PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

May 11, 2016
Report No.: AB7892

Operation Name	First Productivity and Transparency Support Credit (PTSC-I)
Region	AFRICA
Country	Sierra Leone
Sector	Agriculture (30%), Fisheries (15%), Energy (15%), Mining (10%), Education (10), Governance (20%).
Operation ID	P156651
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF SIERRA LEONE
Implementing Agency	MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT
Date PID Prepared	May 11, 2017
Estimated Date of Appraisal	May 26, 2017
Estimated Date of Board Approval	June 30, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

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

The extraordinary sensitivity of the economy to these two shocks has revealed the country's high vulnerability and reinforced the need to build economic resilience and promote a more balanced development path. Sierra Leone's economy was spurred in the last three years prior to the crisis (2011-13) by large scale mining production and exports, which saw the industrial sector's share in GDP nearly tripling to 21.3 percent. Iron ore, which was not produced before 2011, represented alone near 15 percent of GDP and 70 percent of export receipts in 2013. This rapid growth shifted the focus away from traditional sectors such as agriculture and fisheries that provide livelihood for almost two-third of the population. The small local manufacturing was more than ever adversely affected by imports made cheaper by abundant foreign reserves. While all these three sectors were negatively affected by the Ebola epidemic, but agriculture showed strong dynamic resilience and robust ability to recover, leading to a rebound in activity in 2016. The large fluctuations of the prices of iron ore have reminded the Government of the need to diversify the economy for a more balanced and less vulnerable growth.

II. Operation Objectives

The aim of this series is to contribute to the Government's objective of achieving sustainable and inclusive economic development through: (i) increased productivity in selected economic sectors and (ii) improved transparency and accountability in selected government decision making processes.

The proposed PTSC series covers six policy areas namely: agriculture and land, fisheries, energy, education, procurement, and anti-corruption. These areas are consistent with the Government's AfP and President's priorities as well as the Bank's Country Partnership Framework. The design of the series has incorporated lessons from previous operations. The program will focus on a limited number of transformational structural reforms included in the AfP and geared to unlocking inclusive growth. The series shifts focus from traditional PFM type of reforms which are largely supported by donors, including EU, DFID, AfDB, IMF, and WBG investment project, to concentrate on three productive sectors (agriculture, fisheries, and energy) which have been identified as critical for inclusive growth.

III. Rationale for Bank Involvement

After more than a decade of steady improvement of living conditions in Sierra Leone, progress on poverty reduction was suddenly halted in 2014 with the advent of the Ebola epidemic and the sharp decline in iron ore prices. According to the last two Sierra Leone Integrated Household Surveys (SLIHS), the share of population living below the national poverty line (roughly US$1/day) declined from 66.4 percent in 2003 to 52.9 percent in 2011. In the same period, overall inequality measured by the Gini coefficient decreased from 0.39 to 0.32 but inequality between urban and rural areas and between Freetown and the rest of country remained important with high concentration of poor households in rural areas. Projections based on the last two household surveys suggest that poverty further declined to 46 percent in pre-crisis 2014, then increased to over 49 percent in 2015 as a result of the Ebola epidemic and the low commodity prices. The economy weakened by 1.3 percent in the second half of 2014 before contracting by 21 percent in 2015. The positive trend in Government's fiscal was also reversed with domestic revenue declining to 10.5 percent of GDP in 2015, down from 12.6 percent in 2013.

The extraordinary sensitivity of the economy to these two shocks has revealed the country's high vulnerability and reinforced its need to build economic resilience and promote a more balanced development path. Sierra Leone's economy was pulled in the last three years prior to the crisis (2011-13) by large mining production and exports, which saw the industrial sector share in GDP nearly tripling to 21.3 percent. Iron ore, which was not produced before 2011, represented alone 14.9 percent of GDP and 70 percent of export receipts in 2013. This rapid transformation shifted the focus away from traditional sectors such as agriculture and fisheries that provide livelihood for almost two-third of the population. These two sector was negatively affected by the Ebola epidemic but showed strong dynamic resilience and robust ability to reconstruct and recover. The collapse of the iron ore prices has reminded the Government the need to diversify the economy for a more balanced and less vulnerable growth.

The proposed program supports critical policy reforms to promote sustainable and inclusive growth and build economic resilience. Sierra Leone opportunities to eradicate extreme poverty and boost shared prosperity on a sound exploitation on the country's abundant natural resource endowments, renewable (arable land, forestry, and fisheries) and non-renewable (water, oil, and minerals). The operation supports ongoing reforms to increase productivity and sustainability in agriculture and fisheries while promoting transparency in selected government decision making processes and related transactions, especially decision to transfer property or access rights to private operators, including land and fisheries. The program will focus on reducing the likelihood of miss-procurement through improved transparency and on increasing the cost of stealing public asset through an effective asset disclosure system. The program supports also two cross cutting sectors (energy and education) critical for productivity growth.

The proposed PTSC series is fully consistent with the Joint Assistance Strategy (JAS) prepared in collaboration with the AfDB and the International Finance Corporation and discussed by the Board on April 6, 2010. A CAS Progress Report prepared in 2012 emphasizes the centrality of Development Policy Financing (DPF) to the Bank's continued engagement in Sierra Leone and introduces a third pillar on Natural Resources Management in addition to the CAS two pillars on Human Development and Promoting Inclusive Growth. Other Bank operations in agriculture, Fisheries, minerals sector, and governance are linked to the proposed series and also provide valuable support through Technical Assistance. A successor Country Partnership Framework is under preparation to support the Agenda for Prosperity. The draft Systematic Country Diagnostic emphasized the role of agriculture, fisheries, energy and education in promoting inclusive growth and reducing poverty.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		30.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	30.00

V. Tranches *(if applicable)*

	($m.)
First Tranche	
Second Tranche	
Etc.	
Total	

VI. Institutional and Implementation Arrangements

The government of Sierra Leone, through the Ministries, in charge of finance, agriculture, fisheries, energy, and education will be responsible for the overall execution of measures implemented under this program. Ministry in charge of Finance (MOFED) is responsible for the coordination of the program. MOFED has the requisite experience including technical skills and coordination experience for this task, some elements of which it will undertake in conjunction with BSL. Given the large number of line ministries participating, for the first time, in the implementation of development policy financing, a committee in charge of the monitoring of the program will be created with focal points in each line ministries, in the National Procurement Authority, and in the Anti-Corruption Commission. Additionally, there is a small, well-coordinated group of development partners also providing close support to the government. The Results Framework in Annex 1 provides the list of result indicators which will be used to monitor the progress over the proposed operation. The monitoring of the series will be closely linked to the Agenda for Prosperity, since their results matrix are explicitly linked. In addition to the results indicators included in the results framework, a list of intermediary and high frequency indicators will be established for the in-year monitoring of the program.

VII. Risks and Risk Mitigation

Despite strong Government ownership of the program, risks remain in a context of enduring institutional, political and economic fragility. Non-negligible risks stemming from these weaknesses are mitigated by: (i) the design of the proposed operation focused on limited and feasible actions aligned with the Government's own strategy; (ii) the strength of the government's ownership and commitment demonstrated over the past series; (iii) active and continuous policy dialogue between the Bank and the government; and (iv) close collaboration with other donors with linkages to complementary provide technical and financial assistance.

Institutional capacity weaknesses could delay the implementation key reforms and affect program performance. The risk of weak technical capacity is mitigated by (i) concentrating on a limited number of themes/areas; (ii) leveraging technical support from ongoing IDA projects (i.e. in Agriculture, fisheries and Energy); (iii) working with other donors to reduces the number of activities to be implemented by the government and better target the focus of technical assistance.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

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

Environment Aspects

Under Operational Policy 8.60 on Development Policy Lending, the Bank is required to determine whether specific country policies supported under the operation are likely to cause significant effects on the country's environment, and, in the event of such likely effects, assess country systems for reducing any such adverse effects and enhancing such positive effects. In the event of significant gaps in the analysis, or shortcomings in the country systems, the Bank is required to identify how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

The reforms supported by the proposed PTSC are not likely to have negative effects on the environment. The limitation of the industrial fishing capacity is likely to have a positive impact on the conservation of marine resources and the sustainability of fishing activities in Sierra Leone. The proposed series support the liberalization of the fertilizer market which may have a negative effect on the environment. However, an increase in the agricultural productivity resulting from increased use of fertilizer could slow the rate of deforestation for agriculture. Nevertheless, in is planned to mitigate any environmental risk through the Smallholder Commercialization and Agribusiness Development Project.

IX. Contact point

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