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**TRANSITIONAL  
SUPPORT STRATEGY  
FOR  
THE REPUBLIC OF SIERRA LEONE**

**NOVEMBER 17, 2000**

**Country Department 10  
Africa Region**

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**ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
AFRC	Armed Forces Revolution Council
ARPP	Annual Review of Portfolio Performance
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CPIA	Country Policy and Institutional Assessment
CRRP	Community Reintegration and Rehabilitation Project
DCA	Development Credit Agreement
DDR	Disarmament, Demobilization and Reintegration
DfID	Department for International Development
EC	European Commission
ECOMOG	ECOWAS Military Observer Group
ECOWAS	Economic Community of West African States
ERRC	Economic Rehabilitation and Recovery Credit
ESW	Economic and Sector Work
GDP	Gross Domestic Product
GOSL	Government of Sierra Leone
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Auto-Immune Deficiency Syndrome
IAAC	Integrated Approach to Aid Coordination
IDA	International Development Association
IMF	International Monetary Fund
ISS	Interim Support Strategy
LPA	Lome Peace Accord
MDTF	Multi-Donor Trust Fund
NGO	Non-Governmental Organization
PCPI	Post-Conflict Progress Indicators
PCPR	Post-Conflict Performance Rating
PRGF	Poverty Reduction and Growth Facility
IPRSP	Interim Poverty Reduction Strategy Paper
PSMS	Public Sector Management Support
RUF	Revolutionary United Front
SLA	Sierra Leone Army
SPP	Strategic Planning and Action Process
TSS	Transitional Support Strategy
UN	United Nations
UNAMSIL	United Nations Mission in Sierra Leone
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees

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# **TRANSITIONAL SUPPORT STRATEGY FOR THE REPUBLIC OF SIERRA LEONE**

## **INTRODUCTION**

1. On December 21, 1999, the Board of Directors discussed an Interim Support Strategy (ISS) for the Republic of Sierra Leone. At that time it was agreed that within a year the Bank would update the Board on the implementation of the strategy and country conditions, as well as outline our proposed assistance for the next 12 months. In the meantime, in early September, the Executive Directors were briefed informally by Bank staff on recent developments in Sierra Leone.

### **A. BACKGROUND**

2. Post-independence Sierra Leone has had a troubled history characterized by civil war and poor governance. After growing by nearly four percent per annum during the first decade after independence in 1961, economic and social conditions deteriorated sharply in the 1970s and the first half of the 1980s. While external developments were a factor underlying this trend, the more fundamental reason for this decline was inappropriate Government policies and poor governance. Attacks by the Revolutionary United Front (RUF), that started out sporadically in the southeastern part of the country in early 1991, quickly spread throughout the country. After eight years of a war that left more than 20,000 people dead, about 1.5 million displaced and caused major economic disruptions and a significant worsening of poverty, a peace agreement was signed in July 1999, presenting an opportunity for Sierra Leone to rebuild itself.

3. The overall framework for the resumption of Bank activities and international support was the Lome Peace Accord (LPA) of July 1999. Implementation of the Peace Accord proceeded well until a key aspect of its provisions was reached. This was the transfer of security support from the Nigerian-led ECOWAS Military Observer Group (ECOMOG) forces to the UN Peacekeeping force – United Nations Mission in Sierra Leone (UNAMSIL) – at the end of April 2000. In May 2000, the RUF rebels launched a major offensive, including taking of UN hostages. There was a strong international response to this, including the deployment of a sizeable British force, and the subsequent expansion and strengthening of UNAMSIL. This repulsed the attack and resulted in the arrest of Foday Sankoh, the RUF leader, and the subsequent decision of the Government of Sierra Leone (GOSL) and the UN to try him for war crimes.

4. The security situation has gradually stabilized over the past months. The UNAMSIL force has been expanded to 12,500 personnel, and Government forces have been reinforced and are undergoing training. This has been bolstered by the UK's recent decision to commit its 5000-strong "rapid deployment force" to Sierra Leone, if needed, and to provide significant new logistics and equipment to the Sierra Leone Army (SLA).

The RUF has named a new military commander, Issa Sesay, as its interim leader to replace Foday Sankoh and to represent the movement. At the political level, the Economic Community of West African States (ECOWAS) and the United Nations (UN) have been actively encouraging a return to negotiations between the RUF and Government in the context of the Lome Peace Accord. The first such meetings took place in Abuja, Nigeria, on November 8-10, under the auspices of ECOWAS and of President Obasanjo of Nigeria. This was the first direct meeting between the President of Sierra Leone and the RUF since the events of May 2000. It is obviously too soon to predict the outcome of such talks. They are a welcome step, but many pitfalls remain. Not least, the UNAMSIL has not yet been increased to the Secretary General's target of 20,000, following the decision of Indian and Jordanian troops to withdraw from the force.

5. Until May, the Disarmament, Demobilization and Reintegration (DDR) Program had been making progress. An important reason for that has been the consultative and transparent process maintained by Government in gaining the commitment and active support of key stakeholders. The Bank is the administrator of a Multi-Donor Trust Fund (MDTF), established to cover the costs of these activities. The Program was effectively suspended in May when many of those who had been demobilized prior to May 2000 did take up arms again. An evaluation of the DDR Program has been carried out, in order to design the details of a new DDR to be ready when full peace is restored. A donors' meeting is planned for mid-January to review the results of the recent evaluation, as well as to mobilize additional resources. The international community is keen for the Bank to maintain its role in the DDR by administering the MDTF.

6. There are four key aspects of any future DDR that the Government and the donors have agreed upon:

- It must be preceded by a full and clear commitment by all parties to a peace process;
- It must be fully owned and managed by Sierra Leone and be less foreign-driven;
- There must be clear and monitorable commitment to disarmament by all parties, with a strong role for UNAMSIL in this process; and
- It must have a strengthened emphasis on the reintegration component, and not be seen as a "money-for-guns" program.

7. The LPA is still considered viable by most key stakeholders and there is great political will among the international community to enforce it. Importantly, the RUF has issued a communiqué stating that it is ready to cooperate with UNAMSIL in implementing the LPA and the DDR Program. At the same time, however, recent disturbances along the Guinea-Liberia-Sierra Leone border involving RUF troops are a matter of serious concern, both for security in the sub-Region, and for the doubts they raise about the commitment of the RUF. Thus, while there are hopeful signs for a full resumption of the Lome Peace Accord process, and for a start of negotiations of the

necessary revisions to the LPA, great uncertainties remain on both the security situation and the DDR process, which call for the Bank to be vigilant and responsive, and above all, flexible (in both directions).

## **B. GOVERNMENT PROGRAM**

8. The Government's objective is to fight poverty and improve living conditions for the entire population through the pursuit of policies that will lay the foundation for growth and job creation. In order to provide the enabling conditions to facilitate poverty reduction, the highest priority would be given to the creation of a security environment that allows the free movement of persons and goods. *A secure and peaceful environment* would also enhance the participation of the private sector and would facilitate the implementation of anti-poverty programs, with a maximum impact on targeted beneficiaries. The Government is fully committed to the principal provisions of the Lome Peace Agreement, namely the Disarmament, Demobilization and Reintegration of ex-combatants, and to resuming the programs which had been put in place to facilitate that process and were disrupted by the deterioration in security conditions last May.

9. The second priority is to *restructure and re-launch the economy*. In spite of the difficult conditions, the Government has made substantial progress in improving budgetary procedures, strengthening revenue generation, and liberalizing the foreign exchange market. The objective of the Government is to lower inflation, reduce the primary budget deficit and rebuild foreign exchange reserves, while ensuring the prudent management of financial resources. The development of private sector activity is an important part of the strategy of the Government to stimulate the recovery and growth of the economy.

10. Third, as part of its overall economic program, the Government is focusing on *key sectoral programs*. These include activities to improve food security among the population and rehabilitation and development of transport and telecommunications infrastructure. Nine years of war has taken a particularly hard toll on social structures, institutions and facilities in the country. The major thrust of the Government's social welfare program is to provide community-based counseling and support services to the most vulnerable war victims. The problem of youth unemployment is of particular concern. Despite the limitations posed by insecurity, the Government has tried to provide basic health services to the majority of the population. The civil conflict has taken a particularly heavy toll on education services, but the Government has continued to try to make some progress to increase access to basic education and improve overall standards, and is planning to introduce free compulsory basic education from 2001.

11. The fourth priority is the work towards ensuring that *transparency and accountability* become integral parts of the system of governance in Sierra Leone. In 1996, the country conducted its first free and fair democratic elections after nearly three decades. Since then, Government has embarked on broad-based governance and economic management programs to reduce poverty and reestablish the rule of law. These programs have been interrupted by the continuing conflict. A comprehensive reform of the public sector is a key input into the process aimed at restoring efficiency in the civil service and increasing its capacity for efficient delivery of services. The recently

established Anti-Corruption Commission will have an important role in implementing the strategies being developed by the Government in this area. Local government reform and decentralization, involving district council elections, restoration of Paramount Chiefs and restructuring and strengthening local government institutions are programs being implemented or planned by Government to enhance grass-roots participatory democracy. In addition, civil society is being empowered to sustain the democratic process, and judicial instruments for safeguarding the rule of law and individual human rights are being reinforced.

12. In working towards the goal of reducing poverty, the Government is committed to building a strong partnership with the private sector, civil society and the donor community. This will facilitate the promotion of effective and productive investments, good governance, along with a broad-based private sector-led economic growth, supported by sound economic management. Preparation is well advanced for the Interim Poverty Reduction Strategy Paper (I-PRSP), which is expected to be distributed to the Board before the end of this FY. This has been done with considerable consultations with civil society, which is well organized in Sierra Leone. Moreover, the Government has outlined a time-bound process for developing the full PRSP before the end of 2001.

### **C. MACROECONOMIC OUTLOOK AND FINANCING REQUIREMENTS**

13. Despite the upheavals caused by the events of May 2000, the Government has continued to implement its recovery and reform program within a sound macroeconomic framework that it had elaborated in collaboration with the International Monetary Fund (IMF) and the World Bank. The program aimed at providing critical services to the population in the context of a macroeconomic framework that would reduce domestic and external imbalances and pave the way for the adoption of a medium-term reform program. The macroeconomic objectives of the Government's program for the year 2000 were to reduce the annual rate of inflation from 31 percent in September 1999 to 15 percent by December 2000, while allowing for the recovery of economic activity, and to reconstitute gross external reserves to about 1.6 months of import cover by December 2000. The impetus to recovery and growth provided by the implementation of the program was expected to result in a modest Gross Domestic Product (GDP) growth of about 4 percent for 2000.

14. Overall economic performance for the first half of 2000 improved significantly over the last year. Inflation performance has been better than projected with inflation declining during the first half of 2000 (11.4 percent in June 2000, compared to 27.6 percent a year ago), reflecting a tight monetary policy, improved functioning of the foreign exchange market, and a substantial increase in the supply of importable goods. The expected average inflation rate for 2000 is 10 percent, and the rate of inflation is expected to decline further to about 8 percent in 2001.

15. Assuming that the RUF rebels rejoin the peace process, the year 2001 could be one of transition to a more stable peace, which would allow the return and resettlement of refugees and internally displaced people, and lead to rehabilitation and reconstruction activities throughout the country. The recovery in agricultural output, together with improved performance of the industry (including mining), commerce and services sectors

should enable the economy to grow at about 5 percent in 2001, and at least 6 percent in the next two years. Domestic savings are expected to stay negative for the next two years. Investment will largely be driven by donor-supported reconstruction efforts. The rutile mine is expected to be rehabilitated in 2001 at a cost to the investor of about US\$80 million, offering the prospect of restoring Sierra Leone's largest traditional source of recorded export earnings with effect from 2002.

16. The situation of diamonds is of particular interest in the restoration of economic and social security. With the assistance of the UN, the Government has set up a certification system for the export of diamonds. The objective is to minimize the flow of illegal diamonds. Official diamond exports of about US\$9 million have already been recorded since the new system became operational in October 2000.

17. As a result of renewed efforts to enhance domestic revenue mobilization and some improvements on the security front, Government revenues are expected to be 11.2 percent of GDP in 2000, as against a target of 8 percent of GDP for 2000. To accommodate expenditure pressures, as well as to pay the salaries of the ex-Sierra Leone Army (SLA) soldiers who were brought back in the army following the May events, a supplementary budget was approved in mid-year after consultations with donors. Security-related expenditures, including defense, police, the Disarmament, Demobilization and Reintegration Program; prisons, and peace operations, account for about 18 percent of total Government expenditures. Defense expenditures account for 10 percent of total Government expenditures. Technical assistance from the UK to the Ministry of Defense has increased financial accountability in the use of funds. Monthly reports on the use of budgetary resources, including defense, are prepared by the Government and the information is widely disseminated to the donor partners.

18. Considerable uncertainty remains relating to the fiscal prospects for 2001. The recovery in economic output and the projected growth in imports should continue to boost revenue collection, which is projected to be around 12.3 percent of GDP. Recurrent expenditures are expected to be around 24.7 percent of GDP in 2001. The estimates may be revised in mid-year to accommodate higher development expenditures in areas that become accessible to the Government.

19. Exports are not expected to recover significantly in 2001, as rutile and bauxite production has not yet resumed. However, with the diamond certification scheme being implemented, it is expected that more diamonds will flow through official channels. From the low levels of about US\$81 million in 1997, imports are projected to be about US\$225 million in 2001. Sierra Leone's external debt profile indicates that its ratio of debt service to exports of goods and non-factor services will be about 58 percent for 2001 and 2002. Given these unsustainable debt levels and assuming rapid implementation of the Government's economic program, it is hoped that Sierra Leone will soon qualify for the Heavily Indebted Poor Countries (HIPC) Initiative.

20. Total financing requirements are estimated to be about US\$523 million for 2001 and US\$279 million for 2002. Projected disbursements for 2001 are about US\$194 million, of which US\$98 million are grants (see Table 1). Recognizing the availability of only limited resources, the Government is intending to approach the Paris Club and other

creditors for debt relief. On the basis of expected disbursements, including from possible new lending, the Bank could finance about 13 percent of the total financing requirements for 2001 and 23 percent for 2002. Sierra Leone's prospects for economic growth and poverty alleviation will therefore depend heavily on her ability to attract donor support and continue to implement appropriate policies.

**Table 1: Sierra Leone - External Finance Requirements, 1997-2002**  
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001	2002
				Est.	Proj.	Proj.
Current account gap	27.5	60.8	52.8	117.5	211.3	211.2
Amortization	24.7	30.3	37.3	45.9	51.6	63.4
Reduction of arrears	-23.2	-36.3	-15.2	-24.9	242.0	0.0
Increase in gross reserves	11.7	5.0	-5.2	3.7	18.0	4.0
<b>Total requirements</b>	<b>40.7</b>	<b>59.8</b>	<b>69.7</b>	<b>142.2</b>	<b>522.9</b>	<b>278.6</b>
<b>Financing</b>	<b>40.7</b>	<b>59.8</b>	<b>69.7</b>	<b>131.2</b>	<b>475.8</b>	<b>230.6</b>
Grants	19.0	18.6	34.7	59.2	98.0	118.2
Loans	30.7	44.8	33.7	65.8	95.7	90.2
Of which: Balance Of Payments Support	19.4	26.1	24.2	43.6	30.0	40.0
Direct foreign investment	0.0	3.5	1.7	1.0	40.0 <sup>1</sup>	20.0 <sup>1</sup>
Debt relief	12.2	0.0	0.0	0.0	0.0	0.0
Short-term capital	-21.1	-7.2	-0.4	5.2	0.1	2.2
Possible rescheduling of arrears					242.0	0.0
To be confirmed <sup>2</sup>	0.0	0.0	0.0	11.0	47.1	48.0
Memo item:						
IDA's share of financing	58.4%	30.1%	8.9%	32%	12.5%	22.5%

<sup>1</sup> Related to the rehabilitation of the rutile mine.

<sup>2</sup> Includes disbursements from proposed ERRIC supplement and IMF.

#### D. PROGRESS UNDER THE INTERIM SUPPORT STRATEGY

21. Progress has been made in implementing the strategy of support to Sierra Leone outlined in December last year. First, in October 2000, the Board approved amendments to the Development Credit Agreements (DCAs) for four projects covering power, water and sanitation, health and transport. Disbursement percentages were raised to 100 percent of foreign expenditures and 100 percent of local expenditures, net of taxes, for a maximum time period of two years, on an exceptional basis. The restructuring of the portfolio is expected to result in speedier project implementation and a focused Bank response to meet priority needs of the Government in a flexible manner, under an emergency situation. These needs include the restoration of power supplies to Freetown, the rehabilitation of services and facilities damaged in the fighting and reconstruction in secure areas of the country. In addition, the restructuring will enable resources to be used for HIV/AIDS prevention and procurement reform.

22. The restructuring is expected to result in faster disbursements through the rapid use of the undisbursed balances, as outlined in the previous Interim Support Strategy (ISS). The total undisbursed balance, as of October 30, 2000, was US\$77 million (including the two projects approved in December 1999 and February 2000). The disbursements of

US\$13 million between January and June 2000 were well below the projection of US\$26 million in the ISS. This was mainly the result of implementation constraints on the ground, including temporary interruptions due to conflict and the scarcity of counterpart funds. With the restructuring, particularly the increases in disbursement percentage and the focus on activities in safe areas, disbursements in FY01 are projected at about US\$75 million. In addition to the amendments to the DCAs for the four above-mentioned projects for which Board approval was received, complementary actions were taken, on three other projects in the portfolio, primarily involving reallocations and extensions of closing dates.

**Table 2: Disbursement Profile of the Sierra Leone Portfolio**  
(US\$millions)

Project Name	Date of Approval	Closing Date	Original Amount	Undisbursed Amount as of 10/30/00	Planned Disbursement as of 10/30/00				
					FY2001			FY2002	
					Q2	Q3	Q4	Q1	Q2
1. Power Rehabilitation	04/21/92	6/30/01	21	5.45	0.23	4.0	1.22	-	-
2. Public Sector Management Support	11/19/92	12/31/01	10	0.02	-	-	-	-	-
3. Roads Rehab. and Maintenance	12/22/92	06/30/01	45	3.39	1.8	1.39	-	-	-
4. Freetown Infrastructure	06/10/93	12/31/01	26	2.43	0.43	1.0	1.0	-	-
5. Urban Water Supply	04/11/95	12/31/02	36	13.32	1.32	3.0	3.0	3.0	3.0
6. Health Sector	03/14/96	12/31/02	20	10.68	4.9	2.5	2.5	0.78	-
7. Transport	06/27/96	12/31/02	35	22.05	2.7	3.4	2.4	2.4	4.4
8. Economic Rehab.	02/17/00	06/30/01	30	4.6	10.0	-	4.6	-	-
9. Community Reintegration	12/21/99	06/30/03	25	15.48	2.3	2.3	2.3	2.3	2.3
<b>TOTAL</b>			<b>248</b>	<b>77.42</b>	<b>23.7</b>	<b>17.6</b>	<b>17.0</b>	<b>8.5</b>	<b>9.7</b>

23. Second, the Board has approved new lending amounting to US\$55 million during the last 12 months, consistent with the proposals outlined in the previous ISS. This new lending included the Community Reintegration and Rehabilitation Project (CRRP) for US\$25 million, approved by the Board on December 21, 1999; and the Economic Rehabilitation and Recovery Credit (ERRC) for US\$30 million, approved by the Board on February 17, 2000. As mentioned above, the CRRP is being implemented in parallel to the DDR Program. The project has made a very strong start in those parts of the country where access is possible, with over 100 sub-projects with a total value of about US\$5 million already approved. Most of these projects were for agricultural rehabilitation, reflecting the concern with food security. Progress on the ERRC has been satisfactory, and the Board was notified on October 11 that the conditions for the release of the second tranche were fulfilled. The conditions related to the final floating tranche are expected to be met by no later than June 2001.

24. As discussed in the previous ISS, the Bank also plans to support the rebuilding of governance structures and restoration of capacity in critical government functions, such as budgeting, procurement and accounting. Preparation of an operation to provide

support in these areas was delayed by the deterioration in the security situation last May, but has now resumed.

#### **E. BANK ASSISTANCE STRATEGY**

25. Given the continued fragility of the political and security situation in Sierra Leone, conditions are not yet suitable for the development of a full Country Assistance Strategy (CAS). Thus, this updated transitional strategy would underpin the Bank's proposed assistance to Sierra Leone for the next 12 months. The draft strategy was discussed with the Government of Sierra Leone in Freetown in late October. It continues the coordinated and integrated approach to donor assistance which was described in the previous strategy. Donor consultations on assistance to Sierra Leone are frequent, the most recent being a meeting held at the request of the Government in July 2000 in Accra, Ghana.

26. Bank assistance to Sierra Leone over the next 12 months would have two main elements. First, the Bank would *continue to support economic recovery and rehabilitation*. This includes the Economic Rehabilitation and Recovery Credit and the follow-up operations discussed below in paragraph 29. It is expected that, as conditions improve in Sierra Leone, the Bank would shift from rehabilitation and recovery support to support for the Poverty Reduction Strategy. Next, the Bank would continue to support the DDR Program, through both the ongoing CRRP and via the Bank's role as administrator of the Multi-Donor Trust Fund which supports DDR. This activity is staff-intensive, but is considered a paramount priority at this time in Sierra Leone. The CRRP supports *inter-alia* community-driven agricultural projects to help restart farming activities to improve livelihoods and restore food security. In addition, after the recent portfolio restructuring, ongoing projects in the portfolio are providing support to the Government to meet critical reconstruction needs in power, water, transport and health.

27. Second, if the security situation and economic performance continue to improve, the Bank would shift gradually to support *longer-term development objectives*. Initially, activities would be undertaken within the projects in the portfolio, particularly for infrastructure. A particular focus for 2001 would be to work with the Government on the development of its poverty reduction strategy and long-term vision for the economy. An important area which is not covered in the current portfolio is education, which the Government has identified as a critical need, given the impact on the education system of the conflict. Many school buildings have been severely damaged or destroyed, there are few textbooks, and primary school enrolment is believed to be well under 50 percent. This is an area of activity that is proposed to be launched in CY2001 in partnership with the African Development Bank (ADB). During the course of the next year, preparation of a significant capacity-building program for Sierra Leone's public sector would be supported by the Bank, in close collaboration with other interested development partners, notably United Nations Development Programme (UNDP) and Department for International Development (DfID). This program is likely to include a significant legal component, an area identified as a focus for new Bank lending in the previous ISS. This would complement the funding that DfID is providing for law reform, including support to the Chief Justice and the magistrate courts. Finally, in the context of the supervision of the CRRP, the dialogue on the agricultural sector would be re-established, in the

expectation that this would be an appropriate area for Bank involvement once full peace is established.

28. Support to faster and more effective implementation of projects in Sierra Leone, particularly the support to the DDR Program, will be provided by the presence of a Bank Country Manager for Sierra Leone, who is expected to begin work in Freetown early next year. The need for a Bank presence on the ground has been emphasized by both the Government and other donors, and was mentioned as well by members of the Bank's Board of Directors during the informal briefing in September. This recruitment is designed to improve the effectiveness, timeliness and flexibility of Bank assistance to Sierra Leone in a context of rapidly changing conditions.

## **F. PROPOSED NEW LENDING ACTIVITIES**

29. To meet Sierra Leone's exceptional financing needs in this transitional period, an IDA allocation of US\$40 million would be used in FY01 and the first half of FY02. New lending activities could include: (i) a US\$10 million supplement to the ongoing Economic Rehabilitation and Recovery Credit; and (ii) a successor ERRC (ERRC II) of US\$30 million. This type of support will be necessary until normal revenue mobilization is established in the country. As mentioned above, the rehabilitation of the education sector has been identified as the priority for the next phase of support. The Bank plans to initiate work on an Education Sector Project of US\$15 million, with the objective to present a project to the Board in the second half of FY02. Similarly, work would start on the preparation of a Capacity Building operation of US\$10-15 million, which would be ready to be presented to the Board in the second half of FY02. Finally, as noted, Bank dialogue would be re-launched in the rural sector and an operation could be prepared in FY03 – or sooner – if security conditions changed rapidly.

30. **Supplement to the ERRC.** While the Government continues to remain within its parameters established in the 2000 budget, it is facing extreme pressures to meet the growing reconstruction and recovery needs, especially in the social and economic sectors, and to provide security to its people. In parallel with these budgetary pressures, the balance of payments is under stress from the rise in petroleum prices. At the meeting of Sierra Leone's development partners with the Government in June 2000 in Accra, proposals for a supplementary budget were broadly discussed and key areas were identified. Based on the financing requirements for the remainder of 2000, including the supplementary budget, donors affirmed additional budget support in the order of about US\$33 million for 2000. The Bank could provide US\$10 million as a supplement to the ERRC. The documentation in support of this supplement will be distributed to the Board for its consideration in the coming weeks.

31. **The Proposed Second Economic Rehabilitation and Recovery Credit (ERRC II).** ERRC II would continue to support the Government's efforts to re-launch the economy; improve basic service delivery, especially to the poor; and promote transparent and accountable governance structures. The proceeds from the credit will allow the import of essential commodities, including food and petroleum products, raw materials and intermediate goods. Local currency funds thus generated will enable the Government to provide basic services, including the rehabilitation of social and economic

infrastructure. The reforms undertaken during the implementation of ERRC in the area of transparent and inclusive governance will be deepened. The credit will also support the Government's program of establishing a medium-term expenditure framework by next year. Progress on implementation of the Public Enterprise Reform Strategy, being developed under the ERRC, will be monitored under the ERRC II. All of these actions would be based on the Government's Interim Poverty Reduction Strategy Paper.

32. **Education Sector Support Project.** The Government has identified education as a priority for Bank support. The Bank is beginning work on a possible FY02 operation, which seeks to assist the GOSL in the recovery program of the education sector in the post-war period. Its objectives will include: (i) increasing access and retention; (ii) strengthening managerial and pedagogical capacity; and (iii) providing support to the restoration of service delivery at the district level, including through rehabilitation of facilities and provision of key inputs. It will also help strengthen the Ministry of Education's limited implementation capacity and increase donor support and coordination. Its implementation will be entrusted to the beneficiary line ministry to ensure ownership, build capacity, and create better conditions for an ongoing policy dialogue with all stakeholders. As noted earlier, this operation will be prepared and financed in collaboration with the African Development Bank.

33. Finally, building on the activities on HIV/AIDS prevention incorporated into several projects as part of the recent restructuring of the portfolio, we plan to begin work with the Government on a follow-up operation under the HIV/AIDS regional umbrella credit.

## **G. NON-LENDING SERVICES**

34. In addition to technical and policy advice, especially geared towards supporting the Government's preparation of the PRSP, further economic and sector work will underpin the Bank's future assistance to Sierra Leone. Given the role minerals and diamonds, in particular, have played in the prolonged conflict in Sierra Leone, a preliminary study is being prepared on the issue of conflict diamonds in Africa. The intent is to build on this study and gain a better understanding of the diamond sector and the role of mineral wealth as a cause of conflict in order to help transform diamond wealth from a source of conflict to a source of growth and development. The Bank also plans to assist the Government in the preparation of public expenditure reviews to guide the preparation of the PRSP.

## **H. TRANSITION AND EXIT SCENARIOS**

35. The scenarios for our assistance to Sierra Leone over the next 12 months remain the same, as those discussed in the previous Interim Support Strategy. The direction, nature and extent of Bank support during the transition strategy will depend on developments in the security situation countrywide and on Sierra Leone's economic policy performance, as outlined in Table 3. The four scenarios presented in the table correspond to the possible levels of attainment in security and economic performance. Currently, Sierra Leone is under Scenario 2, an improvement relative to the situation on

September 4, when the Board discussed Sierra Leone at an informal briefing. Further improvement to Scenario 1 would create the required conditions for the Bank to commence preparation of a CAS. Regression to Scenario 3 would result in operations being scaled down in a drastic manner and a hold being put on further preparations for new lending. Scenario 4 would lead to the Bank taking an Exit Option. The Bank will continue to monitor the security situation on a regular basis and will, through the quarterly Monitoring Report on Conflict-Affected Countries, update the Board on latest developments and, as necessary, on related adjustment in Bank assistance.

## **I. DONOR COORDINATION AND PARTNERSHIPS**

36. The Bank's assistance to Sierra Leone is based on partnership and close coordination among donors. The most recent meeting of Sierra Leone's key development partners<sup>1</sup> (requested by the Government) was held in Accra on July 15-16, 2000. The partners were supportive of the Government's efforts to reestablish and sustain peace, and they commended the Government on the progress being made in economic and financial management, despite extremely difficult circumstances. Donor cooperation will continue to focus on support to Sierra Leone "to make peace attractive by accelerating economic development" and thereby providing gainful employment. The meeting discussed security concerns and its implications for development; progress in governance reforms; civil service reforms; budgetary management, including the adequacy of budgetary resources for goods and services and defense; the DDR Program, prospects for donor inflows; and the need for a supplementary budget during the second half of 2000.

37. The Bank's Transitional Support Strategy will continue to be closely coordinated with assistance provided by other donors in the areas of support for economic recovery, and support for medium-term development and poverty reduction. In addition to supporting the DfID and UN in the areas of security and humanitarian relief, the Bank will -- in the spirit of the Brookings initiative -- maintain an effective complementarity with other donors (particularly the United Nations High Commission for Refugees (UNHCR) and UNDP) in bridging the gap between humanitarian assistance and early reconstruction/development, in which the Bank enjoys a comparative advantage. The CRRP is cofinanced by the ADB and complements other donor activities in the areas of reintegration, reconstruction and rehabilitation. The Bank would continue to administer the Multi-Donor Trust Fund in support of the DDR Program. The follow-up ERRC will dovetail with a proposed IMF arrangement under the Poverty Reduction and Growth Facility (PRGF).

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<sup>1</sup> Including the World Bank Group, the IMF, ADB, UNDP, EC, UK, Germany, Japan and Canada.

Table 3: Bank's Assistance and Triggers

Scenario	Triggers	Bank Lending Assistance
1	<p><b>A. Security Developments</b></p> <ul style="list-style-type: none"> <li>- Countrywide security fully restored as confirmed by free access of goods and humanitarian services nationwide;</li> <li>- Government of national unity cohesive and functioning;</li> <li>- Disarmament and demobilization process finalized and ex-combatants discharged.</li> <li>- Creation of professional army and a trained police force.</li> </ul> <p><b>B. Economic Policy Performance</b></p> <ul style="list-style-type: none"> <li>- Program with IMF on track and high momentum in implementing structural and governance reforms;</li> <li>- Institutional and implementation capacity strengthened through capacity building or technical assistance and effective use of NGOs, private sector or community institutions;</li> <li>- Establishment of accounting procedures and controls for the monitoring of donor funds to support the new projects, and production and satisfactory review of a budget monitoring report at the expenditure program level;</li> <li>- Satisfactory provision of public services as per results of user benefit surveys through the SPP process;</li> <li>- Portfolio performance significantly improved.</li> </ul>	World Bank proceeds with preparation of a CAS defining its medium- to long-term assistance strategy to support the overall government reconstruction program.
2	<p><b>A. Security Developments</b></p> <ul style="list-style-type: none"> <li>- Security stable albeit fragile in Freetown and the rest of the country (maybe pockets of Insecurity);</li> <li>- Disarmament and Demobilization process under way and ex-combatants from the RUF, CDF and AFRC enrolled in the program;</li> <li>- Efforts at reconciliation and inclusive governance initiated;</li> <li>- Government of national unity functioning by and large.</li> </ul> <p><b>B. Economic Policy Performance</b></p> <ul style="list-style-type: none"> <li>- A framework for macro management and sectoral development, satisfactory to IDA, Announced and implementation initiated.</li> <li>- IMF post-conflict program on track;</li> <li>- Capacity limitations being addressed;</li> <li>- Establishment of accounting procedures and controls for the monitoring of donor funds to support the new projects, satisfactory to IDA; and production and satisfactory review of a budget monitoring report at the expenditure program level;</li> <li>- Satisfactory provision of public services as per results of user benefit surveys through the SPP process;</li> <li>- Systems in place to improve governance and accountability;</li> <li>- Improved portfolio performance and improving environment for normal project supervision.</li> </ul>	World Bank continues to implement the support program outlined in the Transitional Support Strategy. If the interim period exceeds one year, we will submit to the Board for discussion, an Transitional Strategy for the second year.
3	<p><b>A. Security Developments</b></p> <ul style="list-style-type: none"> <li>- Deterioration of security situation, with instability spreading;</li> <li>- Snags in implementation of DDR;</li> <li>- Government of national unity unstable; rebel members back in arms or likely to do so;</li> <li>- Government (de facto or de jure) still in place;</li> <li>- Residual hopes of an accommodation (with external mediation) and reconciliation;</li> <li>- Project supervision possible but only in Freetown and surrounding areas.</li> </ul> <p><b>B. Economic Policy Performance</b></p> <ul style="list-style-type: none"> <li>- Weaknesses developing in macro management, implementation of sectoral development Programs, the IMF program, and the Bank's portfolio as well as in the area of governance, as a result of a worsening political and security situation.</li> </ul>	No new lending. Informal suspension of portfolio to allow a partial implementation of ongoing portfolio in safe areas and during a period of limited duration (about 9-12 months). If the situation does not improve after that period, to allow us to resume supervision of the portfolio, we will move to Scenario 4.
4	<p><b>A. Security Developments</b></p> <ul style="list-style-type: none"> <li>- Full resumption of fighting and total breakdown in security</li> <li>- No recognized government in place; speedy resolution of crisis highly unlikely;</li> <li>- Normal project supervision impossible and Bank's interlocutors within government in hiding or out of the country.</li> </ul> <p><b>B. Economic Policy Performance</b></p> <ul style="list-style-type: none"> <li>- IMF program off track; reversal of existing adjustment policies;</li> <li>- Serious deterioration of governance;</li> <li>- Serious deterioration in portfolio performance.</li> </ul>	World Bank takes an "Exit Option" and suspends all operations and dialogue.

Source: Interim Support Strategy for the Republic of Sierra Leone (Report No. 19918-SL), p. 13, December 2, 1999.

38. In addition to the substantial financial and technical support for enhancing security in the country, DfID is expected to provide balance of payment support in the order of US\$15 million in 2001. Similar support from the European Union amounts to about US\$33 million in 2001. The ADB also expects to disburse about US\$9 million in budgetary support in the first quarter of 2001.

39. The Bank will work closely with development partners, and in particular the UNDP, to assist the Government to develop and implement its "Integrated Approach to Aid Coordination (IAAC)," which is being supported by a UNDP project. The IAAC was developed by the Ministry of Development and Economic Planning after a visit to Ghana to study its Comprehensive Development Framework (CDF). The IAAC aims to ensure a coherence and cohesiveness to development partners' support to Sierra Leone, in order to maximize impact and reduce the administrative burden on the Government.

## **J. RISKS**

40. When the Bank embarked on the Interim Support Strategy, in late 1999 it did so fully aware of the risks involved and of the major uncertainties. However, there was also recognition of the importance of the Bank's role in trying to make peace more attractive than conflict. Sierra Leone remains in a position of great uncertainty, but one in which the Government, as well as bilateral and multilateral partners, believe that the Bank still has a critical role to play. The main risks to the successful implementation of the updated Transitional Support Strategy remain those discussed with the Board last December. The first is an unraveling of the peace process leading to a deterioration in the security conditions in the country. As it turned out, this in fact did occur and threatened our ability to assist Sierra Leone, particularly after the events of May 2000. The second risk is the weak institutional and implementation capacity of the public administration. So far, this risk has been mitigated by the substantial and coordinated technical assistance provided by the Bank and other donors in support of the efforts of the Government to strengthen capacity. The enhanced field presence of the Bank should be of great assistance in this respect. It is encouraging that, in spite of the difficult security conditions, the Government has been largely successful in maintaining the pace of the economic recovery program and it is increasingly focusing on medium-term development issues.

41. The Bank will continue to monitor the situation and will not hesitate to exercise the exit options if circumstances warrant. In short, the proposed strategy is one that carries considerable risks, and, given recent history in Sierra Leone, the probability of those risks materializing remains high. However, the potential returns in terms of improvement to the lives of ordinary Sierra Leoneans, and as a contribution to a lasting peace are very high. The Bank believes that these rewards justify the risks, while requiring vigilance and readiness to shift between the scenarios of the strategy as circumstances change.

James D. Wolfensohn  
President

by Shengman Zhang

Washington, D.C.  
November 17, 2000

**Table 1**  
**Sierra Leone: Selected Macroeconomic Indicators, 1996-2001**

	1996	1997	1998	1999	2000	2001
				Act.	Rev.Proj.	Proj.
<b>Growth rates (%)</b>						
Real GDP	5.0	-17.6	-0.8	-8.1	3.8	5.0
Consumer prices (average)	23.1	14.9	35.5	34.1	10.0	8.0
Exports <sup>1/</sup>	3.2	-16.0	-26.2	-5.6	18.1	13.4
Imports <sup>1/</sup>	53.8	-56.1	4.9	-16.9	113.2	54.5
<i>(In percent of GDP unless specified otherwise)</i>						
<b>National Accounts</b>						
Consumption	103.7	104.3	101.9	106.0	110.0	110.1
Public	10.9	9.0	8.9	11.5	16.7	15.6
Private	92.8	95.3	93.0	94.5	93.3	94.5
Investment	11.0	-2.4	5.3	0.3	8.0	22.0
Public	3.3	1.5	4.9	2.4	6.3	17.9
Private	7.7	-3.9	0.4	-2.1	1.8	4.1
Gross domestic savings	-3.7	-4.3	-1.9	-6.0	-10.0	-10.1
Gross national savings	0.2	-3.4	-1.0	-2.5	0.0	-2.4
<b>Balance of Payments</b>						
Trade balance	-8.5	0.8	-3.0	-1.4	-11.7	-22.1
Exports	11.1	10.4	9.7	9.2	11.7	12.7
Imports	19.6	9.5	12.7	10.6	23.4	34.8
Current account balance						
Including official transfers	-10.8	-1.0	-6.3	-2.8	-10.5	-18.1
Excluding official transfers	-17.2	-3.2	-9.1	-8.0	-20.3	-33.8
Overall balance of payments	-2.9	-3.6	-7.1	-5.7	-1.6	-0.1
<b>Public Finance</b>						
Total revenue (excl. current grants)	10.1	5.4	7.3	7.1	11.2	12.3
Total expenditures and net lending	16.9	13.0	20.1	22.0	31.4	43.1
Current expenditure	13.6	11.5	15.2	19.5	25.6	24.7
Fiscal balance (commitment basis)						
Including all grants	-5.1	-7.0	-10.4	-9.5	-10.3	-15.1
Excluding all grants	-6.8	-7.5	-12.8	-14.9	-20.2	-30.8
Primary fiscal balance <sup>2/</sup>	-1.6	-4.1	-3.8	-5.5	-7.3	-6.1
Domestic financing	2.4	5.3	2.0	6.9	1.7	1.0
<b>Other Items</b>						
GDP (billions of local currency)	867.1	834.5	1,051.3	1,207.7	1,330.3	1,507.9
Exchange rate (local/US)	920.7	981.5	1,563.6	1,804.2	2,200.0	2,411.6

11/13/00

1/ Goods only.

2/ Domestic revenue less total expenditure and net lending (excluding interest payments and externally financed capital expenditure and the DDR program).

## CAS Annex B8 - Sierra Leone

## Status of Bank Group Operations (Operations Portfolio)

As Of Date 11/09/2000

Closed Projects 18

<u>Active Projects</u>		<u>Last PSR</u>		<u>Original Amount in US\$ Millions</u>							<u>Difference Between Expected and Actual Disbursements<sup>a/</sup></u>	
Project ID	Project Name	Supervision Rating b/		Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd	
		<u>Development Objectives</u>	<u>Implementation Progress</u>									
P040649	COMMUNITY REINT S	S	S	2000	0	25	0	0	15.6	-2.5	0	
P035837	ECONOMIC REHAB. S	S	S	2000	0	30	0	0	4.6	-5.8	0	
P002433	FREETOWN INFRASU		U	1993	0	26	0	0	2.5	2.4	0	
P002422	HEALTH SECTOR S	S	U	1996	0	20	0	0	10.7	10.4	0.3	
P002411	POWER REHAB S	S	S	1992	0	21	0	0	5.5	5.4	5.4	
P002427	PUBLIC SECTOR MAU		S	1993	0	10	0	0	0	0.1	0	
P002407	ROADS REHAB & M&S		S	1993	0	45	0	0	3.5	2.8	2.8	
P002420	TRANSPORT SECTOU		S	1996	0	35	0	0	22	23.6	14.1	
P002428	URBAN WATER SUPU		S	1995	0	36	0	0	13.4	16.4	0	
Result				Result	0	248	0	0	77.8	52.8	22.5	
		Active Projects	Closed Projects	Total								
Total Disbursed (IBRD and IDA):		127.59	255.43	383.02								
of which has been repaid :		0.0	34.32	34.32								
Total now held by IBRD and IDA:		196.24	221.1	417.34								
Amount sold :		0.0	0.54	0.54								
of which repaid :		0.0	0.54	0.54								
Total undisbursed :		77.8	2.23	80.03								

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed improvements in Project and Portfolio Performance Rating Methodology SecM94-901), August 23, 1994

Note:

Disbursement data is updated at the end of the first week of the month.