

**HIPC APPROVAL DOCUMENT FOR SIERRA LEONE:
Decision Point under the Enhanced Framework**

1. INTRODUCTION

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 On 20 March 2002, Sierra Leone reached its decision point and the Boards of the IMF and World Bank approved US\$ 600 million worth of debt relief in end-2000 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Sierra Leone's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Sierra Leone's costs. Section 2 of the document summarises details of Sierra Leone's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations in Sierra Leone within the context of its Country Strategy Paper (CSP) are reviewed in Section 4, with particular emphasis on activities related to the preparation of the Poverty Reduction Strategy Paper (PRSP). Section 5 presents details of the proposed debt delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Board's consideration are contained in Section 7.

2. HIPC QUALIFICATION

2.1 Sierra Leone qualified for US\$ 600 million (in end-2000 NPV terms) worth of debt relief assistance, equivalent to 80.2 percent reduction in the country's outstanding stock of debt at end-2000, after full use of traditional debt relief mechanisms. The country reached its decision point on 20 March 2002, and is expected to reach its completion point by end-2004 by fulfilling a number of key policy conditions.

Floating Completion Point Conditions

2.2 In consultation with the BWIs, the authorities have drawn up a set of proposed conditions for reaching the floating completion point under the enhanced HIPC Initiative, drawing on priorities identified in the draft Sierra Leone Poverty Reduction Strategy (SLPRS). The triggers have been defined in terms of tangible improvements in outcomes or intermediate indicators in each priority area. The completion point triggers comprise the following conditions:

- Preparation of a full PRSP and its implementation for at least one year;
- Maintenance of macroeconomic stability as evidenced by the implementation of the PRGF-supported program; and
- Appropriate use of budgetary savings from interim HIPC debt service relief ó monitored in the framework for poverty reduction expenditures.

Governance and Decentralization

- Complete disarmament, demobilization and provision of reintegration assistance to ex-combatants under the Disarmament, Demobilization and Reintegration (DDR) program.
- Track public expenditures on priority areas within the Public Expenditure Tracking Survey (PETS) framework.
- Adopt and implement the Medium-term Expenditure Framework (MTEF) and budget system for tracking expenditures at the regional levels.

Structural measures

- Introduce privatization bill that will establish an independent National Commission for Privatization.
- Adopt a mining policy to promote formal activity and to attract investment for medium and large-scale mining.

Education

- Increase gross primary school enrolment for girls to at least 65 percent.
- Provide formal in-service training for at least 1500 unqualified primary school teachers and for at least 500 unqualified secondary school teachers.

Health

- Increase distribution of insecticide-treated bed nets from 18,482 to 60,000.
- Provide HIV/AIDS and STDs education and training for at least 200 health professionals, civil society organizations and staff from line ministries.
- Increase immunization coverage to at least 55 percent of the population.

3. HIPC COSTS

Bilateral and commercial creditors will account for US\$ 228 million (38.0 percent) and US\$ 40 million (6.7 percent), respectively of Sierra Leone's debt relief, while multilateral creditors will deliver the remaining US\$ 332 million (55.3 percent). The Bank Group's share of debt relief will amount to US\$ 42.81 million in end-2000 NPV terms, equivalent to 12.9 percent and 7.1 percent of multilateral creditors and total

assistance, respectively. In nominal terms, Bank Group assistance to Sierra Leone under the enhanced HIPC Initiative amounts to US\$ 98.62 million. Table 1 provides a breakdown of Sierra Leone's total debt relief in NPV terms.

Table 1. Breakdown of Sierra Leone's HIPC Costs

	US\$ million (End-2000 NPV terms)
Total HIPC Debt Relief	600
Bilateral Creditors	228
Commercial Banks	40
Multilateral Creditors	332
<i>Of which:</i>	
<i>African Development Bank Group</i>	<i>43</i>
<i>World Bank</i>	<i>122</i>
<i>IMF</i>	<i>123</i>
<i>Others Creditors</i>	<i>44</i>

4. BANK GROUP INVOLVEMENT IN THE PRSP PROCESS

4.1 Interim Poverty Reduction Strategy Paper (I-PRSP): The principal elements of the Government's poverty reduction programme are presented in the I-PRSP, which was launched in July 2001. The document was prepared in a participatory manner. The strategy outlined involves improving governance, revival of the economy, and extension of social services. The programme will be implemented through a two-track development strategy. The first track focuses on improving the living standards of the most vulnerable population, such as the returnees, resettling the displaced population, refugees, and the most vulnerable victims of war: scores of thousands of amputees, sexually-abused women, war widows, child combatants and orphans. This will be achieved through the adoption of measures that: (i) enhance growth and provide opportunity for the poor to participate in income-generating activities; (ii) improve the quality of life for the poor by enhancing services delivery; and (iii) consolidating peace and ensuring security throughout the country. The second track will be implemented as the security situation improves and will focus on the long-term development programmes that will be defined during the preparation of the full PRSP.

4.2 Preparation of Full PRSP: Progress is being made in the preparation of the full PRSP. The Poverty Alleviation Coordinating Office has already been established (PASCO) and the participatory approach for the Household Expenditure survey is expected to begin in April 2002. The first draft of the full PRSP is expected to be ready by end March 2003. The preparatory process is expected to focus on long-term policies to reduce poverty, revive the war-ravaged economy, consolidate peace, reduce corruption and the mismanagement of scarce public sector resources, and promote good governance. The preparatory process is expected to approach poverty in a multi-disciplinary, integrated, and coherent manner and will involve the participation of all stakeholders and development partners involved in poverty reduction, including NGOs and civil society organizations. To develop the strategy and action plan for tackling poverty, a number of diagnostic, policy-based and sector specific surveys and studies must be undertaken. In addition, the main dimensions of poverty in Sierra Leone need to be articulated and the poverty profile updated in order to determine the causes and

incidence of poverty and to analyze the growth potential and impact on poverty of the various sectors of the economy.

4.3 The Bank has been deeply involved in the entire PRSP process. During the preparation of the I-PRSP, it provided numerous comments and attended various meetings and workshops. It was also represented, along with other donors during the launching of the document in July 2001. It has allocated US\$ 350,000 towards the preparation of the full PRSP through the ADF/TAF Grant of Institutional Support for Capacity Strengthening, Governance, and Poverty Reduction. The support will be used to:

- (i) **Review the Existing Data:** A major constraint for poverty analysis, policy formulation and evaluation is the paucity of up-to-date data on socio-economic variables. Moreover, the poverty profile of Sierra Leone has not been updated since 1989/90. The profile is now obsolete, given the effect of the 10 years civil conflict.
- (ii) **Fund studies to determine the Growth Potential of Various Sectors of the Economy:** The grant will also provide support to review and analyze key sectors of the economy, such as agriculture, manufacturing, mining, tourism, finance, and trade, with a view to determining the growth potentials as well as to developing policies that are tailored to the poverty reduction goals of the Government.
- (iii) **Fund studies on the role of Micro-credit and Informal Sector Activities in Providing Employment:** Due to the high level of unemployment, the grant will also support studies on the role and potential of small scale and medium sized enterprises (SME) in providing employment, especially to the youth, the ex-combatants, and the internally displaced persons who have started to return to their homes in large numbers.

4.4 The Bank is exploring the possibility of increasing its support to the PRSP process by using the Dutch Trust Fund. The total cost for preparing the PRSP is estimated at US\$ 1.5 million. The Government has so far obtained funding from other donors such as the World Bank, UK Department for International Development, and other International NGOs. The funding is however insufficient to meet the total cost of the project.

5. PROPOSED DELIVERY MODALITY

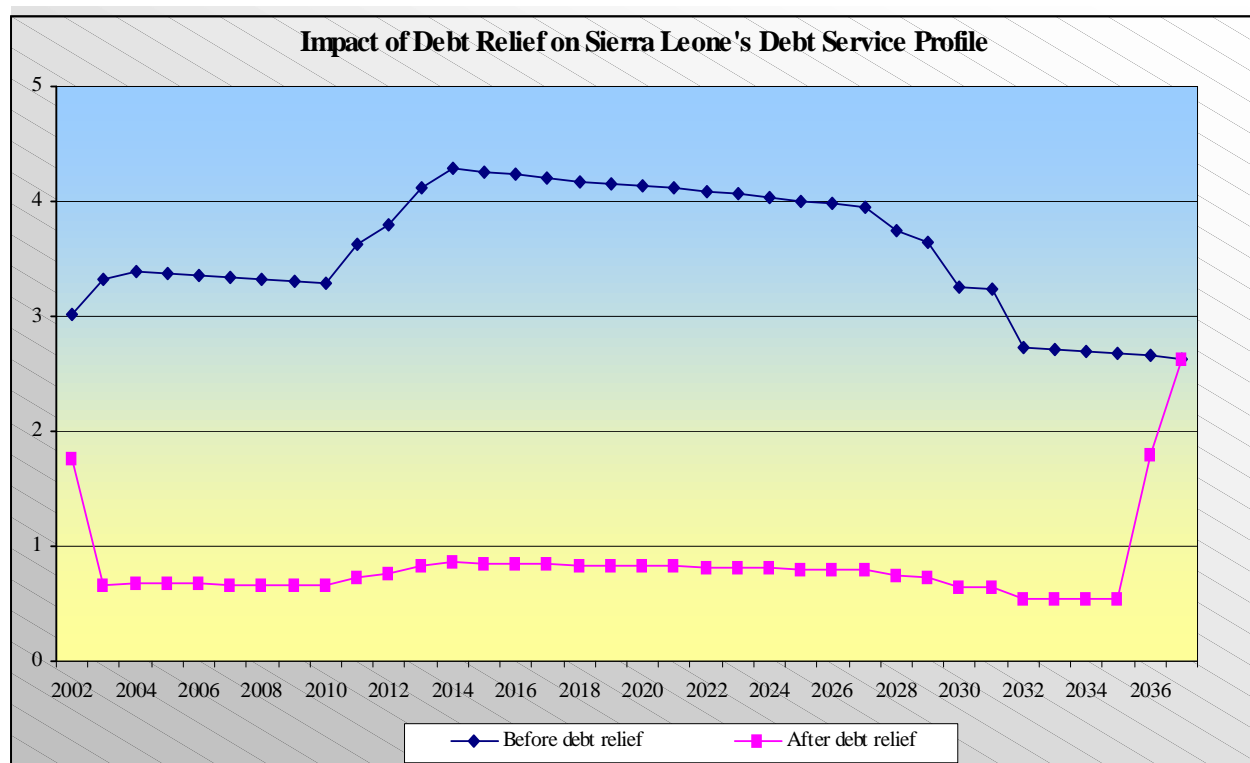
5.1 It is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from March 2002. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2002 and 2004. The Bank Group's debt relief would be provided by releasing Sierra Leone from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 42.81 million is delivered. Total debt relief will be delivered by end-2036. The conditions that would trigger Sierra Leone's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment.

Legal Aspects of Debt Relief Operation

5.2 Debt relief for Sierra Leone is to be provided, under the enhanced framework of the HIPC Debt relief Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief Agreement between the Bank Group and the government of Sierra Leone; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Sierra Leone; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

Chart A. Impact of Debt Relief on Sierra Leone's Bank Group Debt Service Profile

(in million US dollars)



6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

Million US\$, end 2000 NPV

Internal Resources	8.5612
European Commission pledge	17.1224

Balance with HIPC Trust Fund	17.1224
TOTAL	42.8060

7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Sierra Leone's qualification for HIPC assistance at its decision point, under the enhanced framework; and
2. Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

Annex

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AFRICAN DEVELOPMENT BANK

HIPC Debt Relief Schedule
(in US\$ millions)

SIERRA LEONE

Decision
Point Date
20-Mar-2002

	TOTAL ADB	TOTAL Debt Relief (ADB/ADF/NTF)
2002	0	1.255934
2003	0	2.655976
2004	0	2.718189

2005	0	2.701175
2006	0	2.686077
2007	0	2.670980
2008	0	2.658580
2009	0	2.642665
2010	0	2.630864
2011	0	2.906917
2012	0	3.041767
2013	0	3.297922
2014	0	3.427039
2015	0	3.405370
2016	0	3.385043
2017	0	3.362032
2018	0	3.342254
2019	0	3.322455
2020	0	3.308483
2021	0	3.292228
2022	0	3.270431
2023	0	3.248635
2024	0	3.227703
2025	0	3.205041
2026	0	3.183244
2027	0	3.161447
2028	0	2.995621
2029	0	2.915624
2030	0	2.608526
2031	0	2.590400
2032	0	2.184316
2033	0	2.168686
2034	0	2.153475
2035	0	2.138264
2036	0	0.860879

Summary

	0	98.624244
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Total Nominal Relief		US\$ 98.624244 mn
<i>of which</i>		
	ADB	US\$ 0.000000 mn
	ADF	US\$ 98.624244 mn
	NTF	US\$ 0.000000 mn
Total NPV Relief		US\$ 42.806041 mn
Duration		35 years

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AFRICAN DEVELOPMENT FUND
HIPC Debt Relief Schedule
(in US\$ millions)

SIERRA LEONE

Decision
Point Date
20-Mar-2002

	TOTAL ADF	TOTAL Debt Relief (ADB/ADF/NTF)
2002	1.255934	1.255934
2003	2.655976	2.655976
2004	2.718189	2.718189
2005	2.701175	2.701175
2006	2.686077	2.686077
2007	2.670980	2.670980
2008	2.658580	2.658580
2009	2.642665	2.642665

2010	2.630864	2.630864
2011	2.906917	2.906917
2012	3.041767	3.041767
2013	3.297922	3.297922
2014	3.427039	3.427039
2015	3.405370	3.405370
2016	3.385043	3.385043
2017	3.362032	3.362032
2018	3.342254	3.342254
2019	3.322455	3.322455
2020	3.308483	3.308483
2021	3.292228	3.292228
2022	3.270431	3.270431
2023	3.248635	3.248635
2024	3.227703	3.227703
2025	3.205041	3.205041
2026	3.183244	3.183244
2027	3.161447	3.161447
2028	2.995621	2.995621
2029	2.915624	2.915624
2030	2.608526	2.608526
2031	2.590400	2.590400
2032	2.184316	2.184316
2033	2.168686	2.168686
2034	2.153475	2.153475
2035	2.138264	2.138264
2036	0.860879	0.860879

Summary

98.624244

98.624244

Total Nominal Relief		US\$ 98.624244 mn
<i>of which</i>		
ADB		US\$ 0.000000 mn
ADF		US\$ 98.624244 mn
NTF		US\$ 0.000000 mn
Total NPV Relief		US\$ 42.806041 mn
Duration		35 years

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NIGERIA TRUST FUND
HIPC Debt Relief Schedule
(in US\$ millions)

SIERRA LEONE

Decision
Point Date
20-Mar-2002

	TOTAL NTF	TOTAL Debt Relief (ADB/ADF/NTF)
2002	0	1.255934
2003	0	2.655976
2004	0	2.718189
2005	0	2.701175
2006	0	2.686077
2007	0	2.670980
2008	0	2.658580
2009	0	2.642665
2010	0	2.630864
2011	0	2.906917
2012	0	3.041767
2013	0	3.297922
2014	0	3.427039

2015	0	3.405370
2016	0	3.385043
2017	0	3.362032
2018	0	3.342254
2019	0	3.322455
2020	0	3.308483
2021	0	3.292228
2022	0	3.270431
2023	0	3.248635
2024	0	3.227703
2025	0	3.205041
2026	0	3.183244
2027	0	3.161447
2028	0	2.995621
2029	0	2.915624
2030	0	2.608526
2031	0	2.590400
2032	0	2.184316
2033	0	2.168686
2034	0	2.153475
2035	0	2.138264
2036	0	0.860879
Summary	0	98.624244
<hr/>		
Total Nominal Relief		US\$ 98.624244 mn
<i>of which</i>		
ADB		US\$ 0.000000 mn
ADF		US\$ 98.624244 mn
NTF		US\$ 0.000000 mn
Total NPV Relief		US\$ 42.806041 mn
Duration		35 years

IMF/ World Bank HIPC Document for SIERRA LEONE