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Report No. 120869-SL

INTERNATIONAL DEVELOPMENT ASSOCIATION

SUPPLEMENTAL FINANCING DOCUMENT

ON A PROPOSED DEVELOPMENT POLICY SUPPLEMENTAL GRANT

IN THE AMOUNT OF SDR 7.2 MILLION

(US$10 MILLION EQUIVALENT)

TO THE REPUBLIC OF SIERRA LEONE

FOR A

FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT

November 15, 2017

Macroeconomics and Fiscal Management Global Practice
Africa Region

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

Currency Equivalents
Exchange Rate Effective as of October 31, 2017

Currency Unit	**Leone**
US$1.00	Le 7,645.5
US$1.00	SDR 0.7119

ABBREVIATION AND ACRONYMS

ACC	Anti-Corruption Commission
AfP	Agenda for Prosperity
AIS	Automatic Identification System
BSL	Bank of Sierra Leone
DPs	Development Partners
DPF	Development Policy Financing
DRM	Disaster Risk Management
DRR	Disaster Reduction and Recovery
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EDSA	Electricity Distribution and Supply Authority
EU	European Union
FAO	Food and Agriculture Organization
FS	Financial Statement
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GoSL	Government of Sierra Leone (GoSL
GST	Goods and Services Tax
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JMC	Joint Maritime Committee
JOC	Joint Operation Center
Le	Leone, Currency in Sierra Leone
MCS	Monitoring, Control and Surveillance
MDAs	Ministries, Departments, and Agencies
MEST	Ministry of Education, Science and Technology
MoFED	Ministry of Finance and Economic Development
NPPA	National Public Procurement Authority
ONS	Office of National Security
OP	Operational Policy
PFM	Public Financial Management
PTSC	Productivity and Transparency Support Credit

RDLA	Rapid Damage and Loss Assessment
SCADP	Smallholder Commercialization and Agribusiness Development Project
SDR	Special Drawing Rights
SLSCA	Sierra Leone Seed Certification Agency
SOE	State Owned Enterprise
TSC	Teaching Service Commission
UN	United Nations
VMC	Vessel Monitoring System
WaSH	Water, Sanitation and Hygiene
WBG	World Bank Group
WHO	World Health Organization

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REPUBLIC OF SIERRA LEONE
SUPPLEMENTAL DEVELOPMENT POLICY FINANCING FOR THE
FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT

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PROGRAM SUMMARY

REPUBLIC OF SIERRA LEONE

SUPPLEMENTAL DEVELOPMENT POLICY FINANCING FOR THE FIRST PRODUCTIVITY AND TRANSPARENCY SUPPORT CREDIT

Borrower	Republic of Sierra Leone
Implementing Agency	Ministry of Finance and Economic Development
Financing Data	IDA Grant
Amount:	SDR 7.2 million (US$10 million equivalent)
Terms:	Standard IDA Grant terms
Operation Type	Single tranche supplemental development policy financing
Operation ID	P165639

1. BACKGROUND

1.1 **This document seeks the approval of the Executive Directors for a proposed Supplemental Development Policy Financing (DPF) of SDR 7.2 million (US$10 million equivalent) to the first Productivity and Transparency Support Credit (PTSC-I[1], P156651) to the Republic of Sierra Leone approved by the World Bank Board on June 30, 2017**. The proposed operation is in response to the landslide and flooding that occurred in Freetown, the capital city of Sierra Leone, on August 14, 2017. The natural disaster has adversely impacted economic activity and livelihood in several communities, increasing basic fiscal expenditures which have created an unanticipated financing gap. If not filled, the latter will jeopardize the reform program supported by the PTSC-I, which otherwise is proceeding on schedule and in accordance with the agreed policy agenda.

1.2 **Since the end of the Ebola epidemic, the Government of Sierra Leone (GoSL) has initiated substantive reforms to boost productivity, restore fiscal stability, and gradually rebuild buffers**. The economy grew by 6.3 percent in 2016 and is expected to stay above 5 percent in 2017 after a severe contraction of 21 percent in 2015 because of the Ebola epidemic and the collapse of the iron ore prices. Although massive inflow of external grants supported the faster economic recovery, the cumulative effects of the twin shocks weakened the Government's finance, depleted households' buffer assets, and significantly worsened the balance sheets of many businesses. On average, significant resources were used to limit the effects of the economic contraction on private consumption, yielding a gross domestic saving rate of negative 25 percent in 2015 and gross national saving of negative 16 percent. The GoSL initiated substantive reforms, focusing on agriculture, fisheries and energy, supported by the Productivity and Transparency Support Credit, to boost productivity and start rebuilding the country's buffers.

1.3 **Unfortunately, a landslide of a rare magnitude hit the country's capital city on August 14, 2017, leading to significant loss of lives, productive assets and public infrastructure**. Although Sierra Leone is highly vulnerable to climate and weather events such as flooding, landslides and mudslides are rare, with the last recorded landslide dating back to the 1950s[2] in Charlotte Village in Freetown. Following three days of intense rainfall, the mount Sugar Loaf, the highest peak at 795 m above sea level in Regent in the Western Rural area, collapsed and caused a major landslide, mudslide, and flooding. The slip comprising a mix of clayey soil and boulders of all sizes (up to 40 cubic meters) travelled from the upper side of the mountain slope with tremendous force destroying everything in the lower area at the base of the slope. The mud and debris travelled to the opposite side of the valley down toward the main river channel which runs to Lumley beach. The reported number of dead and missing persons is 1,141.

1.4 **The GoSL, with the support of donors, has taken a series of measures in response to the disaster, but will need additional financing for the recovery efforts.** In the immediate aftermath of the landslide, a national emergency was declared and the GoSL initiated its emergency response mechanism, under the leadership of the Office of National Security (ONS). Despite logistical challenges, the Government and humanitarian agencies have been actively engaged in identifying and recording casualties, providing emergency health, shelter and protection assistance, distributing food and medical supplies, and supporting affected children, including provision of psycho-social support. The GoSL also requested the World Bank's support to conduct a comprehensive RDLA[3], in partnership with the United Nations (UN). The RDLA estimated the damage and losses at US$31.6 million and the overall recovery needs at US$82.2

[1] The PTSC-I (Report No 114851-SL) was approved by the Board on June 30, 2017.

[2] Environmental Assessment and Evaluation of Natural Disaster Risk and Mitigation in Freetown, Ronnie A. D. Frazer-Williams GOPA- CES Consultants & 3BMD Consulting Engineers, financed by European Union (EU) (2014).

[3] The RDLA was carried out from August 24 to September 8, 2017.

million, comprised of immediate needs (within three months) of about US$15.7 million, other short term needs (within 12 months) of about US$24.6 million and medium-term needs of about US$41.9 million.

1.5 **The proposed US$10 million supplemental DPF supports the GoSL in its response to the disaster.** The landslide and flooding recovery and reconstruction needs have created an unanticipated financing need. However, Sierra Leone is already at the borderline between moderate and high risk of debt distress and has no access to international capital markets, limiting the sources of funding available. After considering pledged grants from other development partners (DPs), the financing gap remains substantial (annual deficits averaging around 5 percent of gross domestic product (GDP) are expected over the next two years). Supplemental DPF to the PTSC-I remains the most appropriate instrument for providing timely support to the GoSL in the recovery period. This operation will ensure that the reforms supported under the PTSC-I remain on track and are implemented without the risk of delays due to competing capacity or budgetary priorities arising from the post disaster recovery. Overall, the proposed supplemental DPF is consistent with the World Bank Operational Policy (OP) 8.60.

2. IMPACT OF THE LANDSLIDE AND FLOODING

2.1 **Following three days of intense rainfall in mid-August, the side slope of the mount Sugar Loaf, the highest peak in the Regent area, collapsed and caused a major landslide, mudslide and flooding.** The slip[4], comprising a mix of clayey soil and boulders of all sizes (up to 40 cubic meters) travelled from the top of the mountain slope destroying everything in the lower area at the base of slope. The debris travelled to the opposite side of the mountain valley to the main river channel toward Kamayama, Malama, Juba, Kaningo and Lumley. The height of the water reached 5 meters above the average in some areas such as Kamayama and Malama. The heavy rainfall also caused flooding in several other locations in Freetown, including Dwazark and Culvert, an area at the mouth of the Glanville Brook Watercourse, where one of the city's landfills is sited. Although the Freetown Peninsula is a disaster-prone area, landslide[5] is very rare compared to flooding, which is a very common hazard in Freetown during the rainy season.

2.2 **The economic impact of the landslide stems from the direct effects on the labor force and capital stock through death and damages and indirect effects through diversion of public and private resources.** According to the ONS, 1,141 persons were reported dead or missing. The highest number of lives lost were reported in Regent, the epicenter of the landslide with 808 dead or missing, followed by Malama/Kamayama with 264 dead or missing. Juba/Kaningo and Lumley reported 33 and 21 dead or missing persons, respectively. The flooding in the other areas killed 15 people, 10 persons in Dwazark and five in Culvert. Some 2,000 households were affected, of which about 10 percent were reported having lost the household head. This will significantly affect the livelihoods of households, limiting their ability to generate income and access services. The disaster also had an important impact on children, as 16 percent of affected people were five years old or younger, and 26 percent were between six and 14-year-old.

2.3 **The landslide also caused significant infrastructure damages in the Western area**. Major destructions included houses and real-estate, public infrastructure, including roads, bridges, electricity equipment, water and sanitation facilities, health facilities, and schools. A total of 900 buildings were affected, from mount Sugar Loaf to Lumley, of which 769 were residential and 27 commercial. About 349

[4] Although visibility was reduced, several eyewitnesses report that the landslide took place in two stages: the first at 6:50 a.m. on August 14, 2017 and the second, more destructive, around 10 minutes later. The second was accompanied by a large explosive noise and ground trembling followed by boulders and uprooted trees flying and falling to the ground.

[5] The Environmental Assessment and Evaluation of Natural Disaster Risk and Mitigation in Freetown (2014) identified six hilly communities at risk of landslide.

buildings were destroyed completely, 263 buildings were partially damaged, and 288 buildings suffered minor damages. The most devastating impact was experienced in Regent, where 300 buildings were destroyed completely. The overall damages and losses related to buildings was estimated at US$15.4 million (about 0.4 percent of GDP).

2.4 **Connectivity and accessibility between communities were lost because of damaged access roads and collapsed bridges.** Five pedestrian bridges and four road bridges connecting Kamayama and Kaningo, as well as Regent and Charlotte were destroyed partially or completely. Moreover, about 5.5 km of feeder roads out of 10.5 km of road inspected by the World Bank team were damaged and will require rehabilitation. This will cause transport costs to increase and movement of goods and people between communities to decrease. The overall damages and losses of bridges and roads were estimated at about US$1.0 million (about 0.03 percent of GDP).

2.5 **Access to electricity was reduced in the areas affected by the landslide and flooding.** Numerous transformers, conductors, Low Voltage poles, switchgear (RMU), low voltage panel transformer and accessories, and the 11 KV line linking Lumley and Juba were damaged by the disaster, causing 372 households to lose access to electricity. The Electricity Distribution and Supply Authority (EDSA) took certain areas temporarily off the grid to avoid electrical accidents, but most of these have been reinstated. The total costs associated with the damages and losses to EDSA's infrastructure and equipment is estimated at about US$274,000, including the cost of extending electricity coverage to temporary shelters.

2.6 **The landslide disrupted the water and sanitation network in the affected areas.** The landslide damaged parts of the piped water network, and cracked the reservoir of the Barbadorie water treatment system, causing interruption of service to 737 households. The flood waters also entered the Charlotte water system, requiring the clearing of boulders and desilting of weirs. Moreover, with the lack of appropriate sewage disposal from flush toilets and pit latrines, the risk of cholera and other diseases is heightened by the severity of the flooding, since close to 30 percent of households within the affected area rely on drinking water from unprotected sources, including surface water, unprotected wells and springs. This necessitated immediate response in the form of alternative drinking water supplies and testing of wells located in the affected areas, including sealed wells. The overall damages and losses to the water and sanitation infrastructure has been estimated at about US$1.6 million.

2.7 **The landslide and flooding constrained the health system's capacity to deliver essential services**. Three health facilities were flooded and three other experienced roof leakages that resulted in damages to: (i) pit latrines and septic tanks, incinerator, and doors; (ii) furniture such as benches, chairs and desks; (iii) medical equipment; (iv) medicines; and (v) patients' records, archives and documents. These direct damages are estimated at about US$25,000. However, the landslide and flooding diverted resource equivalent to US$4.7 million from the initial budget to finance the emergency response, including the provision of temporary health care in affected areas and controlling the spread of diseases. Seven health clinics are being set up for the affected population for, at least, three months and the monitoring of morbidity and malnutrition has been reinforced. The spending incurred, enabled health facilities to implement enhanced electronic Integrated Disease Surveillance and Response (e-IDSR) and active community based surveillance for infectious disease outbreak detection.

2.8 **Finally, schools were also damaged by landslide and flooding**. According to the Ministry of Education, Science and Technology (MEST), 59 schools were affected. One school was completely destroyed, while 34 others incurred damage to the buildings, 38 to school's water and sanitation facilities, 35 to furniture, 36 to teaching materials, and 42 to learning materials. In addition, six schools are being used as shelters for 172 displaced households. The total value of damaged assets is estimated at US$0.5 million. Although the disaster occurred during summer break, an additional US$0.7 million was spent for establishing alternative schools, refurbishing those schools that have become temporary shelters, and ensuring that schools are ready to support timely placement and re-integration of students and teachers that have been displaced.

Table 1: Summary of Damages and Losses

	Damages	Losses	Total	Damages	Losses	Total
	In US$ '000			In % of GDP		
Housing and Real estate	15,430	0	15,430	0.417	0.000	0.417
Social Protection	0	4,850	4,850	0.000	0.131	0.131
Health	25	4,667	4,692	0.001	0.126	0.127
Disaster Risk Management	0	1,780	1,780	0.000	0.048	0.048
Water and Sanitation	760	880	1,640	0.021	0.024	0.044
Education	522	700	1,222	0.014	0.019	0.033
Transport and Drainage	980		980	0.026	0.000	0.026
Industry and Commerce	167	583	750	0.005	0.016	0.020
Electricity	174	61	235	0.005	0.002	0.006
Environmental	7	0	7	0.000	0.000	0.000
Total	**18,064**	**13,522**	**31,586**	**0.488**	**0.365**	**0.854**

Source: RDLA.

3. GOVERNMENT'S RESPONSE TO THE DISASTER

3.1 **In the immediate aftermath of the disaster, a national emergency was declared by the President.** Building on the response to the Ebola epidemic, the GoSL activated its emergency response mechanism, under the leadership of the ONS[6]. The response was organized around 10 pillars, each headed by the sector-specific ministry to ensure better coordination: (i) coordination, headed by ONS; (ii) logistics, headed by the Sierra Leone Armed Forces; (iii) food and nutrition, headed by the Ministry of Health and Sanitation; (iv) security and safety, headed by the Sierra Leone Police; (v) registering, headed by the Ministry of Social Welfare Gender and Children's Affairs; (vi) shelter, headed by the Ministry of Lands, Country Planning and Environment; (vii) health and burial, headed by the Ministry of Health; (viii) social mobilization and communication, headed by the Ministry of Information and Communication; (ix) protection and psychosocial, headed by the Ministry of Social Welfare, Gender and Children's Affairs; and (x) Water, Sanitation and Hygiene (WaSH), headed by the Ministry of Water Resources. A Situation Room with high frequency meetings was established in the first week after the disaster. Donors and humanitarian agencies have been actively engaged in critical pillars.

3.2 **The GoSL's response to the disaster was divided into three phases: rescue and relief, surveillance and recovery.** The emergency phase focused on rescuing the victims, caring for the wounded, recovering the bodies and providing safe and dignified burials for the dead. An Emergency Response Center was established at Regent, in the epicenter of the landslide, to coordinate the response and provide relief to the survivors. The Disaster Management Department[7] of the ONS oversaw the overall coordination, while the Police, the Army, the National Fire Services, the Ministry of Health and Sanitation, the Red Cross and other humanitarian agencies, and specialized UN agencies such as the World Food Program (WFP) were involved in the rescue operations. Registration Centers were established in various locations across Freetown to identify and register the affected population.

6 As part of its post-war recovery effort, the Government of Sierra Leone reviewed its National Security Structure that led to the creation of the National Security and Central Intelligence by Parliamentarian Act in 2002.

7 The DRM Department has 10 staff fully dedicated to this mission out of a total of 185 staff of ONS. At district level, ONS is supported by a security representative covering both security and DRM aspects.

3.3 **With the large amounts of floodwater, mud and debris, the response progressively shifted to the second phase with a heightened surveillance, infection prevention and control.** Following the immediate rescue operations, the humanitarian response was implemented at three levels: (i) support to affected communities and mitigation of resurgence and potential risks; (ii) support to victims in temporary displacement centers; and (iii) mitigation of potential risks, such as cholera or other outbreaks. Displaced victims have been given the option to be housed in communities or be voluntarily relocated to a more permanent shelter solution. Two sites were selected for voluntary relocation: The "Old Skool" compound in Hill Station and Juba Barracks in Lumley. Service provided included health, food, temporary shelters, water and sanitation, and child nutrition and protection. Efforts to collect data and information related to the impact of the landslide and flooding, including drone mapping by the United Nations Office for Project Services (UNOPS) were also strengthened during this phase. The Government requested the World Bank's support to conduct a comprehensive RDLA, in partnership with the UN.

3.4 **The GoSL is transitioning from the rescue/relief and surveillance to the recovery phase.** With the help from the World Bank Group (WBG), the Government estimated the recovery need at about US$82.2 million (2.2 percent of GDP), US$40.3 million (1.1 percent of GDP) in the short term (less than 12 months) and the other US$41.9 million (1.1 percent of GDP) in the medium to long term (more than 12 months). The Government plans to build better services and infrastructure than the ones that existed before the landslide, which will help reduce the impact from future natural disaster.

Table 2: Short, medium and long-term recovery needs

	Short Term	Medium Term	Total	Short Term	Medium Term	Total
		In US$ '000			In % of GDP	
Disaster Risk Management	7,910	19,900	27,810	0.21	0.54	0.75
Housing and Real estate	4,300	9,000	13,300	0.12	0.24	0.36
Water and Sanitation	5,130	6,080	11,210	0.14	0.16	0.30
Health	8,340	2,780	11,120	0.23	0.08	0.30
Social Protection	6,570	0	6,570	0.18	0.00	0.18
Transport and Drainage	4,740	650	5,390	0.13	0.02	0.15
Education	1,730	290	2,020	0.05	0.01	0.05
Solid Waste Management	990	1,000	1,990	0.03	0.03	0.05
Environmental	350	1,500	1,850	0.01	0.04	0.05
Electricity	230	660	890	0.01	0.02	0.02
Total	**40,290**	**41,860**	**82,150**	**1.1**	**1.1**	**2.2**

Source: RDLA.

3.5 **However, the cost of the recovery has created an unexpected financing need, which is not fully met, after considering pledged grants from DPs.** The Government incurred substantial expenditure overruns on public goods provision and wages overtime in its rescue and relief responses. Subsidies and transfer programs, especially social protection expenditure, was ramped up beyond what was anticipated in the 2017 budget. With the recovery needs, substantial increase in capital expenditure is planned to repair bridges, culverts, dams, electric transmission poles and community roads damaged by both the flood and mudslide. Given the unexpected financing need arising from the disaster recovery and the GoSL's limited ability to borrow from alternative sources, high level dialogues with DPs were held seeking their support to the recovery efforts. After considering pledged grants from other DPs and the scope to reorient some of planned capital budget towards post disaster recovery, the financing gap remains substantial, at 0.4 percent of GDP in 2017 (Table 3).

4. WORLD BANK'S RESPONSE AND STRATEGY

4.1 **The World Bank provided an immediate response in the aftermath of the landslide and flooding**. On August 15, 2017, the GoSL requested the World Bank to undertake a RDLA and to provide financial support to help cope with the disaster. The World Bank mission to conduct the RDLA[8] was fielded nine days after the landslide. The RDLA was carried out from August 24 to September 8, 2017 in partnership with the Government, UN agencies and other DPs. The objective was to estimate the damages and losses related to the landslide and flooding and to make preliminary estimations of the recovery needs. The assessment covered twelve sectors, three cross-cutting areas and provided preliminary recommendations for the short, medium and long-term recovery needs for each sector. The RDLA estimates the overall financing needs for the recovery at US$82.2 million or about 2.2 percent of GDP.

4.2 **The proposed US$10 million supplemental DPF supports the GoSL in its post-landslide relief and recovery.** The Government has received pledges from DPs of close to US$30 million (0.8 percent of GDP), most of which is in-kind assistance. After considering these pledges, the financing gap remains substantial. Supplemental DPF to the PTSC_I remains the most appropriate instrument for providing timely support to the GoSL recovery process. This operation will ensure that the reforms supported under the PTSC-I remain on track and are implemented without the risk of delay due to competing capacity or budgetary priorities arising from post-disaster recovery. In addition, the World Bank is preparing a US$10 million emergency recovery project to support the coordination and implementation of a resilient recovery program to stabilize slopes around the impacted area of the landslide and restore key service delivery infrastructure. The World Bank will also provide US$3 million in project support through the existing portfolio, mainly in the health sector.

4.3 **The WBG, with funding from the Global Facility for Disaster Reduction and Recovery (GFDRR), is also supporting the country to strengthen its capacity for disaster management.** An on-going project[9] supports GoSL to strengthen its policies and programs on Disaster Risk Reduction (DRR) through mainstreaming activities related to the country's climate resilience and disaster risk mitigation priorities. The project aims to: (i) strengthen institutional capacity and consensus building for DRR, including synchronization of programs towards DRR preparedness and responsiveness; (ii) enhance DRR programs through development of tools (e.g. flood hazard identification; vulnerability analysis) for disaster preparedness that encourage community participation, including affected households; and (iii) build the knowledge base for disaster risk management (DRM). The project includes the development of flooding, landslide, coastal erosion and sea level rise hazard and risk information system for the three most densely populated urban settlement (Freetown, Makeni, and Bo) that will provide knowledge and understanding of the risks and vulnerabilities to inform spatial strategies in urban planning and DRM. Significant investments are needed to strengthen institutions and shift towards an integrated and proactive approach to DRM. The Freetown Emergency Recovery Project (P166075) and the Sierra Leone Land Administration Reform Project (P164945) represent unique opportunities to address some of the systemic risks to reduction in extreme poverty in Sierra Leone.

5. REFORM PROGRAM SUPPORTED THROUGH PTSC-I: AN UPDATE

5.1 **The PTSC[10] series supports reforms to increase productivity and improve transparency**. The aim of the series is to contribute to the Government's objective of achieving sustainable and inclusive

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[8] The financial support for the assessment was provided by the Global Facility for Disaster Reduction and Recovery (GFDRR) and the EU, in the framework of the ACP-EU Natural Disaster Risk Reduction Program, managed by GFDRR.
[9] Supporting Community-based Disaster Risk Reduction (DRR) in Sierra Leone (P133644)
[10] The First operation of this series was approved by the Board on June 30, 2017 (report No 114851-SL).

economic development through: (i) increasing productivity in selected economic sectors and (ii) improving transparency and accountability in selected government decision making processes. The program covers six policy areas, namely: agriculture and land, fisheries, energy, education, procurement, and asset disclosure. Financing provided through the operations supports the maintenance of adequate fiscal framework and helps to absorb shocks without impeding the provision of basic public services.

A. ECONOMIC PERFORMANCE SINCE THE APPROVAL OF THE PTSC-I

5.2 **Macroeconomic performance since the approval of the PTSC-I in June 2017, remains broadly unchanged. Sierra Leone's economy is recovering from the twin shocks of the Ebola epidemic and the sharp drop in iron ore prices.** The economy continues to recover from the Ebola and the collapse of the prices of iron ore, though with growing macroeconomic challenges. Projected GDP growth for 2017 is revised slightly down to 5.3 percent compared to an initial projection at 5.5 percent at the appraisal of the PTSC-I. The revision reflects slower than expected output growth in the first half of 2017, a slower than expected progress in cleaning-up of the stock of fiscal arrears (about 2 percent of GDP in 2016), and a "base effect" from slightly higher growth[11] in 2016 (revised to 6.3 from an initial estimation at 6.1 percent) than initially estimated. The moderate growth is underpinned by increase in household consumption and up-tick in exports, including mining and fishing products. The primary sector, mainly agriculture and fisheries, continues to show signs of resilience, while the service sector benefits from a normalizing business environment after the Ebola epidemic. However, industry, dominated by iron ore mining, is still subdued by persisting low commodity prices, higher domestic prices of energy (fuel[12] and electricity), and fewer public investment projects. The largest iron ore producer (Shandong Iron and Steel Group[13]) resumed activity in early 2016, but production remained at 662,000 tons on average per month in the first half of 2016 compared to 1.2 million tons on average per month in 2013, as operations remain suspended at the other mining company (Timis Mining Corporation) because of the low world prices. The value of the monthly production in the first half of 2016 is less than a third of its value in 2013.

5.3 **As the economy recovers gradually, living conditions are expected to improve moderately, though the landslide has destroyed livelihoods in the affected areas**. Projections indicate that poverty is expected to decline below 50 percent in 2017. The decline in the poverty rate is expected to occur at a different pace between urban and rural areas. The impact of higher growth rates is likely to be 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 depreciated significantly in 2016, leading to higher prices for imported food, which disproportionately affects the urban areas. The situation is exacerbated by the effects of the landslide and flooding in the Western area that killed 1,141 persons and affected 2,000 households. Nevertheless, the impact of the landslide and flooding on overall poverty is expected to be negligible, provided that public resources diverted to respond to the disaster are adequate to ensure that public services are delivered with minimal disruptions and delays. The fact that the incident was concentrated in some communities in the Western area and did not result in any significant disruption in economic activities at national level is an attenuating factor.

5.4 **With the landslide, the already tight fiscal situation is facing additional expenditure pressures**. The overall fiscal deficit was budgeted at 6.2 percent of GDP in 2017, with a primary deficit of 4.4 percent

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11 The GDP base for 2016, from which the growth rate is calculated, has been higher than initially estimated.

[12] Imports of petroleum products declined by 7 percent in the first half of 2017 on a year on year basis.

[13] 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.

of GDP to reflect planned improvement in domestic revenue mobilization and rationalization of public expenditures. Domestic revenues were slated to increase to 13.5 percent of GDP, from 12.2 percent in 2016, as the effects of the eliminated tax exemptions (electricity and fuel) materialize and royalties on mineral sales increase. Total expenditures and net lending were expected to stabilize at 22.6 percent of GDP, with recurrent and capital spending increasing respectively to 14.9 percent and 7.5 percent of GDP. The increase in current spending was driven by a one-off expenditure related to the preparation of the 2018 elections and a tripling of interest payments due to the rising cost of borrowing in the domestic market. Consumption spending by the Government was expected to decrease as a share of GDP while the wage bill was expected to stay flat in nominal terms leading to a contraction of 1.1 percentage of GDP. However, with the landslide and flooding, emergency response agencies including the police, the military, the health and public works ministries, as well as ONS incurred substantial overruns on public goods provision and overtime wages. Subsidies and transfer programs, especially social protection expenditure, were also ramped up beyond what was anticipated in the 2017 budget. The total expenditure overrun is expected to reach 1 percent of GDP. This, in the face of a shortfall in domestic revenue of an equivalent amount (1.3 percent of GDP), due to slower economic growth and delay in the approval of the 2017 Finance Act by the Parliament[14] (Table 3), and lower project grants that initially were expected (0.7 percent of GDP) to result in a fiscal gap equivalent to 3.1 percent of GDP in 2017, with the risk of widening the fiscal deficit to 9.3 percent of GDP in 2017, up from 6.2 percent initially targeted.

5.5 **To close the gap, the Government is considering a mix of grants mobilization, expenditure cuts, and domestic financing.** The Government has received pledges from DPs of close to US$30 million (0.8 percent of GDP), with roughly 0.5 percent of the GDP being new resources, including the proposed supplemental budget support (US$10 million). In addition, the Government is also considering cutting expenditures, mainly subsidies and transfers, and capital expenditure, to compensate for the shortfall in revenue. With these fiscal measures, the deficit is expected to be at 6.7 percent of GDP, or 0.5 percentage points of GDP above the initial target for 2017. The remaining fiscal gap is expected to be financed with additional domestic borrowing, including for the clearing of the payment arrears carried over from 2016. The recourse to domestic financing of the fiscal deficit would have been much higher if access to concessional resources remained at its level in the last three years. However, foreign concessional borrowing is also expected to increase from 1.6 percent of GDP in 2016 to 2.8 percent of GDP in 2017, reflecting mainly the disbursement of the World Bank budget support of US$30 million in July. Total public debt is expected to increase to 59.9 percent of GDP, of which 40.5 percent of GDP is external public debt. Multilateral creditors account for about 85 percent of public and publicly guaranteed external debt. In the 2018 and 2019, stronger domestic revenue mobilization, including the elimination of duty waivers (rice and fuel) will complement expected external grants to cover the landslide recovery needs and close the fiscal gap (Table 4).

[14] The parliament ratification process took longer time than expected. The 2017 Finance Bill was submitted to Parliament in February 2017 and was approved in June 2017, preventing the new provisions to be timely implemented, including new excise duties (tobacco, alcohol, etc.) and elimination of tax waivers.

Table 3: Government fiscal response 2017 (in % of GDP)

	Original	Landslide and flooding	Other factors	Total	Government Response	Revised
Total revenue and grants	**16.4**		**-2.0**	**-2.0**	**0.34**	**14.8**
Total Revenue	**13.5**		**-1.3**	**-1.3**		**12.2**
Tax revenue	**12.5**		**-1.3**	**-1.3**		**11.2**
Personal income tax	3.2		0.04	0.04		3.2
Corporate income tax	1.4		-0.37	-0.37		1.0
Goods and services tax	3.1		-0.22	-0.22		2.8
Excises	1.8		-0.14	-0.14		1.6
Customs and other import duties	1.9		-0.14	-0.14		1.7
Mining royalties and licenses	0.9		-0.40	-0.40		0.5
Other taxes	0.3		-0.11	-0.11		0.2
Non-tax revenue	1.0		0.04	0.04		1.1
Grants	**2.9**		**-0.7**	**-0.7**	**0.3**	**2.5**
Budget support grants	1.3					1.3
Project grants	1.6		-0.69	**-0.7**	0.34	1.3
Total expenditure and lending minus repayments	**22.6**	**1.0**	**0.1**	**1.1**	**-1.9**	**21.8**
Current expenditure	**14.9**	**1.0**		**1.0**	**-1.6**	**14.3**
Wages and salaries	6.6	0.21		0.21	-0.43	6.4
Goods and services	3.8	0.63		0.63		4.4
Subsidies and transfers	2.4	0.16		0.16	-1.22	1.4
Interest payments	2.1					2.1
Domestic	1.9					1.9
Foreign	0.3					0.3
Capital expenditure	**7.5**		**0.11**	**0.11**	**-0.24**	**7.4**
Foreign financed	4.4				-0.14	4.2
Domestic financed	3.1		0.11	0.11	-0.10	3.1
Overall balance incl. grants	**-6.2**	**-1.0**	**-2.1**	**-3.1**	**2.2**	**-7.1**
Total Financing	**6.2**				**0.6**	**6.9**
Foreign Borrowing	2.8					2.8
Domestic Borrowing	3.5				0.6	4.1
Financing gap	**0.0**	**1.0**	**2.1**	**3.1**	**-2.9**	**0.2**
World Bank supplemental budget support						0.2
Final financing gap						**0.0**

Source: MoFED, IMF, and World Bank.

5.6 **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 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 of mineral exports in 2015 and 2016. At the same time, imports of goods and services are also expected to increase by 11 percent as domestic demand grows with government spending, and despite the depreciation of the Leone, increased domestic food production, and lower Ebola related medical service imports. As a result, the current account deficit is expected to increase to 21.7 percent of GDP, up from 19.2 percent in 2016, maintaining depreciation pressures on the exchange rate. In the medium term, the current account deficit is expected to narrow to 18.4 percent of GDP by 2020.

5.7 **In this context, the monetary policy stance focused on reducing inflation while exchange rate policy continued to help stabilize the impact of external shocks.** Inflation is expected to rise to 17 percent in 2017, but would return to single digits over the medium term, if global fuel prices remain stable, the bottlenecks on agriculture activities continue to ease, and strong fiscal consolidation measures are implemented. The Bank of Sierra Leone (BSL) increased the Monetary Policy Rate (MPR) rate by 100 basis points in September 2017, to 14 percent, the fifth time in a row, after a 100 basis points increase in September 2016 and March and June 2017 and 50 basis points in December 2016. The BSL is committed to further tightening monetary policy if necessary to achieve its inflation target of 12 percent by December 2017. However, further fiscal slippages could undermine 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 of 1.5 percent in the credit to private sector, while the credit to central government would continue its robust growth since the Ebola epidemic in 2014.

5.8 **The domestic financial system faces significant challenges due to a combination of the effects of the twin shocks of Ebola epidemic and commodity prices downturn and pre-existing weaknesses.** A major challenge in the financial sector is the weak financial positions of the two state-owned banks that hold 33 percent of the assets in the system, and deteriorated asset quality in several other banks. A recent audit financed by the WBG concluded that both institutions have negative equity and their nonperforming loans (NPLs) exceed 75 percent of gross loans in 2016. A large part of the loans consists of unauthorized overdraft facilities. A crucial first step in improving the soundness of the banking sector will be to restructure the two banks, since interest and commission income at both banks fall below operating expenses, leading to recurring losses. Previous efforts to address the situation, including recapitalization with pension funds, have not been successful. An effective resolution is therefore needed, though its fiscal cost would be significant.

5.9 **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 for 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 management (PFM) reforms could impact donor support. Domestic revenue mobilized in the first half of 2017 represented only 40 percent of the annual target because of the delay in the adoption of the 2017 Finance Act. Thus, domestic financing of the fiscal deficit continued to increase, including from the central bank. By end June, the unpaid bills on hold at the central bank represented 1.8 percent of GDP. Second, a deterioration in the terms of trade, particularly an increase in fuel prices in the medium term, coupled with further decline in iron ore prices could lead to higher currency depreciation and inflation. 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, the projected domestic revenue increase is expected to come from the excise duty on petroleum products, provided that the floating fuel pricing is implemented. Third, aid inflows could also fall short of the pledged amount, particularly if DPs perceive a weakening of Government commitment to reforms. Fourth, the domestic financial system faces significant challenges because of the weak financial positions of the two state-owned banks. A further deterioration of the financial sector may affect negatively the implementation of the program.

5.10 **Despite these downside risks, the macro-framework is considered adequate for development policy financing (DPF)**. The authorities are taking corrective policy measures to enhance domestic revenue, including: (i) implementation of the 2017 Finance Act approved in June; (ii) full elimination of duty and goods and services tax (GST) waivers; (iii) collection of dividends from profitable state owned enterprises (SOE); (iv) enactment of the Fiscal Control and Management Bill[15] that compels all Ministries, Departments, and Agencies (MDAs) to pay all revenues collected into the Consolidated Revenue Fund (CRF); and (v) enactment of the Revenue Administration Bill,[16] which provides for a common set of rules for the administration of revenue laws and unify different revenue laws in the administration and collection of taxes and duties by the National Revenue Authority. On the expenditure side, the authorities are making efforts to reduce the fiscal deficit through a number of measures. First, the Government has suspended the processing of new expenditure requests and reduced the budget for capital spending to its original level. Second, the Government is implementing a Treasury Single Account (TSA), which will allow for a rapid centralization of all government receipts to compute the overall cash overdraft position each day. The TSA will strengthen budget execution oversight and improve cash management. Third, the Government is finalizing the rolling out of the Integrated Financial Management Information System (IFMIS) to make sure that it is utilized by all MDAs allowing stronger expenditure regulation and control from commitment to payment. Finally, the BSL has taken control of the two state-owned banks and prohibited new loans to both banks, to stop further accumulating loan losses and slow down the pace of solvency and liquidity deterioration. In the medium term, the Government aims to pursue reforms that will place the country on a sustained path toward macroeconomic stability and inclusive growth and job creation, consistent with the objectives of the Agenda for Prosperity (AfP).

[15] The bill was debated and passed into law titled “The Fiscal Management and Control Act, 2017” by the Parliament of Sierra Leone on October 10, 2017.

[16] The bill was debated and passed into law titled “The Revenue Administration Act, 2017” by the Parliament of Sierra Leone on October 11, 2017.

Table 4: Government fiscal 2014-2020 (in % of GDP)

	2014	2015	2016	2017			2018		2019		2020	
			Estimation	Original	Revision	Change	Original	Revision	Original	Revision	Original	Revision
Total revenue and grants	**15.8**	**15.9**	**14.8**	**16.4**	**15.0**	**-1.4**	**16.4**	**17.7**	**17.2**	**18.3**	**17.8**	**19.0**
Total Revenue	**11.0**	**10.6**	**11.8**	**13.5**	**12.2**	**-1.3**	**14.2**	**14.5**	**15.1**	**15.7**	**15.9**	**16.4**
Tax revenue	**10.3**	**9.8**	**11.1**	**12.5**	**11.2**	**-1.3**	**13.2**	**13.5**	**14.1**	**14.7**	**14.9**	**15.4**
Personal income tax	3.1	3.0	3.8	3.2	3.2	0.0	3.2	3.2	3.4	3.4	3.6	3.6
Corporate income tax	1.3	1.1	1.3	1.4	1.0	-0.4	1.5	1.4	1.7	1.7	1.9	1.9
Goods and services tax	2.3	2.7	2.7	3.1	2.8	-0.2	3.5	3.4	3.9	3.9	4.1	4.1
Excises	1.1	1.0	0.8	1.8	1.6	-0.1	1.3	1.5	1.2	1.5	1.1	1.5
Customs and other import duties	1.4	1.5	1.6	1.9	1.7	-0.1	2.2	2.5	2.3	2.6	2.5	2.6
Mining royalties and licenses	0.9	0.4	0.6	0.9	0.5	-0.4	1.2	1.2	1.2	1.2	1.3	1.3
Other taxes	0.2	0.2	0.3	0.3	0.2	-0.1	0.3	0.3	0.4	0.4	0.4	0.4
Non-tax revenue	0.7	0.7	0.7	1.0	1.1	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Grants	**4.7**	**5.3**	**3.0**	**2.9**	**2.8**	**-0.1**	**2.2**	**3.2**	**2.0**	**2.6**	**2.0**	**2.6**
Budget support grants	3.4	3.0	0.8	1.3	1.5	0.2	1.2	1.2	1.1	1.1	1.1	1.1
Project grants	1.4	2.3	2.2	1.6	1.3	-0.3	1.0	2.0	1.0	1.5	0.8	1.5
Total expenditure and lending minus repayment	**19.9**	**20.3**	**22.8**	**22.6**	**21.7**	**-1.0**	**22.0**	**23.0**	**22.2**	**23.0**	**22.6**	**22.9**
Current expenditure	**13.2**	**12.7**	**14.5**	**14.9**	**14.3**	**-0.6**	**14.7**	**15.5**	**14.4**	**15.0**	**14.5**	**14.7**
Wages and salaries	7.2	7.2	7.4	6.6	6.4	-0.2	6.0	6.2	6.0	6.0	6.0	6.0
Goods and services	3.4	3.2	4.7	3.8	4.4	0.6	3.8	4.0	3.7	3.9	3.7	3.7
Subsidies and transfers	1.5	1.6	1.6	2.4	1.4	-1.1	2.0	2.4	1.8	2.2	1.8	2.0
Interest payments	1.1	0.8	0.8	2.1	2.1	0.0	2.9	2.9	2.9	2.9	3.0	3.0
Domestic	0.9	0.6	0.6	1.9	1.9	0.0	2.5	2.5	2.5	2.5	2.5	2.5
Foreign	0.2	0.2	0.2	0.3	0.3	0.0	0.4	0.4	0.4	0.4	0.5	0.5
Capital expenditure	**6.0**	**7.3**	**8.3**	**7.5**	**7.3**	**-0.2**	**7.2**	**7.4**	**7.7**	**7.9**	**8.0**	**8.1**
Foreign financed	3.1	4.4	4.2	4.4	4.2	-0.1	4.1	4.3	4.0	4.2	4.0	4.1
Domestic financed	2.8	3.0	4.1	3.1	3.0	-0.1	3.1	3.1	3.7	3.7	4.0	4.0
Net lending	**0.1**	**0.0**	**-0.6**	**0.0**	**0.0**		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Contingency spending (Ebola)	**0.7**	**0.3**	**0.5**	**0.0**	**0.1**		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance incl. grants	**-4.1**	**-4.5**	**-8.0**	**-6.2**	**-6.7**	**-0.4**	**-5.6**	**-5.3**	**-5.0**	**-4.7**	**-4.8**	**-3.9**
Overall balance excl. grants	**-8.9**	**-9.7**	**-10.9**	**-9.1**	**-9.4**	**-0.3**	**-7.8**	**-8.5**	**-7.1**	**-7.3**	**-6.7**	**-6.5**
Domestic primary balance	**-5.5**	**-5.2**	**-6.5**	**-4.4**	**-4.9**	**-0.5**	**-3.3**	**-3.8**	**-2.7**	**-2.7**	**-2.2**	**-1.9**
Total Financing	**4.1**	**4.5**	**8.0**	**6.2**	**6.7**	**0.4**	**5.6**	**5.3**	**5.0**	**4.7**	**4.8**	**3.9**
Foreign Borrowing	1.3	1.5	1.6	2.8	2.7	-0.1	2.9	2.1	2.8	2.5	2.8	2.2
Domestic Borrowing	2.6	2.9	6.3	3.5	4.5	1.0	2.7	3.2	2.2	2.2	2.0	1.7
Public debt	**34.5**	**41.1**	**53.3**	**60.8**	**59.9**	**-0.9**	**62.7**	**61.5**	**63.6**	**62.1**	**64.0**	**61.6**

Source: MoFED, IMF, and World Bank.

B. Reform Progress Since the Approval of the PTSC-I

5.11 **There has been no back-sliding on the program and additional progress has been made to deepen and institutionalize the reforms despite the limited time since the PTSC-I approval in June 2017.** The overall reform agenda is still on track. The PTSC 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 sectors will support diversified economic growth, better natural resources management, employment promotion and women empowerment. These areas are the focus of the first pillar of the PTSC series and play a pivotal role 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 implementation of the reform program supported under the PTSC-I remains on track.

5.12 **Agriculture productivity increased significantly in the postwar period but remains significantly low.** The Government is taking bold steps to complete the liberalization of the sector to boost the use of improved agriculture inputs (seeds and fertilizers) and new technologies. The country has approved a

National Seed Policy, which encourages private sector production of certified seeds and has proceeded with its implementation. The key institutions in charge of the regulation, control, and enforcement of the seed policy 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. Under PTSC-I, the SLSCA bill (2017) was submitted to Parliament for approval. The bill has already passed the Parliament Review Committee on Agriculture and Food Security. The Act will open importing, exporting, growing or processing seeds in commercial quantities, distributing certified seeds to any licensed person. The governing body of the agency is a board that includes representatives of exporters and importers of agricultural inputs. At the same time, the Government's Cabinet adopted a new fertilizer policy that encourages private sector participation in the supply and distribution of fertilizer. The Government has drafted a new seed regulation that will be submitted to the Cabinet and to Parliament. A new fertilizer bill is under preparation and will be submitted to Cabinet for decision and to Parliament for approval.

5.13 **Sierra Leone has taken bold steps in the first half of 2017 to combat illegal fishing.** Until recently, Sierra Leone's fisheries management was characterized by inadequate monitoring, control and surveillance (MCS) capacity and lack of funding to support the Joint Maritime Committee (JMC) function. The Government ensured that all industrial vessels with an active license (other than tuna vessels) have a Vessel Monitoring System (VMS) or Automatic Identification System (AIS) and observers on board, to increase transparency and reinforce MCS of fishing activities. The list of licensed vessels is also published in the Ministry of Fisheries' website. In addition, the Joint Operation Center (JOC) has been upgraded with the installation of coastal radar and a ship transponder identification system. These strengthened the JOC's ability to combat illegal activities including piracy, smuggling, trafficking, and illegal fishing. The system was successfully tested by the JMC in March 2017. The Government is committed to revise the existing legal basis governing the sector with a new Fisheries Bill, which was sent to Cabinet for adoption prior to its submission to Parliament for approval. The Government has also drafted a fisheries regulation that will be submitted to Cabinet, once the Fisheries Act is promulgated. Sierra Leone is promoting bilateral cooperation in the fisheries sector as evidenced by the recently signed Memorandum of Understanding (MoU) with the People's Republic of China to regulate and administer fishing activities in a bid to combat illegal, unregulated and unreported fishing activities through close cooperation.

5.14 **The GoSL remains committed to reducing system losses and increasing electricity revenue collection during the period from 2016 to 2022**. In June 2016, the Government adopted a policy to ensure financial and operational sustainability in the electricity sector. The policy outlines the measures that the Government is committed to implement over the coming years to: (i) 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; (ii) improve transparency and predictability of cash flows in the electricity sector; and (iii) reduce the burden of the electricity sector on the fiscal budget of Sierra Leone. To implement the policy, the Government transferred the management of EDSA to a management contractor in November 2016. EDSA approved a strategic plan to improve the operation and financial performance of the utility, which includes reduction of technical and commercial losses and increase collection rate. EDSA has started the implementation of the strategic plan, including the upgrading of the financial management system. For example, the financial statement (FS) for 2015 has been completed and the preparation of the FS for 2016 is well advanced. An amount equivalent to US$10 million has been identified as arrears to be paid to EDSA, while most of the arrears due to EDSA suppliers have been cleared. Budget control procedures are now implemented and the use of the existing accounting system is enforced. With these measures, revenue is expected to increase by more than 50 percent in 2017 to reach Le 117 billion, up from Le 73 billion in 2016. The installation of the Automated Metering Infrastructure is also progressing. The bidding process was completed in September 2017.

5.15 **On education, the Government has renewed commitment to make the Teaching Service Commission (TSC) functional.** In May 2017, the MEST signed a transition plan for the transfer of assets, functions and functionaries from MEST to TSC. The plan clearly articulates the timeline, sequencing, and milestones for the transfer. As a preliminary step before the transfer of the assets, the MEST and the MoFD have agreed on the salary scale for the staff interviewed for the identified vacancies at TSC. The onboarding of the recruited staff has started but progress is slower than initially expected.

5.16 **On procurement, the Government took a decision to develop an integrated web-based procurement management solution (e-procurement) to increase transparency in procurement processes**. The National Public Procurement Authority (NPPA) with support from the WBG has developed a road map to implement the e-procurement. Given the complexity of the task, the Government has planned the testing of the system in December 2018 and its rolling out to line ministries in January 2019. While developing an e-procurement solution is critical to increase transparency in procurement processes, it is not a panacea that will solve all the weaknesses in the procurement system. Furthermore, it will not work properly and efficiently without a significant improvement in procurement planning. The Government is supporting the development of procurement plans by all MDAs, consistent with the 2018 budget and approved by the NNPA. In addition, the Government will also audit the procurement transactions in 2016 and make the report available to the public on an official government website. The data gathering phase has been completed and the cleaning and analysis phase has started.

5.17 **Finally, the Anti-Corruption Commission (ACC) continues to enforce the asset disclosure provision of the ACC Act with mixed results.** Under the PTSC-I, the ACC issued a public notice requesting the defaulting public officials to comply with the ACC law before October 31, 2016, which led to a significant increase in the compliance rate. Out of 55,000 forms distributed to the public officials in 2016, 35,000 forms were collected versus 20,000 in 2015, representing a 75 percent increase in the compliance rate. Among the public officials under the category of directors and above, a 70 percent compliance rate was observed, while it reached 90 percent among the ministers and deputy ministers. The ACC has also developed a web-based asset disclosure system that allows public officials to fill their Assets Declaration (AD) form online. Furthermore, the ACC is redefining the scope of public officials in the asset disclosure system to limit the coverage to the most politically exposed person (PEP), entrusted with a prominent public function in all branches of government services, including civil service, executive appointees, judiciary, parliament, diplomatic service, military and SOEs. The revision will include an effective and non-discretionary administrative sanction for non-compliance with asset disclosure filing obligations.

C. RATIONALE FOR PROPOSED SUPPLEMENTAL DEVELOPMENT POLICY FINANCING

5.18 **The request for supplemental DPF is consistent with World Bank OP 8.60, and Paragraph 32 of this OP allows to respond quickly to the urgent needs of the country following the disaster through a Supplemental DPF**. First, the landslide and flooding have created an unanticipated financing need estimated at 2.2 percent of GDP, half of which is immediate and short term needs. This unanticipated financing gap could jeopardize the PTSC series, which was proceeding on schedule. Second, the program remains broadly on track and government commitment is firm with the implementing agencies having demonstrated competence in carrying out the reform program. Implementation of the program supported under the series has proceeded as anticipated and remains on track with government implementing agreed structural reforms. To date, the Government remains in compliance with all the provisions embedded in the Legal Agreement for the financing of the PTSC-I [17]. Third, the Borrower is

[17] Financing Agreement for Credit Number 6112-SL and Grant Number D218-SL, July 7, 2017, between the Republic of Sierra Leone and the Association.

unable to obtain sufficient funds from other lenders on reasonable terms and in a reasonable time. The Government has actively sought additional financing to cover the unanticipated financing gap and has received some commitments with regard to additional financing with discussions still ongoing with respect to others. The proposed supplemental DPF is therefore a critical element to close the fiscal gap due to the sharply lower budget revenues than originally programmed and the need to safeguard budget financing and contain rising macroeconomic risks. Accessing non-concessional external financing is not a viable option as it would be inconsistent with the recommendations of the most recent debt sustainability analysis (DSA) as well as the program agreed with the International Monetary Fund (IMF). Fourth, the time available is too short to process a freestanding World Bank operation. The procedures available through a Supplemental DPF offer the opportunity to respond quickly to the urgent needs of the country following the disaster.

6. IMPLEMENTATION ARRANGEMENTS

A. TERMS OF THE SUPPLEMENTAL DEVELOPMENT POLICY FINANCING

6.1 **The Recipient is the Republic of Sierra Leone and this Supplemental DPF is a single-tranche IDA grant of SDR 7.2 million (US$10 million equivalent).** The grant would be made available upon grant effectiveness, so long as the Borrower continues to make satisfactory progress with respect to implementing its program supported under the original PTSC-I and continues to maintain a satisfactory macroeconomic policy framework. No other conditions, except for the standard requirement for a legal opinion will apply to this supplemental DPF. The closing date for the supplemental DPF is June 30, 2018. The proposed supplemental DPF continues to support the full program of actions set out in the program document for PTSC-I.

B. FUNDS FLOW AND AUDITING REQUIREMENTS

6.2 **Funds flow arrangements**: The GoSL shall identify a Foreign Exchange Account, also known as a "Dedicated Account", with the BSL, and which forms part of the country's official foreign exchange reserves, into which the proceeds of the grant will be disbursed upon grant effectiveness. The Government may use the proceeds as follows: (a) make budgeted foreign currency payments (such as for imports, foreign currency debt service, and so on) directly from this foreign currency bank account; (b) transfer amounts from the foreign currency bank account to a local currency bank account of the Government, which the Government then uses to make payments for its budget expenditures; or (c) a combination of these approaches. In the case where the entire amount shall be used as per (b), the Sierra Leone 'Leones' equivalent of the funds in the account will, within two working days, be transferred into the Consolidated Fund of the GoSL, and the amount recorded appropriately in the budget management system of the Government.

6.3 **Disbursements from the Dedicated Account by the GoSL 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.

6.4 **The IMF conducted Safeguards Assessments of the BSL in 2002, 2006, 2010, and as recently as February 2014.** The safeguards framework of the BSL 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 BSL; (b) strengthening the role of the Audit Committee over the external audit oversight function; and (c) strengthening the BSL's financial autonomy through its re-capitalization, consistent with the BSL Act, 2011. The Bank continues to be audited annually by its external auditors. The BSL and the GoSL have begun the process of addressing the identified weaknesses.

6.5 **Assurance Requirements:** Within 30 days of the disbursement of the grant by IDA, the Financial Secretary of the 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 GoSL, 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 BSL, audited in accordance with international standards on auditing as promulgated by the International Federation of Accountants, are publicly available.

7. BENEFITS AND RISKS

A. BENEFITS

7.1 **The benefits of the proposed Supplemental DPF financing are considerable for Sierra Leone**. The relief that the resources provided to the already strained public finances would in effect increase the fiscal space for the authorities to better respond to the needs generated by the landslide and flooding. It will also allow for a reduction in macroeconomic risk, which has been heightened by the response to the Ebola epidemic and the collapse of iron ore prices.

B. RISKS

7.2 **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 5). Environmental and social risks are growing with the landslide and flooding but remain broadly moderate. 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 DPs.

Table 5: 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

7.3 **Political and governance risk are judged to be high in terms of their effect on the program development objectives**. Political risk 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. As 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 half of 2017, that could have negative impact on the implementation of the program. Payment arrears and unpaid bills were accumulated and that could have negative impact on business production and productivity. Additional fiscal slippages could also increase extra-budgetary 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 Risks

7.4 **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 five components—lower than expected domestic revenue, decline in foreign aid, and financial sector risk. First, gain expected from new tax policy measures (adjustment of retail fuel prices, introduction of GST on electricity) effective in late 2016, may continue to fall short of expectations as in the first half of 2017, where total domestic GST fell by 6.4 percent. The shortfall in domestic revenues could lead to a larger fiscal deficit than expected and thus to more accumulation of arrears. Second, aid inflows could also fall short of the pledged amount, particularly if DPs perceive a weakening of Government commitment to reforms. Third, the domestic financial system faces significant challenges because of the weak financial positions of the two state-owned banks that hold 33 percent of the assets in the system. A further deterioration of the financial sector may negatively affect the implementation of the program. Macroeconomic risks are judged to be substantial in terms of their effect on the PTSC's development objectives. These risks are mitigated by a close monitoring under the PTSC series and the Authorities' Extended Credit Facility (ECF) program with the IMF.

Institutional capacity for implementation and sustainability

7.5 **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 Risks

7.6 **Overall, the fiduciary environment is weak.** Expenditure overruns occurred in late 2016 and there were long and regular delays in approving the finance act for 2017. The Government is implementing the new PFM Act (2016) to improve the fiduciary environment. The new Fiscal Management and Control Act

(2017), the Revenue Administration Act (2017), the implementation of the Treasury Single Account, and the IFMIS will mitigate the fiduciary risks by allowing stronger expenditure regulation and control from commitment to payment. In addition, the fiduciary arrangements under the proposed operation as well as the regular broad monitoring of the landslide-related expenditures will help further mitigate this risk.

Epidemiological Risk

7.7 **The epidemiological risk is substantial.** With damage to water and sanitation facilities, the population of the areas affected by the landslide and flooding are particularly vulnerable to outbreaks of pre-existing infectious diseases including malaria and diarrheal conditions such as typhoid and cholera. To mitigate the risk, the GoSL is enhancing the surveillance for acute watery diarrhea with support from the World Health Organization (WHO). A three-month preparedness and response plan is included in the Government response to the disaster. Mosquito nets, and cholera response kits, including rapid testing tools, were distributed in areas at risk, while cholera vaccination campaigns are ongoing.

Environment and Social Risk

7.8 **Despite the landslide and flooding, the environmental and social risks are still moderate.** The original operation approved in June offered a full description of the environmental and social risks as well as their mitigation mechanisms. As discussed there, the mitigation measures have been developed through the detailed Environmental and Social Management Framework (ESMF) which has been undertaken as part of Smallholder Commercialization and Agribusiness Development Project (SCADP, P153437) project preparation and publicly disclosed on December 9, 2015. However, the occurrence of the landslide has underscored the need to strengthen disaster risk management and mitigation. In that respect, the Freetown Emergency Recovery Project (P166075) under preparation will support the coordination and implementation of a resilient recovery program to stabilize slopes around the impacted area of the landslide and restore key service delivery infrastructure. In addition, based on further assessments, the second and third operations of the current DPF series will be used to support, as warranted, any policy or institutional actions deemed critical to strengthening disaster risk management. The World Bank will also continue to provide technical and implementation support to the Sierra Leone Environmental Protection Agency (EPA) which has the national mandate to ensure compliance with environmental and social safeguard issues.

Annex 1: Fund Relations Note

IMF Executive Board Approves US$224.2 Million Under the ECF Arrangement for Sierra Leone

June 5, 2017

The Executive Board's decision will enable a first immediate disbursement of SDR39.166 million (about US$54.3 million).

Growth is expected to reach 7 percent in the medium-term. Under the program, inflation is expected to fall to 12 percent by end-2017, further declining to 9.5 percent in 2018 and narrowing by about 0.5 percent each year thereafter.

The program aims at supporting important policies targeted at reducing inflation and significantly increasing domestic revenues, while increasing infrastructure spending and bolstering the social safety net.

On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) [1] for Sierra Leone for SDR 161.778 million (about US$224.2 million, or 78 percent of Sierra Leone's quota) in support of the authorities' economic development efforts.

The program will build on the lessons from the previous ECF arrangement. It aims at supporting important policies targeted at reducing inflation and significantly increasing domestic revenues, including by eliminating numerous tax and duty exemptions, while increasing infrastructure spending and bolstering the social safety net. The ECF program is also expected to play a catalytic role to maintain external support. In the medium-term, the arrangement will provide the framework for structural progress on revenue mobilization, public financial management and financial sector reforms, as well as increased reserves.

The Executive Board's decision will enable a first immediate disbursement of SDR39.166 million (about US$54.3 million). The remaining amounts will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Sierra Leone, IMF Deputy Managing Director Mr. Tao Zhang and Acting Chair, said:

"The new program provides support on three broad fronts: (i) provide financing space in the short-run to fund critical spending; (ii) make a strong contribution to the reduction of poverty; and (iii) support a medium-term structural reform framework, most critically in domestic revenue mobilization, public financial management (PFM), and financial sector reform.

"For the medium-term, the new program focuses on forceful revenue mobilization supported by a medium-term Revenue Mobilization Strategy (RMS), which the authorities will design and implement. On the expenditure front, the authorities are in the process of finalizing the regulatory framework for the recently passed PFM Act. The PFM Act will enhance the efficiency of spending, support medium-term budget planning, and consolidate the cash resources of various ministries, departments and agencies under the roof of the Treasury Single Account (TSA).

"In the short-run, the ECF arrangement will help create fiscal space, which will be used to scale up infrastructure and social spending to support higher and inclusive growth. To further this goal, the authorities' decision to prioritize public investment, consistent with a moderate risk of debt distress rating, is welcome. The authorities' efforts to expand the social safety net are also to be commended.

"The authorities' commitment to implement a fuel subsidy reform no later than the second ECF review is important for a sustainable budget. In the meantime, the alternative actions taken to compensate for the delay in the implementation of this reform are welcome. These measures are the elimination of all import duty and GST exemptions as well as the collection of royalties from mining companies based on published market prices.

“Sierra Leone’s risk of debt distress remains moderate. Financing needs, particularly for large-scale investment projects will need to be covered mostly with grants and concessional loans. In addition, non-debt generating options should be considered for the proposed new airport.

“Monetary policy will remain focused on lowering inflation to single digits. The Bank of Sierra Leone (BSL) shall seek to build reserves, while allowing further exchange rate flexibility and limiting its interventions to smooth exchange rate volatility. The BSL should also take firm action to strengthen the financial system, based on the conclusions of the recently completed diagnostics for the two state-owned banks. The establishment of a civil registry and financial sector reforms, including the move toward risk-based supervision, should help increase credit to private sector.

“Structural reforms aimed at enhancing governance and improving the business environment will help increase support for private sector participation in the economy and promote economic diversification.”

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Annex 2: Policy and Results Matrix at the PTSC-I Approval

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. Baseline (2015): 1.5 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) **(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** Number of active industrial fishing license. Baseline (2016): 85 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** Revenue recovered as percentage of the total revenue which could theoretically be recovered. Baseline (2015): 49.6% 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 transferred 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** Absenteeism rate of teachers on payroll Baseline (2015): 30% 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. **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. **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** Share of procurement transactions processed through the e-procurement portal. Baseline (2015): 0% 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** Share of public officials that have submitted asset declaration form Baseline (2015): 20% Target (2020): 90%