of loan administration, including bad debts, it is somewhat below prevailing rates of interest in
Sierra Leone. However, since under the present SLHMB pricing policies, farmers receive substantially less than the market value of their produce, the agreed rates seem justified. A review of interest rates generally is planned as part of the Bank's economic work.

27. Estimated project costs amount to US$5.6 million equivalent, of which the foreign exchange component would be US$3.0 million, or 53 percent. The proposed credit of US$4.3 million would meet 77 percent of total project costs and would cover all foreign exchange costs and half of local expenditures. Given Sierra Leone's limited savings capacity and the signs of improved economic management, this proportion of local expenditure financing is reasonable. The remaining 50 percent of local costs (US$1.3 million) would be met from budget allocations of US$0.9 million, and from borrowings of US$234,000 from the Bank of Sierra Leone and US$156,000 from the Sierra Leone Produce Marketing Board. Government would, in addition, have to make available a further US$0.4 million over the three years after completion of the three-year project development period so as to bring all cocoa and oil palm acreages and cleared swamps into full development. The project is exempted from taxes on imports.

28. Procurement and construction of the palm oil mill, rice mills, vehicles, tractors, spraying machines and fertilizers valued at about US$2.0 million would be subject to international competitive bidding. Other purchases including buildings, fuel, spare parts, amounting to about US$0.5 million, would be subject to local competitive bidding. The Government is not a party to any preferential tariff arrangements.

29. Conditions of effectiveness would be establishment of the project unit and appointment of the project unit manager and the financial controller. A condition of disbursement for the oil palm component would be that Government would present the Association with a plan for the satisfactory marketing of oil produced under the Project.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

30. The draft Development Credit Agreement between Sierra Leone and the Association, the recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association, and the text of a draft resolution approving the proposed draft Development Credit Agreement will be distributed separately to the Executive Directors. The provisions of the Draft Development Credit Agreement conform substantially to those of similar agreements for agriculture projects.

31. I am satisfied that the proposed Development Credit would comply with the Articles of Agreement of the Association.
PART VI - RECOMMENDATIONS

32. I recommend that the Executive Directors approve the proposed Development Credit.

Robert S. McNamara
President

Attachments
Map

Washington, D.C.
June 7, 1972
### THE STATUS OF BANK GROUP OPERATIONS IN SIERRA LEONE

#### A. STATEMENT OF BANK LOANS AND IDA CREDITS
(as at April 30, 1972)

<table>
<thead>
<tr>
<th>Loan or Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank</th>
<th>IDA</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>338</td>
<td>1964</td>
<td>Sierra Leone</td>
<td>Expansion</td>
<td>3.8</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electricity</td>
<td>electricity system</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>553</td>
<td>1968</td>
<td>Sierra Leone</td>
<td>Expansion</td>
<td>3.9</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electricity</td>
<td>distribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>170</td>
<td>1970</td>
<td>Sierra Leone</td>
<td>Education</td>
<td>3.0</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>218</td>
<td>1970</td>
<td>Sierra Leone</td>
<td>(Roads, Highway)</td>
<td>3.5</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(maintenance,)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(studies)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>710</td>
<td>1970</td>
<td>Sierra Leone</td>
<td></td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total of which has been repaid 11.4 6.5 9.7

Total now outstanding 10.8 6.5

Amount sold 1.08 0.2

Total now held by Bank and IDA 10.6 6.5

Total undisbursed 3.7 6.0 9.7
B. PROJECTS IN EXECUTION

1. Serious problems of execution and delays in disbursements have arisen with the First Highway Project (Loan 710-SL, Credit 218-SL). Difficulties of a less severe nature have also occurred with the Education Credit (170-SL) and a power project (553-SL).

<table>
<thead>
<tr>
<th>First Highway Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount of Loan (710-SL)</strong> : $3.7 million</td>
</tr>
<tr>
<td><strong>Amount Disbursed</strong> : $0</td>
</tr>
<tr>
<td><strong>Amount of Credit (218-SL)</strong> : US$3.5 million</td>
</tr>
<tr>
<td><strong>Amount Disbursed</strong> : US$0.3 million</td>
</tr>
<tr>
<td><strong>Date of Loan/Credit Agreements</strong> : October 29, 1970</td>
</tr>
<tr>
<td><strong>Effective Date</strong> : February 12, 1971</td>
</tr>
</tbody>
</table>

3. This project includes construction of the Bo-Kenema road and purchases of road maintenance equipment, to be financed under the Loan and Credit. It also includes a feasibility study and detailed engineering for a future highway project as well as technical assistance to the Ministry of Works for improving road maintenance; these are being financed by UNDP, with the Bank acting as Executing Agency.

4. Implementation of the project has been substantially delayed following the receipt on March 29, 1971 of bids for the Bo-Kenema road construction, the lowest of which was more than 60% above the Consultants' (Italconsult-Italy) original estimate and about 50% above the Bank appraisal estimate. In September 1971 the Bank commissioned a study by an independent consulting firm (Jacobs Associates-USA), specializing in contractor-type cost estimates. This report was ready in March 1972 and recommended either: (i) negotiating with the two lowest bidders to obtain lower prices, or (ii) carrying out the works under a management-type contract, similar to the contract under which the Crown Agents (UK) are directing the construction of the adjoining road, Taiama-Bo, with U. K. financial assistance.

5. The Government, in agreement with the Bank, has notified the bidders that no contract will be awarded on the basis of the bids received in 1971 and has instructed Italconsult to prepare by the end of June 1972 new documents including some changes in design, on the basis of which it can obtain proposals in July for a management-type contract from the two lowest bidders and the Crown Agents. Should the cost of these new proposals substantially exceed the financing already secured, the Government will have to seek additional external financing. The Government considers it imperative for construction to start by the beginning of the next dry season -- October-November 1972 -- since in accordance with a Bank recommendation, the railroad, part of which runs parallel to the Bo-Kenema road, is being dismantled.
6. Delays have also occurred in the purchase of highway maintenance equipment, for which $1.5 million was included in the project. The Government received bids in January 1971 but no contracts were awarded because the evaluation procedures were in substantial conflict with Bank Guidelines for Procurement. In April 1972, the Government agreed to rebid for the highway maintenance equipment. One of the first tasks of the consultants to be engaged under the UNDP-financed technical assistance program will be to assist the Government in preparing new bid documents for this equipment and in evaluating new bids when received.

7. Consultants for the UNDP-financed part of the project have already been selected and are expected to start field work as soon as UNDP has signed the Project Document.

**Education Project**

8. Amount of Credit : US$3.0 million  
Amount Disbursed : US$0.13 million  
Date of Credit Agreement : January 5, 1970  
Effective Date : May 8, 1970

9. This project is being executed satisfactorily, but in April 1972, an issue arose over the award of a contract for construction of school buildings. International bidding, following prequalification, was very keen. The lowest bid, by an Italian firm, was 6,890 Leones (US$8,307) lower (less than 2.5%) than the second lowest bid which was by a local firm. The Government sought the Association's agreement to awarding the contract to the local firm, given that the difference in bid prices was small. It could not however be established that the second lowest bidder was capable of executing the work more efficiently than the low bidder and in these circumstances the Association reluctantly informed the Government that a contract awarded to other than the low bidder would not be eligible for financing under the credit. A local firm is the lowest bidder for the third phase of the school construction work.

**Power Project**

10. Amount of Loan : US$3.9 million  
Amount fully Disbursed :  
Date of Agreement : August 5, 1968  
Effective Date : September 23, 1968  
Closing Date : December 31, 1971

11. The Sierra Leone Electricity Corporation, which is the Borrower under the project, encountered a series of managerial, labor and financial difficulties in 1971. These occurred largely because of political interferences in the management of the Corporation and because of a certain militancy on the part of labor unions. The financial difficulties arose
partly because of growing arrears on government accounts. These matters were discussed with representatives of Government and the Corporation and by early this year some of the problems were on their way to being resolved. Government intervention in the Corporation's affairs had ceased and union difficulties had greatly subsided. However, arrears on government accounts still remain large. On May 16, 1972, in a letter to the Bank, the Corporation's general manager reported that the financial position remained serious, due mainly to losses incurred on foreign exchange held by the Corporation as a result of changes in exchange rates, as well as increases in import prices. The general manager requested that the Bank consider a supplementary loan of $600,000 to meet what he termed inadequate funds to cover offshore costs under the project. A project supervision mission is planned during the next two to three months and the problems will soon be discussed with Government.
## Sierra Leone - The Economy

### Part I - Country Data

#### Country: Sierra Leone

- **Area:** 72,326 km²
- **Population:** 2.5 million (1970)
- **GDP (1970):** $163
- **GDP per capita:** $ 145 (1969/70)
- **Urbanisation:** 13.0 (1969/70)
- **GDP at market prices:** 1970
  - Agriculture: 120.4
  - Industry: 101.0
  - Services: 105.7
- **GNP at market prices:** 1970
  - Industry: 141.0

### Prices and Credit

- **Consumer Price Index (Base 1965=100):**
  - 1968: 127.3
  - 1969: 133.6
  - 1970: 139.8
  - 1971: 140.9
- **Money Supply (1968-1971):**
  - (millions US $)
  - 1968: 100.0
  - 1969: 105.0
  - 1970: 133.2
  - 1971: 141.9

### Debt Service Ratio (1971):

<table>
<thead>
<tr>
<th>Item</th>
<th>1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8.32</td>
</tr>
</tbody>
</table>

### External Debt as of December 31, 1971

<table>
<thead>
<tr>
<th>Item</th>
<th>(millions US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Outstanding and Discounted</td>
<td>124.0</td>
</tr>
<tr>
<td>Outstanding and Discounted</td>
<td>6.9</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>3.7</td>
</tr>
</tbody>
</table>

### Currency and Exchange Rates

- **Current Rate of Exchange:**
  - US $ 1.00 = Le 0.767
  - Le 1.00 = US $ 1.312

#### Other Data

- **Population per physician:** 48
- **Population per hospital bed:** 43

---

**Notes:**

- **Urbanisation:**
  - 1969: 13.0

- **Gross Domestic Product (GDP):**
  - 1969: 133.2

- **Gross National Income (GNI):**
  - 1969: 133.2

- **Gross National Product (GNP):**
  - 1969: 133.2

- **Currency and Exchange Rates:**
  - Current Rate of Exchange:
    - US $ 1.00 = Le 0.767
    - Le 1.00 = US $ 1.312

---

**Source:**

- Economic Report of the President, 1971, p. 826

---

**Annex II**

**Page 1 of 9 pages**
PART II - CURRENT SITUATION AND PROSPECTS

1. Sierra Leone has a dual economy with an enclave export-oriented mining sector and a large under-developed agricultural sector. The mining sector contributes 17% to GDP (at factor cost), and about 78% to exports while agriculture contributes 34% to GDP but sustains 75-80% of the population. GNP per capita for the country's 2.5 million population is estimated at about $160 (1969/70). Income distribution is very uneven. A recent study shows that 34% of national income goes to the highest 5% of the population. Diamonds contribute more than 62% of total exports. Others (iron ore, bauxite and rutile) contribute about 16%. Agriculture provides another 16% of exports. During the last decade, GDP grew at an average annual rate of about 4% in real terms. Most of this growth has originated in the foreign-owned mining sector. Growth outside mining has been slow.

A. Development Strategy and Constraints

2. An official development strategy has not as yet been formulated. However, economic policy statements by the Government have emphasized the priority of agriculture, education and transport. In addition, the Government has decided to play a more active role in the development of mineral resources, and has adopted a policy of acquiring majority ownership in foreign-owned mining companies.

3. Agricultural development is indeed of high priority. Not only is this sector moderately rich in potential but it encompasses the vast majority of the population and significant expansion and employment creating opportunities outside it are limited. Manufacturing in particular is limited by the small size of the domestic market, and the prospect for economic integration in West Africa is distant. Furthermore, in the long run, the development of agriculture can save foreign exchange through import substitution, contribute to export proceeds, and serve as a check on the migration from the countryside which is causing mounting urban unemployment.

4. The need for developing education derives basically from the fact that the population is still largely illiterate (73% in 1968/69). Primary and secondary school enrolment is about 26% of the school-age population. Moreover, the country's education system is not oriented towards its development needs. Secondary schools lack facilities for teaching science and practical subjects, and technical schools are deficient in quantity and quality of facilities and teachers. The present
system of secondary education prepares 95% of high school graduates for "white collar" jobs while the requirements are increasing for persons with training for non-clerical jobs in industry and agriculture. The educational system is, however, being examined intensively, for the purpose of adjusting it more closely to manpower requirements and developmental needs. (See para. 9.)

5. Improvement in the transportation system is closely linked with the prospects for agricultural development. A five-year road program was prepared in 1970 following a land transport survey financed by UNDP, with IBRD as the executing agency. This program involved the dismantling of the outdated and inefficient railway, and the building of road links in its place between the main agricultural areas and the population centers along the coast, which are also the main outlets for export crops. Construction of several of the roads in this program has already started and road development has absorbed about half of budgetary development expenditures in the past three years. It is expected to continue absorbing about the same proportion in the next few years.

6. The mining sector has few linkages with the rest of the economy and its development so far has contributed little to the general development of the economy. The Government policy to acquire majority ownership in the foreign-owned mining companies is designed to increase this contribution mainly through an attempt to integrate mining development with the development in the rest of the economy, increasing the pace at which Sierra Leoneans are being trained for managerial and technical positions, improving social services, rehabilitating abandoned lands in the mining areas, and obtaining a larger share in the mining profits for financing development.

7. The main constraints on development in Sierra Leone have been the scarcity of trained manpower and the lack of effective institutions to prepare for development. As a result, there has been little by way of systematic development planning and there is a shortage of well-prepared development projects especially in agriculture and education. In addition, the saving potential is rather limited. Government savings in particular are vulnerable to world price market fluctuations -- especially for diamonds -- as 60% of Government revenues derive through custom duties from external trade. Foreign exchange has been a less constraining factor in recent years.

B. Recent Developments

8. To deal with the planning problem, a UNDP/SF project for assistance in planning was put in operation in July 1970. The project is to assist in formulating a development strategy, preparing sectoral programs,
identifying and preparing projects and eventually preparing a comprehensive development plan. However, the project has been moving slowly, partly due to problems of recruitment of experts, and partly due to insufficient Government support. Both the UN (Development Planning Advisory Services), which is the executing agency, and the Government are considering action to resolve the projects' problems. In agriculture, a UNDP/FAO agricultural sector survey conducted between 1967 and 1970 identified types of crops and an estimated size of the acreage that could be developed over a ten-year period. This should be helpful for preparing project feasibility studies. A 6-man team from the UK has just arrived in Sierra Leone to help in identifying and preparing projects and assist in the institutional aspects of agricultural development.

9. Increasing the pool of skills naturally takes a long time. A beginning is being made with a comprehensive manpower survey which is currently being conducted with UNDP/ILO assistance. The survey is expected to identify the existing stock of skills and prepare projections of future needs of skilled manpower. When completed, it will provide the basis for a plan for the development of the education sector (including a revision of the present secondary school curriculum) and for establishment of training programs. An IDA-financed project signed in January 1970, provided for improving eleven existing general secondary schools and providing them with facilities for teaching of agricultural, commercial, scientific and industrial subjects. Also two technical institutes and trades schools are being extended and better equipped.

10. In accordance with the Government decision to enter as a majority owner in the foreign-owned mining companies, a settlement agreement was reached in September 1970 with SLST, the diamond mining company. The National Diamond Mining Company was established in which the Government has 51% ownership. SLST received negotiable sterling bonds for the share acquired by Government repayable over eight years, carrying 5.5% annual interest rate. SLST will continue to manage the new company. The transfer of ownership was orderly and there was no disruption in production or investment. Negotiations have just started with DELCO, the iron ore company. The Government does not intend to enter as a part owner in the relatively smaller bauxite and rutile companies at the present time.

[1] Sierra Leone Selection Trust (UK), which produces about 50% of Sierra Leone diamonds (the other 50% being produced by independent diggers under the Alluviaie Diamond Mining Scheme); Sierra Leone Development Company (UK) producing iron ore; Sierra Leone Metal and Ore Company (Swiss) producing bauxite; and until April 1971, Sherbro Minerals Ltd., (predominantly US) producing rutile. A new company, Sierra Leone Rutile Ltd., (US) took over Sherbro Minerals' concession lease early this year.
11. To cope with the financial constraint, the Government requested assistance from the IMF in 1970 to study the tax system and prepare a tax reform plan. The IMF study emphasized the need first, to improve the enforcement and administration of existing tax laws, and second, to reform the tax structure. Moreover, sizeable income tax arrears have accumulated over the years.

12. In the past two years Sierra Leone's fiscal position deteriorated significantly partly due to depression in the diamond market, but also because of difficulties in fiscal and external debt management, and of political problems. From mid-1970 till the end of 1971, the diamond market suffered a severe slump and the value of Sierra Leone diamond exports dropped by about 16% in 1970 and levelled off in 1971. The drop in diamond activity was exacerbated by political unrest (between September 1970 and April 1971), leading to a general slowdown in economic activity. The economy received an additional setback in April 1971, with the temporary suspension of the relatively new rutile mining operations, due to technical difficulties. An agreement was reached with a new company last February to take over the lease area, and output should resume before the end of this year.

13. The slump in the diamond market caused a drop in recurrent Government revenues. At the same time there was an increase in extra-budgetary expenditures, mostly for civil service and teachers' salaries (the last salary increase was in 1957) and for military expenditures. As a result budgetary savings were negative. This compares with budgetary savings of about Le 6.0 million annually (11% of recurrent revenues) in the preceding two years -- which, however, were exceptionally good years due to a boom in the diamond market. With no budgetary savings, the Government had to rely heavily on internal and external borrowing to finance its capital outlays. Government Development Securities (medium term Government bonds) increased by 36% in the past two years and Treasury bills outstanding increased by 63%.

14. There was much pressure on the Government to take action to promote development. With the shortage of projects eligible for financing by official donors, the Government resorted to inadequately justified and hastily prepared projects financed on commercial terms. In 1970 and 1971 such new credits amounted to about Le 9.5 million equivalent (three times as much as those contracted in the preceding two years), and contributed to the budgetary difficulties. Down payments and debt servicing on these credits increased external debt service payments to 14% of recurrent revenues in 1970/71 and 1971/72.

15. While the fiscal situation deteriorated significantly, the overall balance of payments position remained essentially sound although somewhat less favorable. The trade deficit in the past two years was about twice as large as it was in 1969, but net foreign capital inflow including
a substantial amount of suppliers' credits and SDR allocations obviated the need to draw significantly on the country's foreign exchange reserves. The level of foreign exchange reserves of the Bank of Sierra Leone at the end of March 1972 stood at Le 35.6 million (US$46.4 million), equivalent to more than four months' imports which is a comfortable position. This position was helped by the recent recovery in the diamond market and new SDR allocation in January 1972.

C. Corrective Policy Measures

16. To arrest the deterioration in the financial situation, last September the Government agreed to a package of policy measures. Most important of these were: (a) the establishment of a National Economic Advisory Committee to help co-ordinate decision making in respect of economic policy, and foreign borrowing in particular; (b) a six-months freeze on new external public borrowing on commercial terms. This was followed by the establishment of a ceiling on such borrowing during the period April 1, 1972 to June 30, 1973; (c) mobilization of additional revenues through improved tax enforcement and introduction of new tax measures, taking into consideration a 1971 IMF report on tax reform; (d) curbing extra-budgetary expenditures; and (e) formulation of development policy guidelines and establishment of effective planning machinery.

17. Significant progress has been achieved in the past few months in implementing these measures. In particular, the Economic Advisory Committee was established, the freeze on short and medium term credits was observed, and extra-budgetary expenditure subsided. These measures, together with the gradual recovery in the world diamond market and the normalization of the political situation, helped improve the economic and financial situation. Furthermore, a Government-appointed Committee reviewed the IMF report on tax reform last March and submitted recommendations for action to the Cabinet.

D. Prospects

18. Sierra Leone's economic and financial prospects in the next several years are at best moderate. Continuation of the recent recovery in the diamond market and of the sound fiscal policies followed in the past few months would enhance these prospects. GNP may be expected to grow at about 3% per annum in the next few years, but most of this is expected

1/ At the new exchange rates.
to originate in the enclave sector. Growth of this magnitude is inadequate, particularly since population is now expected to increase at a rate of 2.4% per annum. This emphasizes the importance of development planning, project identification and the preparation and mobilization of domestic savings. It is recognized, however, that it will be some time before such efforts can produce substantial results.

19. Exports are projected to grow at about 4% per annum in the next few years compared to a drop in 1970 and practically no growth in 1971. In addition to the recovery in the diamond market, rutile exports are expected to resume at the end of this year at a time of rising world prices. On the other hand, agricultural exports which contribute about 16% to total exports may be set back by depressed world prices for palm kernels, cocoa and ginger. While exports are projected to grow at about 4%, imports are projected to grow at about 5%, which would result in a growing deficit on the trade account.

20. The budgetary position is expected to improve, but will continue to be a major constraining factor to development. Even with a projected growth rate of 6% in current revenues and a reasonable restraint in the growth of current expenditures, projections show that public savings on current account will remain negative over the next two to three years. The Government has expressed its intention to revive public savings, through measures to improve tax enforcement and administration, and the introduction of new taxes.

21. In the past three years public development expenditures averaged about Le 12.0 million per annum. Assuming improved project identification and preparation, public development expenditure is expected to rise to an annual average of about Le 14-15 million (US$18-19 million) in the next several years. If the recovery in the diamond market continues and if revenue can be increased and expenditure restrained, the budget may be expected to finance about 5% of the projected development expenditures. Financing of another 10% may be secured from other domestic sources. This would leave an average of about $15-16 million a year to be financed from external sources. The World Bank Group and other traditional donors are expected to finance the bulk of the needed assistance. Efforts will be made to interest other donors in joint or parallel financing arrangements for Bank and IDA projects.

E. External Assistance and Public Debt

22. Commitments of total capital assistance in the past three years (1969-1971) totalled $36.7 million. Of this total about 60% ($21.5 million) was from official sources and the remaining part ($15.2 million) constituted suppliers' credits and contractor financing. Official capital
assistance (an average of about $7.0 million a year) was almost double the amount received in the preceding three years (1966-1968) which was a period of economic stabilization. Suppliers' credits and contractor financing were mostly used for purchase of buses, ferries, tractors, telecommunications and military equipment, and continuation of a water supply scheme. Official capital assistance was mostly for financing road construction projects.

23. Official capital assistance over the past five years has predominantly been extended for infrastructure, reflecting the shortage of viable projects in other sectors. As the table below indicates, 56% of this assistance was for roads, 12% was for power and 10% for education. In addition, about 22% was for general development purposes (including commodity loans). There has been no official project financing assistance for agriculture. The World Bank Group contributed 45% of official capital assistance (24% IBRD and 21% IDA), the UK 25%, Germany 20% and the US 4%. The People's Republic of China contributed about 7% and became a new donor in 1971, by extending an interest free convertible foreign exchange loan of $2.1 million for general purposes. Except for IBRD loans, all other official lending to Sierra Leone has been on concessionary terms.

---

**OFFICIAL EXTERNAL CAPITAL ASSISTANCE, 1967-1971**

(in million US$)

<table>
<thead>
<tr>
<th>People's Republic of China</th>
<th>IBRD</th>
<th>IDA</th>
<th>UK</th>
<th>Germany</th>
<th>US</th>
<th>TOTAL</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>3.7</td>
<td>3.5</td>
<td>4.3</td>
<td>6.2</td>
<td>-</td>
<td>17.7</td>
<td>56.2</td>
</tr>
<tr>
<td>Power</td>
<td>3.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.9</td>
<td>12.4</td>
</tr>
<tr>
<td>Education</td>
<td>-</td>
<td>3.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.0</td>
<td>9.5</td>
</tr>
<tr>
<td>General Development</td>
<td>-</td>
<td>-</td>
<td>3.7</td>
<td>-</td>
<td>1.1</td>
<td>2.1</td>
<td>6.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7.6</td>
<td>6.5</td>
<td>8.0</td>
<td>6.2</td>
<td>1.1</td>
<td>31.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

% Distribution 24.1 20.6 25.4 19.7 3.5 6.7 = 100.0

---

**SUPPLIER CREDITS AND CONTRACTOR FINANCING, 1967-1971**

(in million US$)

<table>
<thead>
<tr>
<th>Supplier Credits and Contractor Financing</th>
<th>Netherlands</th>
<th>France</th>
<th>Germany</th>
<th>UK</th>
<th>Switzerland</th>
<th>TOTAL</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>1.0</td>
<td>1.0</td>
<td>4.1</td>
<td>-</td>
<td>-</td>
<td>6.1</td>
<td>38.1</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>3.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.8</td>
<td>23.8</td>
</tr>
<tr>
<td>Water Supply</td>
<td>-</td>
<td>3.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.2</td>
<td>20.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
<td>-</td>
<td>0.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Security</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
<td>0.5</td>
<td>2.0</td>
<td>12.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4.8</td>
<td>4.2</td>
<td>4.1</td>
<td>2.4</td>
<td>0.5</td>
<td>16.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

% Distribution 30.0 26.3 25.6 15.0 3.1 = 100.0
24. External public debt outstanding (including undisbursed) at the end of 1971 was $97.0 million. Official government loans -- mostly from UK and Germany -- account for about 42% of this amount. Suppliers' credits and contractor financing accounted for 31% of total public debt outstanding, about one-third of which is owed to a French contractor (Degremont) for a multiphase water supply scheme which was started in 1964. Bank Group lending amounts to 18% of total public indebtedness. In the past two years, external debt service payments averaged about $10.5 million, absorbing 9% of export earnings and about 14% of budgetary revenues. The contraction of a substantial amount of supplier credits in the past two years postponed a sharp drop in external debt service payments which was expected as of 1971 (based on debt outstanding at the end of 1969). Instead, external debt service payments are now expected to peak in 1972 at $12 million (based on debt outstanding at the end of 1971), and to average at about $10.0 million in the following five years. On certain assumptions of new capital commitments between 1972 and 1977 and projected 4% growth in export earnings, debt service ratio is estimated at about 9% between 1972 and 1977. If recurrent budgetary revenues grow at about 6% per annum, external debt service payments would absorb about 15% of budgetary revenues during the same period.

25. Against this background, it would be desirable to avoid a substantial increase in the debt service burden, especially on the budget, considering Sierra Leone's poverty and low savings potential. This is the more important because Sierra Leone requires a substantial inflow of capital over a long period. Thus, the bulk of Sierra Leone's needs for external assistance ought to be met on concessionary terms. Furthermore, given the expected shift in development emphasis to agriculture and education, sectors in which projects tend to have a relatively low foreign exchange component, some financing of local expenditure will be required.
SIERRA LEONE - INTEGRATED AGRICULTURAL DEVELOPMENT PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: Sierra Leone

Amount: US$4.3 million equivalent. The proposed credit would cover the project’s estimated foreign exchange component of US$3.0 million and US$1.3 million of local expenditures.

Terms: Standard IDA terms.

Project: The project would assist Government to implement its agricultural development program by initiating a program of integrated rural development and by strengthening Government services and institutions. It would include:

- establishing a project management unit within the Ministry of Agriculture and Natural Resources;
- planting 510 acres of oil palm to complete a 2,000 acre estate;
- providing smallholders with credit for bringing 6,000 acres of inland swamp into rice production, planting 750 acres of cocoa, and planting 1,830 acres of oil palm;
- constructing a 9 ton/hour palm oil mill and 20 rice mills each capable of processing 500 tons paddy/annum;
- training project participants in modern agricultural techniques;
- preparing an agricultural development project in the north of the country, and a forestry project in the central region;
- the establishment of an Agricultural Development Authority to own and operate the oil palm nucleus estate and mill, and to take over the management of project credit operations after the disbursement of the IDA credit is completed.

Cost of Project: (US$ million)

<table>
<thead>
<tr>
<th>Component</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Farm Costs</td>
<td>0.74</td>
<td>0.35</td>
<td>1.09</td>
</tr>
<tr>
<td>Project Administration and Services</td>
<td>1.39</td>
<td>1.95</td>
<td>3.34</td>
</tr>
</tbody>
</table>
Establishment of Agricultural Development Authority

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Studies and Consultants</td>
<td>0.05</td>
<td>0.05</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>Contingencies</td>
<td>0.35</td>
<td>0.40</td>
<td>0.75</td>
<td></td>
</tr>
</tbody>
</table>

Total Project Cost: 2.60 (US$ million)

Financing:

<table>
<thead>
<tr>
<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA Credit</td>
<td>1.3</td>
<td>3.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Government</td>
<td>1.3</td>
<td>-</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Estimated Disbursements:

Cumulative estimated disbursements at end of fiscal year are as follows:-

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>0.8</td>
<td>2.8</td>
<td>3.7</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Procurement Arrangements:

Goods and services required for the construction and equipment of the palm oil mill and rice mills, vehicles, spraying machines and fertilizers valued at about US$2.0 million would be procured on the basis of international competition; and other goods and services estimated at US$0.5 million would be procured by local competitive bidding, under procedures agreed with the Association. 1/

Smallholder Net Income:

<table>
<thead>
<tr>
<th>Year</th>
<th>2 acres of cocoa</th>
<th>3 acres of swamp rice</th>
<th>10 acres of oil palm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>-</td>
<td>125</td>
<td>-</td>
</tr>
<tr>
<td>Year 5</td>
<td>-</td>
<td>135</td>
<td>110</td>
</tr>
<tr>
<td>Year 10</td>
<td>50</td>
<td>135</td>
<td>110</td>
</tr>
<tr>
<td>Year 15</td>
<td>100</td>
<td>185</td>
<td>310</td>
</tr>
</tbody>
</table>

15% Economic Rate of Return:

- US$ -

The Government is not party to any preferential tariff arrangements.
Consultants:  (1) To carry out preinvestment studies for:

(a) an integrated agricultural development project,
(b) a forestry project;

(2) To undertake a study of the domestic palm oil market;

(3) To assist Government in preparing a plan to improve the marketing and processing of domestic rice, and the marketing of imported rice;

(4) To assist in preparation of tender documents and evaluation of bids for oil palm mill and to oversee construction.
