**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

October 28, 2013

 Report No.: AB7440

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| **Operation Name** | Sierra Leone - Sixth Governance Reform and Growth Credit |
| **Region** | AFRICA |
| **Country** | Sierra Leone |
| **Sector** | Central government administration (70%);General energy sector (15%);General industry and trade sector (8%);Other Mining and Extractive Industries (4%);General water, sanitation and flood protection sector (3%) |
| **Operation ID** | P133107 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | GOVERNMENT OF SIERRA LEONE |
| **Implementing Agency** | Ministry of Finance and Economic Development  |
| **Date PID Prepared** | October 28, 2013 |
| **Estimated Date of Appraisal** | November 7, 2013 |
| **Estimated Date of Board Approval** | December 16, 2013 |
| **Concept Review Decision** | The decision was taken to proceed with the preparation of the operation. |

1. **Key development issues and rationale for Bank involvement**

Progress on structural and institutional reforms has been consistent but these have been in many cases rather basic reforms, appropriate to the setting with much more remaining to be done. The proposed operation is the third in a programmatic series of three development policy operations, which followed the successful completion of a previous series in 2010.

A number of institutional and structural reform measures were undertaken in 2012 and 2013. Legislation to establish an independent regulator for the mining sector was submitted to Parliament and subsequently passed, following which the National Minerals Authority has been established. The National Power Authority launched an operational loss reduction plan in 2012 to improve its performance and in 2013 a policy commitment was made to placing it under a management contract in order to improve performance in a more comprehensive manner.

Since the end of the conflict in 2002, Sierra Leone’s economy has recovered well with real GDP growth averaging about 6 percent annually together with concomitant improvements in public administration and public financial management. The advent of large scale iron ore mining in late 2011 is likely to change the country’s development prospects going forward. Yet Sierra Leone remains critically short of technical skills in most areas and is reliant on external budgetary support to finance its development program. The generally good economic management performance has been marred by fiscal slippage which commenced in late 2010, and has continued through 2012.

Economic growth received a significant boost in 2012 which was the first full year of iron ore production at the two new large scale mines. Real GDP increased by an estimated 15.2 percent, albeit this was less than expected due to production problems at the larger mine.

In early 2013 Government addressed the fiscal overhang from 2012 and tightened fiscal policy significantly to respond to the underlying policies. It also did not undertake any net new borrowing from the domestic market in the first half year, as a result of which treasury bill yields declined by more than half to fall below 10 percent. In July 2013 it submitted a Supplementary Budget to Parliament which took account of the fiscal overhang from 2012.

1. **Proposed Objective(s)**

The main objective of the series is to support the completion of the Government’s Second Poverty Reduction Strategy Paper (PRSP-2)—the Agenda for Change—and the initial implementation of the Third Poverty Reduction Strategy Paper (PRSP-3)—the Agenda for Prosperity. The GRGC‑6 will contribute to addressing the financing gap for the 2013 budget and will support government efforts to maintain and deepen growth and structural reforms through that. Specific objectives in this context are to: (i) preserve fiscal space for poverty reduction; (ii) promote efficiency, transparency and accountability in the use of public resources; and (iii) improve the investment climate through provision of electricity in a fiscally sustainable manner. The operation is fully consistent with the Joint Country Assistance Strategy covering FY10-13 and its pillar to promote inclusive growth.

1. **Preliminary Description**

The main policy areas proposed are (a) Strengthening Public Expenditure Management (Fiscal discipline, commitment controls, non-transparent financing, procurement, payroll management) ; (b) Improving Domestic Resource Mobilization and Management (revenue administration, increased transparency in minerals sector); and (c) Public sector Reform.(Electricity sector reform, Minerals sector institutional reform)

1. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

The proposed GRGC-6 is expected to have a positive social impact on poverty reduction. This should occur through strengthening of public expenditure management; domestic resource mobilization and management ; and public sector reform, both indirectly by providing the financing for execution of government’s development program (which includes vital social services such as the Free Health Care Initiative targeted to the poor and vulnerable); and more directly through its support for improved delivery of public services. Energy sector reforms will benefit the poor over time through improved access to electricity.

*Environment Aspects*

The policies and actions supported by the proposed GRGC-6 are not likely to have any significant impact on the environment, natural resources and forests. The policies and actions supported under the GRGC-6 mainly address institutional reforms, none of which entails any environmental impact. Government’s 2013 budget does, however, include investments in basic infrastructure and agriculture that may have some environmental effects. Many of these additional investments, should they materialize, would be financed by development partners, each with their own environmental requirements.

1. **Tentative financing**

|  |  |
| --- | --- |
| Source: | ($m.) |
| BORROWER/RECIPIENT | 0.0 |
| International Development Association (IDA) | 25.0 |
| Borrower/Recipient |  |
| IBRDOthers (specifiy) |  |
|  Total | 25.0 |

1. **Contact point**

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