

AFRICAN DEVELOPMENT FUND

REPUBLIC OF SIERRA LEONE

**THIRD ECONOMIC RECOVERY AND REHABILITATION
PROGRAMME
(ERRP III)**

PROGRAMME COMPLETION REPORT

17 JULY 2008

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CURRENCY EQUIVALENTS

Currency Unit:

At Appraisal Report (31st May 2005)	At Programme Completion Report (May 2008)
1 UA = 4,426.06 Leones	1 UA = 4,885.74 Leones
1 US\$ = 2,929.56 Leones	1 US\$ = 3,008.87 Leones
1 UA = 1.51083 US\$	1 UA = 1.62 US\$

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

January 1 – December 31

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AGD	Accountant General's Department
BTOR	Back to Office Report
CSP	Country Strategy Paper
DACO	Development Assistance Coordination Office
DFID	Department for International Development
DMO	District Medical Officer
ERRL	Economic Recovery and Rehabilitation Loan
ERRP	Economic Recovery and Rehabilitation Programme
GBAA	Government Budget and Accountability Act
GOSL	Government of Sierra Leone
HIPC AAP	HIPC Expenditure Tracking Annual Assessment and Action Plan
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPRP	Independent Procurement Review Panel
I-PRSP	Interim Poverty Reduction Strategy Paper
ISP	Institutional Support Project
MDA	Ministries, Departments, and Agencies
MDBSG	Multi-Donor Budget Support Group
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPDE	Method of Project Design and Evaluation
MTEF	Medium Term Expenditure Framework
NPPA	National Public Procurement Authority
NRS	National Recovery Strategy
OAG	Office of the Auditor General
PAF	Performance Assessment Framework
PCR	Project Completion Report
PDMU	Public Debt Management Unit
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility Programme
PRSP	Poverty Reduction Strategy Paper
PSC	Programme Steering Committee
TA	Technical Assistance
UNDP	United Nations Development Program
WB	World Bank

BASIC PROGRAMME DATA

1. Grant Number	2100155005416
2. Beneficiary	Government of Sierra Leone/Country Wide
3. Executing Agency	Ministry of Finance
4. Purpose	Strengthen economic governance and help meet Sierra Leone's external financing needs for 2005-2007.

A. GRANT DATA

GRANT	APPRAISAL	ACTUAL
1. ADF grant amount (UA million):	20.0	10.7
2. Grant Negotiation Date	n.a.	July 14-15, 2005
3. Grant Approval Date	June 29, 2005	July 27, 2005
4. Grant Signature Date	n.a.	October 17, 2005
5. Date of Entry into force	August 2005	December 23, 2005
6. First Disbursement Date	October 2005	January 19, 2006
7. Second Disbursement Date	August 2006	December 8, 2006
8. Mid-Term Review	June 2006	Not undertaken
9. Grant Closing Date	March 2007	December 2007
10. ADF Programme Completion Report	January 2007	April 2008

B. PERFORMANCE INDICATORS

1. Cost Overrun/Under-run	N/A
2. Time Overrun	
Effectiveness	4 months
Completion	9 months (compared to appraisal)
Last disbursements	5 months
3. Program Implementation Status	Fully implemented
4. Audit report	Received
5. Institutional performance	Satisfactory
6. Government Performance	Satisfactory

C. MISSIONS

	Date	No. persons	Man weeks
Identification	n.a.	n.a.	n.a.
Appraisal	March 2005	3	n.a.
Supervision	9-22 September 2006	1	2
Supervision	29 November-8 December 2006	1	1.5
Joint reviews	14-24 May 2007	1	1.5
Completion	n.a.		

D. DISBURSEMENTS

Disbursed	Appraisal estimate	Corrigendum	Actual
Total disbursed	20.00	10.7	10.7

EXECUTIVE SUMMARY

COUNTRY AND PROGRAM CONTEXT

Sierra Leone's Poverty Reduction Strategy Paper (PRSP), prepared in 2005, focused on good governance as one of its three key pillars. The African Development Fund's Economic Rehabilitation and Recovery Program (ERRP III) grant was intended to support the implementation of the PRSP strategy through a focus on good governance in the management and use of public resources. It was structured as a two-tranche quick disbursing Balance of Payments grant of 10.7 million UA. The first tranche was disbursed on January 19, 2006; the second and final tranche was disbursed on December 8, 2006. This report evaluates the ERRP III and its support to the Government of Sierra Leone's (GoSL) strive toward good governance.

PROGRAMME OBJECTIVE AND FORMULATION

The objective of the ERRP III was to support Sierra Leone's PRSP by making available resources for addressing the external financing gap and for supporting reforms that specifically aimed at improving economic governance. It was conceived in coordination with the Multi-Donor Budget Support Group (MDBSG). However, the common program assessment framework (PAF) had not yet been developed and the specific ERRP III reform areas, conditions, and benchmarks were therefore not part of the MDBSG structure.

The program focused on: (i) promoting accountability and transparency in public financial management (PFM) for the legal framework for the budget process and in policy making and budget planning, strengthening budget execution, the public procurement system, and monitoring and control systems, and improving capacity for accounting and reporting; and (ii) promoting decentralization of economic management and local government reform in order to improve provision of public services nation-wide. Adequate staffing and training in the auditing and accounting functions of the government were key areas of focus for the reform program.

PROGRAMME EXECUTION

The ERRP III was approved on July 27, signed on October 17, and became effective on December 29, 2005. The implementation schedule incurred delays due to the following factors: (i) evidence of fulfilment of conditions was not put forward by the government on a timely basis; and (ii) slow correspondence between the ADF and the GoSL and between different divisions in the ADF. Moreover, monitoring and reporting arrangements – a weak point in previous interventions – persisted during the ERRP III. An institutional support project which should have accompanied the ERRP III was not effective until July 2006, when the grant programme was well underway.

PROGRAMME PERFORMANCE AND RESULTS

GoSL remained broadly committed to the PRSP objectives. Monitoring and evaluation systems are being put in place and implemented in various areas of PFM, and a decentralization process is underway. However, the weak points included what must be considered key areas: no publication of public accounts audits, lack of transparency in procurement, weak human resources in auditing functions, and excessive variance in poverty related spending. In 2006,

macroeconomic management weakened and poverty related spending fell. The specific ERRP III grant conditions were all fulfilled, although some with considerable delays.

Broadly categorized, areas with some or significant progress include (i) the implementation of the Government Budgeting and Accountability Act (GBBA), improved budget preparation and execution, the implementation of recommendations from public expenditure tracking surveys (PETS), and strengthening of external auditing; and (ii) decentralization through improved transparency in revenue allocation and capacitation of local councils, showing up in improved perceptions of public health and education services. Problematic areas include: (i) the worsening macroeconomic situation from the second half of 2006, weakening revenue collection and falling spending on priority poverty area; and (ii) procurement reform, as institutional changes have been implemented but competitive practices are not yet in place.

ECONOMIC, SOCIAL, AND ENVIRONMENTAL IMPACT AND SUSTAINABILITY

The ERRP III supported reforms – decentralization, accountability – should have had no negative impact on the environment and a positive impact on growth and equity. PETS and service perception surveys as well as school enrolment data indicate important improvements in education and health services delivery. The sustainability of the achievements under Sierra Leone’s PRSP and the more narrow focus of the ERRP III now hinge on continued reform momentum in Sierra Leone’s new government and on a return to macroeconomic stability. Discussions between the IMF and the new GoSL suggest that there will be a commitment to governance reform and appropriate macroeconomic policies.

PERFORMANCE AND OVERALL EVALUATION

The ERRP III reform agenda has moved forward in several areas, the programme was well grounded in the PRSP and reflects the shared set of principles among the MDBSG. Weak reporting arrangements and monitoring efforts constitute the key shortcoming of the institutional performance.

CONCLUSIONS, LESSONS, AND RECOMMENDATIONS

Given several mitigating factors – capacity constraints, volatility in donor disbursements, election related disruptions, and the development of a joint donor/GoSL reform agenda – the ERRP III must be considered a satisfactory intervention. The programme was effective during a period of several important changes, including institutional reform in the ADF, preparations for elections in Sierra Leone, and the process of convergence of the MDBSG PAF in order to ensure consistency, eliminate overlaps, and reduce the number of relevant conditions. Weaknesses in reporting and monitoring arrangements should disappear as work proceeds among the MDBSG to adhere to one exhaustive, compatible, and well focused PAF.

The main lessons and recommendations of this PCR are as follows:

- Governance reform is central to Sierra Leone, and the ERRP III format has proven some success in supporting such reforms. Governance reforms entail high risks with respect to implementation and commitment, which needs to be factored into design.
 - ⇒ Support to Governance Reform in Sierra Leone should continue.
 - ⇒ Risks on the macro-side or difficult areas, e.g. procurement practices, should be more clearly assessed and ways to move forward in case of non-compliance need to be devised.

- ⇒ The ADF needs to ensure that the dialogue on economic governance and poverty reduction continues with the new government.
- Disbursement delays from the ADF (and by consequence volatility in external financing) resulted partly from insufficient communication or misunderstandings from the part of the government and sometimes also within the ADF, either in terms of what the grant condition stipulated, or in terms of what kind of evidence was needed. Thus, reforms were sometimes in place but evidence was not provided to that effect.
 - ⇒ The Government (through the Programme Steering and Technical Committees) needs to be clearly informed on what information constitutes satisfactory evidence to the ADF.
 - ⇒ Efforts should be made to speed up intra-office communication in the ADF.
- Specific ERRP III reform indicators, apart from tranche conditions, were not monitored by the ADF. Conversely, the PAF through which the MDBSG monitors reforms in Sierra Leone and to which ADF adheres in principle has been consolidated and prioritised but still contains 31 indicators which puts an undue burden on the government to follow up and act upon. Currently, ADF is not taking the lead on any of the indicators in the PAF.
 - ⇒ ADF should work with the MDBSG on assessing the key priorities in governance reform and focus the PAF on a limited set of indicators which can be verifiable.
 - ⇒ ADF should take the lead in one area of reform stipulated in the PAF.
 - ⇒ The Field Office (FO), now fully staffed and operational, is ideally placed to assume a stronger role in programme supervision and donor coordination. The country office should bridge communication problems, e.g. in the area of fulfilment of grant conditions.
- Strong monitoring and evaluation is an integral part of programme implementation and success. Although the ERRP II suffered from weaknesses in reporting, problems and weaknesses both on the GoSL and ADF side have persisted.
 - ⇒ Operation design should stress the importance of reporting arrangements, including continued communication on reform progress, and clarify the implications of not adhering to such arrangements. Again, this area should improve as donor coordination improves, eliminating the need for different progress reports to different donors.
 - ⇒ ADF, through the FO, should ensure timely monitoring and continuous evaluation of the programme to guarantee efficient use of scarce grant resources.
 - ⇒ At appraisal, verifiable indicators should be carefully chosen to ensure that they (i) reflect reform progress; but also (ii) can be monitored during the programme and/or shortly after programme completion. Quantifiable indicators should be documented in the appraisal report and the source of information should be included.
 - ⇒ Improved documentation and filing practices during preparation and execution would reduce problems due to changes in task management and other transfers of responsibility.
- Capacity constraints, in particular the difficulty to recruit sufficiently qualified staff with public sector remuneration packages has affected programme implementation.
 - ⇒ In coordination with MDBSG, ADF should continue to ensure that institutional support accompanies budget support. ADF and other donors' interventions should be evaluated closely in this respect.
 - ⇒ The issue of capacity building should take a central role in discussions with donors and the Government.

MPDE PROGRAMME MATRIX: SIERRA LEONE ECONOMIC REHABILITATION AND RECOVERY PROGRAMME.

<i>FROM APPRAISAL REPORT</i>				<i>PROJECT COMPLETION</i>
Narrative Description	Verifiable Indicators	Means of Verification	Key Assumptions and Risks	Outcomes
<p>Overall goal</p> <p>1. Strengthen economic governance</p>	<p>1.1 In accordance with the Sierra Leone's full Poverty Reduction Strategy Paper (PRSP), reduce the poverty headcount from 70 percent of the population in 2004 to 57 percent by 2007, and to 35 percent by 2015.</p>	<p>1.1 Macroeconomic and social sector statistics generated by Statistics Sierra Leone</p> <p>1.2 Annual Budget Statement Reports</p> <p>1.3. PRSP Monitoring and Evaluation Framework</p>		<p>No poverty data exist beyond 2004. Alternative non-income poverty indicators show a mixed picture.</p> <p>In the 2008 HDI index, reflecting 2005 data, Sierra Leone remained the country with the lowest score in the world.</p> <p>School enrolment improved significantly; child mortality rates have come down from 286/1000 in 2005 to 270/1000 in 2006.</p>
<p><u>Programme Objectives</u></p> <p>2.1. Strengthen Public Financial Management (PFM)</p> <p>2.2. Improve fiscal budgetary process transforming it into an efficient tool for poverty reduction</p>	<p>2.1.1 Increase no. of key staff capable of linking the PRSP Budgeting Framework into MTEF from 30 in 2004 to 60 by 2006 and 120 by 2007.</p> <p>2.2.1. Reduce the unaccounted for items in the budget from 7.6 percent of total Gov. spending in 2004 to below 3.0 percent by 2006 and eliminate it by 2008.</p>	<p>2.1 Annual Public Expenditure Reviews conducted by Government in partnership with key development partners</p> <p>2.2 Sierra Leone's annual budget statement and IMF staff reports.</p>	<p>2.1 Commitment to implement the reform agenda in PRSP and the "Vision 2025"</p> <p>2.2 Commitment to eliminate corruption and improve economic governance</p>	<p>Information on the number of key staff trained (2.1.1) is not available</p> <p>Budgeted spending on education and health exceeded targets for 2007. Recently, poverty-related spending has not been protected, however.</p> <p>Information on unaccounted for items in the fiscal budget (2.2.1) is not available.</p>
<p>2.3 Improve the soundness of Public Procurement System</p> <p>2.4 Empower Local Council to execute budgets.</p>	<p>2.3.1 Reduce wastage estimated at US\$ 40 million in 2004 that occurs as a result of poor procurement in the public sector to below US\$ 20 million by 2007 and eliminate it thereafter.</p> <p>2.4.1 Improve the budgeting system of the ten (10) Local Councils thus enabling them to qualify for revenue allocation from the central Government by 2006 (intermediate goal).</p>	<p>2.3 Sierra Leone's budgets, IMF reports, the Mid-Term-Review of the Governance and Poverty Reduction Support Programme.</p> <p>2.4. Ranking in the UNDP Human Development Index</p> <p>2.5. Decentralization secretariat and MOF</p> <p>2.6 Accountant General's and Auditor General's reports.</p> <p>2.7 Annual public expenditure reviews and PETS</p>	<p>2.3.1 Improved and efficient public service delivery</p> <p>2.3.2 Continued support for Government's PRSP and "Vision 2025". Continued consolidation of peace</p> <p>2.6 Absence of severe external shocks</p> <p>2.7 Continuation of civil service reform</p>	<p>Information on wastage (2.3.1) is not available.</p> <p>13 local governments had been adequately trained and received transfers from the government by mid-2006.</p> <p>The National Public Procurement Authority (NPPA) and the Independent Procurement Review Panel (IPRP) are staffed and operational.</p> <p>Procurement plans are published on the NPPA web-site but not through media, and contract awards are not published. Ministries, departments and public agencies (MDAs) procurement practices are still inadequate.</p>

Narrative Description	Verifiable Indicators	Means of Verification	Key Assumptions and Risks	Outcomes
<p><u>Programme Output</u></p> <p>3.1 Improved Economic Performance</p> <p>3.2 Improved fiscal budgeting and reporting</p>	<p>3.1.1 Improve Real GDP growth from 6.4 percent in 2004 to 7.0 percent by 2006</p> <p>3.1.2 Reduce and stabilize the average annual consumer price inflation from 13.6 percent in 2004 to 7.3 percent by 2005 and further to below 6.0 percent thereafter.</p>	<p>3.1. Macroeconomics and financial sector statistics</p> <p>3.2 Annual Reports of public expenditure surveys and PETS</p> <p>3.3 Period participatory poverty assessment, and household surveys</p> <p>3.4 Improved link between budget formulation and policies envisaged in PRSP</p> <p>3.5 Government of Sierra Leone, Bank Group, Development Partners' reports on programme implementation</p>	<p>3.1.1 Capacity constraints mitigated by capacity building and increased recruitment of qualified personnel</p>	<p>Mixed results:</p> <p>Economic growth increased from 7.4 percent in 2004 and 7.3 percent in 2005, to 7.4 percent in 2006, but fell back to 6.8 percent in 2007.</p> <p>Consumer price inflation increased to 12.2 in 2006 and remained at 10.8 in 2007.</p> <p>The fiscal balance deteriorated due to a relaxation in collection effort across the board, slower than predicted economic developments, and an increase in election related spending.</p>
<p>3.3 Improve delivery of essential public services</p>	<p>3.3.1 Reduce arrears on the annual Budget Accounting Reports by AGD from 3 years in 2004 to one year in 2006 and make it current thereafter</p> <p>3.3.2 Increase expenditures on education from 9.8 percent of total Govt expenditure in 2004 to 12.0 percent by 2006 and thereafter to above 16 percent</p> <p>3.3.3 Increase expenditures on health from 6.5 percent in 2004 to 8.5 percent by 2006 and above 12 percent thereafter.</p> <p>3.4.1 Reduce the current account from a deficit of 11.5 percent of GDP to 5.3 percent in 2007 and stabilize it at below 5.0 percent of GDP thereafter.</p>	<p>3.1. Macroeconomics and financial sector statistics</p> <p>3.2 Annual Reports of public expenditure surveys and public expenditure tracking surveys</p> <p>3.3 Period participatory poverty assessment, and household surveys</p> <p>3.4 Improved link between budget formulation and policies envisaged in PRSP</p> <p>3.5 Government of Sierra Leone, Bank Group, Development Partners' reports on programme implementation</p>	<p>3.3.1 Capacity constraints mitigated by capacity building and increased recruitment of qualified personnel</p>	<p>Great efforts have been made in reducing the backlog and the accounting reports exist up until 2006; however, the 2005 and 2006 reports were not yet published at the time of the preparation of the PCR.</p> <p>Data on education expenditures (3.3.2) or health expenditures (3.3.3) as share of total spending are not compatible with figures for 2004 in the Appraisal Report. Government data show that education and health expenditures have not increased as share of total expenditures. Expenditures on education amounted to 8.6 percent of non-interest spending in 2004, 8.7 percent in 2005, 7.2 percent in 2006 and 8.0 percent in 2007. Expenditures on health increased from 3.7 percent in 2004 to 3.9 percent in 2005 and 5.6 percent in 2006, but fell precipitously to 1.7 percent in 2007.</p> <p>Outcomes: primary enrolment rates increased by 36 %, accompanied, however, by increasing pupil-teacher ratios. NPSE passes increased by 26%.</p> <p>The current account deficit was reduced to 6.0 percent in 2007 but is projected to widen significantly by 2008.</p>

1 INTRODUCTION

1.1 Programme Background and PRSP links

1.1.1. **Post-conflict developments.** In 2002, Sierra Leone emerged from a decade of destructive civil conflict. Since then, the country has made impressive headway in consolidating peace, in re-establishing basic democratic institutions, and in addressing the enormous needs for reconstruction and social and economic development. The country embarked on a set of structural adjustment reforms, which paid off in a robust economic recovery. In 2002, with a view to address the abject poverty situation, Sierra Leone prepared and implemented the Interim Poverty Reduction Strategy Paper (I-PRSP) and a National Recovery Strategy (NRS).

1.1.2. In support of these efforts, the African Development Bank prepared a series of operations in close coordination with other key donors. The first two Economic Rehabilitation and Recovery Loan (ERRL I and ERRL II) focused on stabilization, reconstruction and basic services delivery. However, although government reforms paid off in sustained and increasing economic growth, tremendous challenges remained: widespread and deep poverty, mass unemployment, and lack of basic social services. It also became clear that weak governance was a key factor holding back development potential.¹

1.1.3. **The PRSP and CSP formulation.** In April 2005, Sierra Leone prepared a full Poverty Reduction Strategy Paper (PRSP). The PRSP was conceived in a commendably broad process of consultation and consensus building in the nation. The PRSP rests on three pillars: (i) Promoting good governance, security and peace; (ii) Encouraging pro-poor sustainable growth for food security and job creation; and (iii) Investing in human resource development.

1.1.4. In November 2004, the Government of Sierra Leone asked the Bank to provide further resources to support its external financing gap. The purpose of the Bank's third operation, the Economic Rehabilitation and Recovery Programme III (ERRP III) was to support broadly the implementation of the PRSP strategy through a focus on governance in the management and use of public resources. The grant was approved in tandem with the Bank's Country Strategy Paper (CSP) for Sierra Leone for 2005-2009. The ERRP III was designed and structured as a two-tranche quick disbursing Balance of Payments grant. The first tranche of the grant was disbursed on January 19, 2006; the second and final tranche was disbursed on December 8, 2006.

1.1.5. The purpose of this report is to evaluate the use of the ERRP III and its efficiency in supporting economic development through improving governance and in catalyzing reform, and to distil main lessons and provide recommendations for future operations. Sierra Leone is facing the mounting challenge of sustaining growth beyond post-conflict recovery rates, broadening economic and political reforms, addressing the important fiduciary problems, and meeting basic needs. Timely financial and institutional support thus remains critical to the country.

1.2 Programme Concept

1.2.1. The conclusions and recommendations from the Project Completion Report (PCR) for the previous operation was that (i) operations had been appropriate given Sierra Leone's needs and there was significant progress in improving economic governance under the programme; (ii) new operations should involve fewer and more realistic targets and conditions, be designed within the

¹ For example, Sierra Leone's absolute score and relative ranking in Transparency International's Corruption Index worsened between 2004 and 2007. In 2007, Sierra Leone was ranked in the 84th percentile (150/179 of all countries).

Multi-Donor Budget Support Group Mechanism (MDBSG) and supported by relevant Technical Assistance (TA) operations to build capacity; and (iii) be based on solid reporting arrangements.

1.2.2. The ERRP III was designed in the form of quick disbursing Balance of Payments support grant. Although it did not classify as budget support, it was conceived in close coordination with the MDBSG and consistent with the shared set of principles established by the MDBSG. As indicated in the Programme Method of Project Design and Evaluation (MDPE) Matrix, it rested on a narrow set of indicators.

1.2.3. The ERRP-III was also intended to be accompanied by an ISP for Strengthening Financial Management and the Energy Sector. The project, of a value of UA 2.79 million, aimed at strengthening the capacity of the PFM in key areas: the Public Debt Management Unit (PDMU), the Accountant General's Department (AGD), and the Office of the Auditor General (OAG). While the project was approved in October 2004, it was not signed until May 2005, and conditions for disbursement were not met until July, 2006.

2 PROGRAMME OBJECTIVE AND FORMULATION

2.1 Overall Objectives

The main tenant of the ERRP III was to promote good governance in the management and use of public sector resources in Sierra Leone to maximise efficiency, efficacy, and equity in public service delivery. The grant would also contribute towards helping Sierra Leone close its external financing requirements, thereby assisting the GoSL in maintaining macroeconomic stability. At the time of appraisal, Sierra Leone's financing gap for the period 2005-2007 was estimated at 677.4 million dollars. ADF funds were meant to complement grants from the World Bank, EC, DFID, and others donors.²

2.2 Programme description

2.2.1. The purpose of the ERRP-III was to reinvigorate and deepen the reforms towards improving governance in Sierra Leone's management of public resources. The programme focused on two areas:

- **Promoting accountability and transparency in public financial management** (PFM), including: (i) the implementation of the Government Budgeting and Accountability Act (GBAA); (ii) strengthening the accounting and auditing functions, external audit and reporting; and (iii) procurement reform.
- **Promoting decentralization of economic management and local government reform.**

2.2.2. The main components of the PFM agenda was to improve accountability and transparency in the legal framework for the budget process and in policy making and budget planning, to strengthen budget execution, the public procurement system, and monitoring and control systems, and to improve capacity for accounting and reporting. It would focus on accountability, especially ensuring timely public reporting of the use of public funds, and strengthening human capacity in key auditory and accounting functions. The decentralization and devolution programme was also intended to promote efficiency in providing services nationwide, thereby addressing one of the key sources of political instability in the past.

² See annex 1 for the estimates of external financing needs used at appraisal.

2.2.3. The GoSL was to adopt an implementation plan for the GBAA to ensure that the reforms in the use of public funds were carried out. Inadequate staffing and weak human resource development in the auditing and accounting functions in the Government, notably the AGD, was identified as a key constraint to governance improvements. The GoSL was therefore required to fill the posts of Accountant General and two Accountant General Deputies. Inadequate procurement policies have contributed to the widespread corruption problem because of lack of transparency, uncompetitive procedures and over-centralization. In response, the GoSL had established the National Public Procurement Authority (NPPA) and the Independent Procurement Review Panel (IPRP) in early 2005. The GoSL was asked to ensure adequate functioning of these bodies, including proper staffing, and to publish revised and transparent procurement procedures.

2.2.4. Decentralization is key to promoting good governance and political stability; indeed, lack of geographical coverage was a major shortcoming of previous reform efforts. The decentralization process would involve (i) political decentralization through democratic election of local councils (ii) empowerment of local councils with expenditure and revenue responsibilities (iii) adoption of a transparent and equity based formula in government transfers to local councils (iv) promotion of competition between local councils to enhance dynamism and improve performance at the local level. The ADF would also assist the GoSL in capacity building at the local level.

2.2.5. The specific Grant disbursement conditions are summarized in Annex Table 2 and discussed in detail in section 4.3 below.

3 PROGRAMME EXECUTION (ACTIVITIES /COMPONENTS)

3.1 Effectiveness and start-up

The ERRP-III was approved on July 27, signed on October 17, 2005 and became effective on December 29, 2005. Compared to appraisal, the amount of grant support was halved from 20 UA million, to 10.7 UA million, thus considerably less than previously foreseen and smaller than previous operations. The cut was made to conform to ADF-X's resource allocation for the country and the requirement that the share of policy based support for each country should not exceed 50 percent of its respective allocation. In addition, grant duration was changed from 18 to 24 months. The accompanying institutional support project was approved in October 2004 for the amount of UA 2.79 million but was effective on July 20, 2006, because of delays in meeting one condition. Consequently, the project was not able to provide capacity building support during the main part of the ERRP III grant, as originally anticipated.

3.2 Implementation schedule and slippages

The implementation schedule incurred delays in the beginning. The grant became effective four months later than expected at appraisal (Table 1). The first tranche was released with a three month delay, and the second tranche with a five month delay. Between four and five months elapsed between the first GoSL request for each of the tranches and the actual disbursements. The limited records available suggest that the delays occurred because the GoSL did not bring forth sufficient evidence of fulfilment of grant conditions (e.g. macroeconomic management) and that the subsequent correspondence between GoSL and ADF as well as within divisions in the ADF was time consuming. The appointment of the second Deputy Accountant General (a first tranche condition) was delayed as initially, the GoSL recruited only one person,

and the second person later turned down the offer. Further delays occurred after grant completion, however, as witnessed by the timing of this PCR.

3.3 Monitoring and Reporting

3.3.1 *Monitoring and Reporting Procedures*

3.3.1.1. A key lesson of the PCR for the ERRP II was that reporting arrangements had not worked properly. Yet, reporting as well as monitoring mechanisms continued to be weak. Reporting on PFM progress from the GoSL to the MDBSG was insufficient. Macroeconomic information was sent primarily to the IMF, and quarterly progress reports were not forthcoming. The audit report of the accounts for 2006 was not produced on time and needed reminding from the ADF. However, when produced, it covered adequately the period 2006 up until June 30th, 2007, when the grant had practically been fully disbursed and utilised. The alignment of the ERRP III with the multi-donor budget support framework partly reduced the need for duplicate progress review reports. The Progress Assessment Framework (PAF) was assessed in June 2006 and May 2007 by the MDBSG, and these review reports were used to verify overall reform progress. However, while specific ERRP III targets are fully consistent with the progress benchmarks of the PAF, not all are contained within the PAF and without independent information or supervision, could not be assessed. A mid term review scheduled at appraisal did not take place. The ADF participated in the 2007 review of the PAF, but not in the 2006 joint review mission, which is unsatisfactory given the absence of a mid-term review, the lack of quarterly reports, the deteriorating fiscal situation, and the projected release of the second tranche for August, 2006. All of these factors should have warranted closer monitoring and communication with the GoSL to ensure timely disbursements. Three ADF supervision missions were also undertaken in September and December 2006 and in May 2007, the two latter in conjunction with the MDBSGs annual review of the PRSP and PAF, respectively. However, these missions were combined with project preparations and limited time was devoted to actual follow-up on the specific ERRP III conditions. The supervision reports reflect only the conclusions of the MDBSG reviews.

Table 1: Grant Implementation (Appraisal and Actual)

Activity	Expected Timing (appraisal)	Actual Timing	Slippage/Difference
Negotiations	n.a.	14-15 July, 2005	
Board Presentation	June 29 2005	July 27, 2005	1 month
Grant Signature	n.a.	October 17, 2005	n.a.
Grant Effectiveness	August 2005	December 23, 2005	4 months
Expected duration from effectiveness	18 months	24 months	6 months ¹
Release of First Tranche	October 2005	January 19, 2006	3 months
Mid-Term Review	June 2006	Not undertaken	
Release of Second Tranche	August 2006	December 8, 2006	5 months
Grant Recipient's Programme Completion Report	December 2006	September 26, 2007	9 months
Bank's Programme Completion Report	January 2007	June 2008	17 months
Grant Closing Date	March 2007	December 2007	9 months

Source: Appraisal report, letters/correspondence. 1. Grant duration was extended to 24 months during renegotiations.

3.3.2 Choice of verifiable indicators

3.3.2.1. The effectiveness and feasibility of monitoring and evaluation of a programme also depend on the set of benchmarks chosen to measure reform progress. There is understandably an inherent tension between choosing benchmarks which can indicate reform progress, and benchmarks which are possible to verify during and after programme completion. The trade-off may be more difficult in an area like governance where progress often is of a qualitative nature.

3.3.2.2. In the case of the ERRP III, however, too many verifiable indicators are simply not available for control. Poverty headcount numbers ([1.1] in the programme matrix) will only be available for a specific year if there is a household survey for that particular year. For other indicators, data are unavailable (e.g., the estimated wastage from poor procurement practices [2.3.1]) or cannot be replicated for 2004 with government or IMF data (unaccounted for items in the fiscal budget [2.2.1], spending on education and health [3.3.2, 3.3.3]), which precludes monitoring over time. There is no discussion of these indicators in the appraisal report – they only occur in the matrix – and the sources of the numbers can not be found.

3.4 Procurement

The procurement rules for the grant stipulated that the grant be used for financing both private and public sector imports. The procurement of goods and services for the private sector would be carried out in accordance with existing commercial practices in Sierra Leone, acceptable to the ADF. The procurement of goods by the public sector would be carried out in accordance with the Bank Group's Rules for Procurement of Goods and Services. The audit report confirmed that the proceeds of the grant had been used exclusively for eligible expenditures and the purposes set out in the grant agreement, that procurement of goods and services had followed the procurement rules likewise set out, and that the special account had been used as stipulated in the grant agreement.³

3.5 Financial sources and disbursements

The ERRP III was set up with two tranches of UA 5.35 millions each. The first tranche, equivalent at the time to US\$ 7.73 million, was disbursed into the Special Account held with Crown Agent Bank Limited, London, on January 19, 2006. The first tranche was utilized to fund the Foreign Exchange Auction to finance eligible imports between February 15 and April 5, 2006 (8 operations in total). The second and final tranche, at the time equivalent to US\$ 8.04 million, was disbursed on December 8, 2006. The second tranche was used to fund the Foreign Exchange Auction between January 10, 2007 and May 2, 2007 (8 operations). An amount of UA 2,902.70 or US\$ 4,345.36 remains unutilised.

3.6 Auditing

A report covering the year 2006 was due in June 2007. The ADF reminded the authorities of this obligation in the beginning of October 2007. Because of clear capacity constraints within the OAG, the Bank had recommended that a private firm audit the accounts; the audit was therefore undertaken by *King Walker and Associates*. The ADF received the financial report (audit) on January 28, 2008, covering the period January 1st, 2006 to June 30th, 2007. The audit's findings are summarized in paragraph 3.4.1 above.

³ The audit report identified separately a weakness in the internal control mechanisms which has since been rectified by the Bank of Sierra Leone.

4 PROGRAMME PERFORMANCE AND RESULTS

4.1 Overall assessment

Overall, the results from the programme are deemed satisfactory, against the background of severe capacity constraints, volatility in donor disbursements, and election-related disruptions. The GoSL's Project Completion Report is attached in Annex III. Annex VI contains a list of other pieces of information consulted for the PCR.

4.2 Institutional performance and loan administration

4.2.1. As stipulated by the grant, a Steering Committee was formed, comprising representatives from the Ministry of Finance, Ministry of Planning and Economic Development, Office of the President, Ministry of Trade, Industry and State Enterprises, Bank of Sierra Leone, the Central Statistics Office, Development Coordination Office (DACO), and the Parliamentary Finance Account Committee. A Technical Committee, supporting the Steering Committee, was also formed. The names of the participants were forwarded to the ADF, but with some delay.

4.2.2. The missions in September and November 2006 met with the Steering Committee to follow up on progress on the ERRP III.

4.3 Grant conditions/covenants and fulfilment

The grant was fully disbursed, signalling that grant disbursement conditions were fulfilled, albeit with some time delay. Several of the first tranche conditions (macroeconomic management and commitment to reform agenda, establishment of committees, etc.) were not considered met, only because evidence was not submitted. The second tranche similarly incurred delays because evidence was not provided on time, although reforms had actually been implemented. Annex Table II summarizes the ERRP III grant conditions.

4.4 Completion

The grant was nearly fully disbursed in 2006 and by May 2, 2007, only 0.03 percent remained unutilized. However, the ERRP III forms part of a long-term effort to foster good governance in Sierra Leone, on behalf of the Government of Sierra Leone, the ADF, and other donors. The programme should therefore be evaluated continuously.

4.5 Programme results

4.5.1. The impact of the ERRP III programme on reforms was assessed within the assessment framework of the joint budget support group and the annual progress review of the PRSP. The necessary conditions for the ERRP III were achieved. More generally, the conduct of a second round of free and fair elections in 2007 and a comparatively peaceful transfer of power to the former opposition party must be considered evidence of strong progress towards peace, security, and good governance. The progress on reforms in the election year and subsequent change in government was understandably more limited.

4.5.2. In the area of economic governance, progress has been significant, with monitoring and evaluation systems in place and the implementation of decentralization. Some social indicators (health, education) have also begun to improve. Some concerns have emerged, however, especially concerning macroeconomic management and priority poverty reducing spending. The implementation of new regulations has also been uneven. Overall, a problem of severe capacity constraints and capacity building appears to have been reducing the pace of reform

implementation. In addition, volatile and delayed donor disbursement in 2006 and 2007 exacerbated the pressure on economic management.

4.5.3. The joint assessment of the PAF in May 2007 showed that of the 29 benchmarks relevant for 2006, 17 (60%) had been met or acceptable progress had been made. Only 8 targets (27 %) were deemed to have been stalled (

4.5.4. Table 2). However, the weak points included what must be considered key areas: the publication of the most recent audited public accounts, lack of transparency in procurement, insufficient staffing in internal audit units, and excessive variance in the composition of actual poverty related spending.

Table 2: PAF review: Reform Targets

Benchmark status	Count
Met	12
Acceptable progress	5
Some Progress Made	4
Not met and limited progress	8
Not set for 2006	2
Total	31

Source: MoU for the second assessment of the PAF JBS, 2007.

4.5.5. The grant provided much needed external resources for Sierra Leone, equivalent to 1.1 percent of GDP in 2006. No additional balance of payments resources were made available for 2007, however.

4.5.1 Macroeconomic performance.

4.5.1.1. A stable macroeconomic framework is fundamental to the implementation of the wide-ranging economic reforms supported in the ERRP III. As of mid-2006, however, macroeconomic conditions deteriorated significantly and the Poverty Reduction and Growth Facility Programme (PRGF) went off track. Domestic revenue fell short of target by 0.7 percent, reflecting some weakening of domestic activity but also a weakening in collection effort. A relaxation of expenditure control led to an overrun of 1.4 percent of GDP. In response to the fiscal gap and the delay in donor disbursements, domestic financing increased and broad money and reserve money growth exceeded programme targets. Actual poverty-related spending was 10.6 percent below target while overall expenditure exceeded budget by 0.9 percent. GDP growth still reached 7.4 percent.

4.5.1.2. Macroeconomic performance during the first nine months of 2007 was likewise mixed. Output growth remained high (6.8 percent) but inflation regained double digit levels (10.4 percent by October). Domestic revenues fell well short of the 2007 original budget target (by 1.8 percent of GDP), and of the revised mid-2007 PGRF target (by 0.5 percent of GDP). The prolonged election process and political uncertainty surrounding it and Sierra Leone's endemic energy crisis affected domestic revenues, but a relaxation of collection efforts also contributed to the underperformance. Domestic payments arrears increased and poverty spending fell as share of total expenditures.

4.5.1.3. An important factor contributing to the macroeconomic volatility was the shortfall in external support, exacerbated by lack of communication from donor group to GoSL on planned disbursements and delays. The budget was overexposed to downside risks as external

funds were fully budgeted (although 100 percent disbursement of donor resources is highly unlikely).

4.5.1.4. In February 2008 an IMF mission reviewed progress towards stabilization reforms. The mission noted that (i) important progress had been made towards some PGRF conditions; (ii) reforms relating to revenue mobilization and financial sector reform still lagged behind; and (iii) external factors (increasing prices for international commodities) and internal factors (insufficient tax revenue collection) was raising the risk for inflation and instability.

4.5.2 Public Financial Management

4.5.2.1. The MDBSG annual assessments suggest that financial management and accountability has been improving, e.g. in the adoption of new financial regulations, the initiation of procurement reform, the replacement of software for financial management, and the commitment to Public Expenditure Tracking Surveys (PETS). Implementation of legal reforms remains at various stages. Where progress has been slow, capacity constraints appears to have been the main problem. Training, partly supported by donors, is underway at many levels but appears not to have been sufficient to remove the serious bottlenecks.

4.5.2.2. The 2007 PEFA assessment suggest that Sierra Leone is now at the level of the average IDA country in most PFM areas, which is a notable achievement given the devastating impact of the war on capacity levels in the country. The country remains however worse than average in some critical areas (Table 3).

Table 3: PEFA Scores – Sierra Leone vs. Average for IDA countries

Sierra Leone	IDA av.	Better than average
A	D+	Availability of information on resources received by services delivery units
A	C+	Classification of the budget
B	C+	Transparency of inter-governmental fiscal relations
B	C+	Public access to key fiscal information
C+	C	Predictability in the availability of funds for commitment of expenditures
C+	C	Effectiveness of internal controls for non-salary expenditures
		Worse than average
C	B	Comprehensiveness of information included in the budget documentation
C	C+	Timeliness and regularity of accounts reconciliation
C+	B	Orderliness and participation in the annual budget process
D+	C	Multi-year perspective in fiscal planning, expenditure policy and budgeting
D+	C	Effectiveness in collection of tax payments
D+	C	Effectiveness in payroll controls
D	C	Quality and timeliness of annual fiscal statements.

Source: PEFA 2007 and World Bank Sierra Leone Public Expenditure Report Concept Paper (2007).

4.5.2.3. The implementation of the Government Budgeting and Accountability Act. The GBAA was enacted in 2005 and a detailed implementation plan was drawn up in 2005. Draft regulations reflecting key changes in fiduciary standards following the GBAA were presented to the MDBSG in early 2007. The Medium Term Expenditure Framework (MTEF) process has also been strengthened and the Integrated Financial Management Information System (IFMIS) is now fully functional within the Ministry of Finance and a few Ministries, Departments, and Agencies (MDAs). The MTEF and the MDA strategies are reviewed in public hearings each August to ensure prioritized spending. The 2007 budgets were presented to Parliament and adopted prior to the new fiscal year: a basis for timely planning and resource management.

4.5.2.4. Two PETS were completed in 2006 and their coverage was expanded to include development expenditures. The PETS surveys have become an important part of the annual monitoring of the PRS and an indicator of accountability. Recommendations of past PETS surveys have also been acted upon. However, as discussed above, poverty related spending as share of GDP and of other expenditures has fallen since 2003, and was not protected in 2006 and 2007 when total revenues fell.

4.5.2.5. Strengthening the accounting and auditing functions, external audit and reporting. A qualified Accountant General and his deputy took up their posts in 2006, but the second deputy recruited turned down the offer. The AGD proceeded rapidly to eliminate the backlog in public accounts and final public accounts for 2002, 2003 and 2004 were produced by the AGD, made public and submitted to the OAG. Training is underway for the middle-level cadre of staff of the AGD.

4.5.2.6. There have been significant efforts to strengthen external auditing, and audit reports on the 2000-2003 accounts have been prepared by the OAG. However, a number of issues remain outstanding. First, some important government departments and units were excluded from the reports and thus not publicly accounted for. Second, public accounts for 2005 and 2006 have been prepared but not yet published and there was no clear agreement among concerned parties on how to proceed towards publication.

4.5.2.7. The OAG has completed 15 audits of MDAs. Audits have also been completed for all local councils. By mid 2007, 14 internal audit units were established in MDA's; however, only 6 units qualified as adequately staffed, owing to the above-mentioned difficulties to recruit skilled personnel given private sector competition. Management response to internal audit reports in MDAs remains insufficient.

4.5.2.8. Procurement reform. Procurement reform is in a relatively early stage. Following the 2004 Procurement Act, the NPPA, along with the IPRP, were allocated core staff in 2005. MDAs formed procurement committees in 2006 and nine key MDAs⁴ covering approximately 60 percent of relevant expenditures (non salary, non-interest) were required to provide procurement plans. For these MDAs, actual procurement plan outcomes were completed with the assistance of NPPA. The outcomes show that the use of open competition still is not widely practiced. The main constraint is the lack of qualified procurement specialists and trained staff. Procurement training and capacity building is ongoing. Procurement plans have been approved by the Ministry of Finance for 18 benchmark MDAs, and published on the NPPA websites, but not in the media. Contracts awarded have not been published. Well defined complaints mechanisms for the IPRP are in place but implementation has been weak.

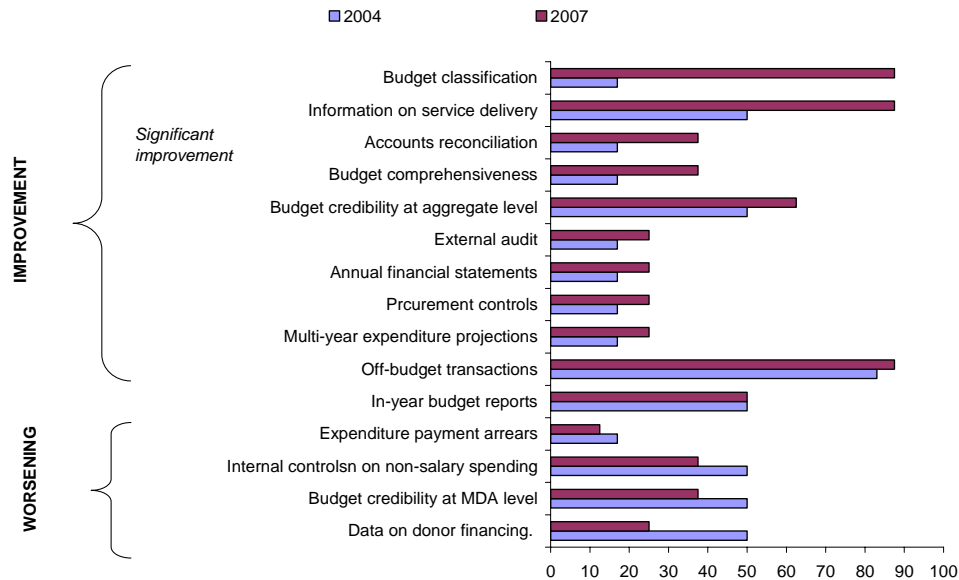
4.5.2.9. Public Financial Management – Progress in ratings 2004-2007. A comparison between the scores achieved by Sierra Leone in the 2004 HIPC Expenditure Tracking Annual Assessment and Action Plan (HIPC AAP) and those of the 2007 PEFA suggest that Sierra Leone has made important progress towards improving PFM in the areas covered by HIPC AAP.⁵ In absolute terms, by 2007, Sierra Leone's PFM system scored well or very well in five areas. In relative terms, the situation had improved in ten out of 15 areas and only weakened in four areas.

⁴ Ministries of Defense; Agriculture and Food Security; Education, Science and Technology; Health and Sanitation; Mineral Resources; Transport and Communications; Works Housing & Technical and Maintenance; Sierra Leone Police and Sierra Leone Roads Authority.

⁵ To align HIPC AAP scores (A,B,C) with PEFA scores (A, B+, B, C+, C, D+, D) a percentage scale was used. See A. Lawson, A., *DFID Budget Support To Sierra Leone: Achievements and Lessons for the Future*, Report prepared for DFID, August 2007, Overseas Development Institute, London.

Importantly, the PFM system had improved greatly in areas of budget classification, information on service delivery, accounts reconciliation, and budget comprehensiveness. While some caution is needed because of different grading systems in the two years, there is evidence of a real effort towards improvement (Figure 1).

Figure 1: Sierra Leone's PFM system: HIPC AAP (2004) vs. PEFA (2007)



Source: Adapted from Lawson (2007).

4.5.3 Decentralization of economic management and local government reform.

4.5.3.1. Decentralization hinges on sufficient capacity building and training with local governments, on transparent rules for resource allocation, and on adequate resource transfers. The first tranche condition regarding publication of local government revenue allocation and transfer formulas were met in mid 2005. The second tranche condition regarding the capacitating of local councils was more than met by mid-2006, when 16 local councils were eligible for fund transfer, and 13 had received such transfers.

4.5.3.2. A legal structure is now in place which allows for timely transfers through a transparent mechanism. However, financial control and reporting systems still need developing at the local level and capacity building therefore continues to be important. Civil society is involved in monitoring government expenditures through district level budget oversight committees.

4.5.3.3. The release of funds to local councils reached 73 percent of the amount due in 2006; and in the first quarter of 2007, it reached 68 percent of the amount due for the quarter.⁶ The shortfall in 2006 was due to coordination problems between ministries, however. Given that the 2006 exercise involved new procurement regulations, capacity constraints played an important part in limiting disbursements, which otherwise would have reached nearly 100 percent. In the first quarter of 2007, disbursements to local funds reflected an adjustment to a more limited fiscal space as actual revenues (domestic and donor) fell short of budget. In recognition of the constraints, there has been important progress.

⁶ 17 percent instead of 25 percent as expected.

4.5.3.4. There are also preliminary indications that the public perception of public health and education services improved between 2006 and 2007, and the MDBS targets in the area of service delivery were generally met, although some difficulties arose from coordination problems in the area of procurement between the Ministry of Education and local councils. Results from the 2006 PETS surveys indicate that in 2006, 88.2 percent of the value of essential drugs distributed by DMO reached primary health units, up from 75.5 percent in 2005. The number of National Primary School Examination passes also increased, due to stronger performance of girls.

5 ECONOMIC, SOCIAL, AND ENVIRONMENTAL IMPACT AND SUSTAINABILITY

5.1 Socio-economic and environmental impact

5.1.1. As recognized by Sierra Leone's PRSP, good governance is central to reducing poverty as it improves the investment climate and enhances the effectiveness and distribution of public services. The improvement in many of the governance aspects supported by the ERRP III – decentralization, accountability – should have been beneficial to growth and service delivery. While no recent poverty data exist, other indicators (from PETS and service perception surveys) as well as enrolment data show improvements in education and health services delivery.

5.1.2. The programme was classified as a category III programme, i.e. not expected to have any adverse effects on the environment. Since key line ministries including Agriculture and Food Security, Health and Sanitation, and Energy and Mineral Resources are encompassed by the improved governance framework, transparency, and accountability, the effects on the environment could be expected to be positive.

5.2 Sustainability

Economic governance reform has reached some momentum in Sierra Leone, although reforms remain stalled in some areas. The sustainability of the achievements under Sierra Leone's PRSP and the more narrow focus of the ERRP III now hinge on several issues. First, the new GoSL needs to remain committed to implementing the governance agenda. Second, macroeconomic stability needs to be regained and poverty spending returned to targets. Apart from the direct effects of inflation and insufficient resource allocation to priority areas, failure to reach an agreement with the IMF would result in a shortfall in external resources which are contingent upon an appropriate macroeconomic framework.

6 PERFORMANCE OF ADF, CO-FINANCIERS AND GRANT RECIPIENT

6.1 Government of Sierra Leone

6.1.1. The performance of the Grant Recipient should be deemed satisfactory in view, in particular, of the capacity constraints facing a nation still recovering from civil war, the difficulties to recruit qualified staff to public sector positions, the impact of volatility of external support on macroeconomic management, and the impact of elections on continuity in public management and overall economic conditions. The economic governance agenda supported under the ERRP III has moved forward, although progress has been uneven. Sierra Leone faces

tremendous capacity constraints and skills shortages, which reduces the speed of implementation and the understanding of new procedures and processes.

6.1.2. Weak reporting, a problem identified already in the ERRP II PCR and underlined in the MDBSG's assessments for 2006 and 2007, continues to constitute a key predicament to both orderly monitoring and fruitful policy dialogue. Some of the delays in disbursement appear to have occurred because insufficient evidence was provided on tranche conditions. Upon request by the ADF, evidence was provided, however (see section 3.2 above). Importantly, the requirement for quarterly progress reports was not fulfilled and macroeconomic information was not provided to donors in general. The required audit report was produced with a six month delay; however, the final audit report covered the entire period from January 2006 up until June 30th, 2007 and not only 2006. The PCR submitted by the GoSL does not comply with the standards set out for Grant Recipient's PCR (see Annex) and contains little information pertaining to the actual benchmarks for reform progress.

6.2 African Development Fund and Donor Partners

6.2.1. The performance of ADF should also be considered satisfactory. The ERRP III programme was well grounded in the key pillars of the PRSP and reflects the priorities outlined in the CSP. Benchmarks and conditions were specified in a matrix and expected outcomes as well as key risks were identified. The design of the ERRP III built on previous interventions and like previous programmes, was conceived in close coordination with the MDBSG and the shared set of principles. As such, the programme benefited from the joint reviews, information sharing and discussion within the donor group. The relatively narrow set of reform conditions also appears very sensible in view of the multi-donor framework monitoring; it allows ADF to concentrate on following up a few selected reforms.

6.2.2. Because of strong coordination with other donors in the area of governance and weak independent evaluation efforts by ADF (see below), it is difficult to distinguish the contributions and performances of donors separately from ADF. The governance agenda is a joint reform agenda since 2006; as seen, the programme is assessed jointly by the donor group, and most of the reform evaluation in this report relies on MDBSG assessments. The World Bank's and DFID's own completion reports of their parallel programs concord with the general conclusions of this PCR: (i) overall, interventions should be considered satisfactory, again in view of the pervasive capacity constraints and (ii) donor coordination on the broad governance agenda had been commendable.

6.2.3. The main weakness in ADF's performance relates to monitoring and evaluation. The problem was already identified in previous operations but not acted upon decisively. On the one hand, donor coordination has strengthened considerably during the past few years, a development which over time should improve policy coherence but also reduce the administrative burden of multi-reporting for the GoSL. The common PAF and its shared set of principles were developed in 2006, however, as the ERRP III was already ongoing. As such, while the specific conditions set forth in the ERRP III agreement are fully consistent with the PAF, they are not all specifically contained or monitored within the PAF. More independent monitoring and evaluation, at a minimum through a mid-term review of the programme in 2006, would therefore have been warranted, especially in view of the fact that the ADF did not participate in the MDBSG joint review for 2006. A timely mid-term review might also have contributed to reducing the delay in releasing the second tranche. Instead, progress evaluation, including in the supervision missions undertaken in 2006 and 2007, depended on reporting

provided by other donors and beyond discussions of tranche conditions, there was no independent review of the ERRP III reform areas.

6.2.4. Supervision missions were also undertaken in conjunction with other programme/project supervision or preparation activities, limiting the effective time allocated for supervision. This is an important shortcoming, not least in view of the fact that similar problems arose already during the previous operation. Supervision and record keeping also suffered from the changes in task management (three during 2005 and 2006) and the institutional reform of the Bank. While a full partner of the MDBSG, ADF is currently not taking the lead on any of the indicators in the PAF. Overall, this suggests a stronger role for the country office in leading the coordination with government and donors. The choice of verifiable indicators and the lack of supporting information in the appraisal report for these indicators reinforce the problems of independent monitoring and evaluation.

6.2.5. Finally, capacity constraints have been identified as risks at appraisal and are confirmed as an important obstacle in this PCR – the evaluation of ERRL II also underscored the need for accompanying technical assistance aimed at strengthening local capacity. However, the institutional support project focused on PFM which in fact was approved before the ERRP III was not in place for the major part of the ERRP III, especially as relates to the fulfilment of tranche conditions. As the ERRP III was approved, the ISP, aimed specifically at PFM, had already incurred important delays. At a minimum this fact should have been recognized during project preparation.

7 OVERALL ASSESSMENT

7.1. The programme is deemed satisfactory, as the ERRP III assisted the GoSL in financing an economic reform programme which proceeded with some success, even during the election year. This assessment is supported by the commitment of the MDBSG to continue to assist Sierra Leone with budget support, pending macroeconomic stabilization. Necessary tranche conditions were met and in some cases above target and the delays incurred up until effectiveness of the grant were not extended after the grant became effective. Disbursement, programme completion and subsequent programme preparation would probably have been more timely had the grant programme been monitored more closely, however, and communication between PSC/TC and ADF more intense. It is to be noted that although grant financing was requested by the GoSL for 2007, the ADF could not provide such grant financing.

7.2. A detailed assessment of programme rankings is provided in Annex V. The lowest scores, as highlighted in the rankings and the assessment above, relate to monitoring and reporting arrangements, whose weaknesses appear to have delayed unnecessarily reform initiatives as well as disbursements.

8 CONCLUSIONS, LESSONS, AND RECOMMENDATIONS

8.1. In view of the circumstances – capacity constraints in Sierra Leone, delays in external financing, and the effects of elections – the ERRP III must be considered a satisfactory intervention. The grant aims at addressing issues that are crucial to Sierra Leone's development. It was well anchored in a broad based and recent PRSP, built on the experience from previous operations, and had comparatively realistic and achievable targets. However, the risks associated with macroeconomic management during up-coming elections and the scarcity of qualified

persons may not have been sufficiently taken into account at conception. Against this background, the failure to get the ISP off the ground on time is also regrettable.

8.2. The ERRP III grant was effective during a period of several important changes, including institutional reform in the ADF and national elections. One such transition relates to the process of convergence and realignment of the MDBSG in order to ensure consistency, eliminate overlaps, and reduce the number of relevant conditions. The monitoring and reporting weaknesses identified above should improve as the MDBSG proceeds towards one fully exhaustive, compatible, and well focused PAF.

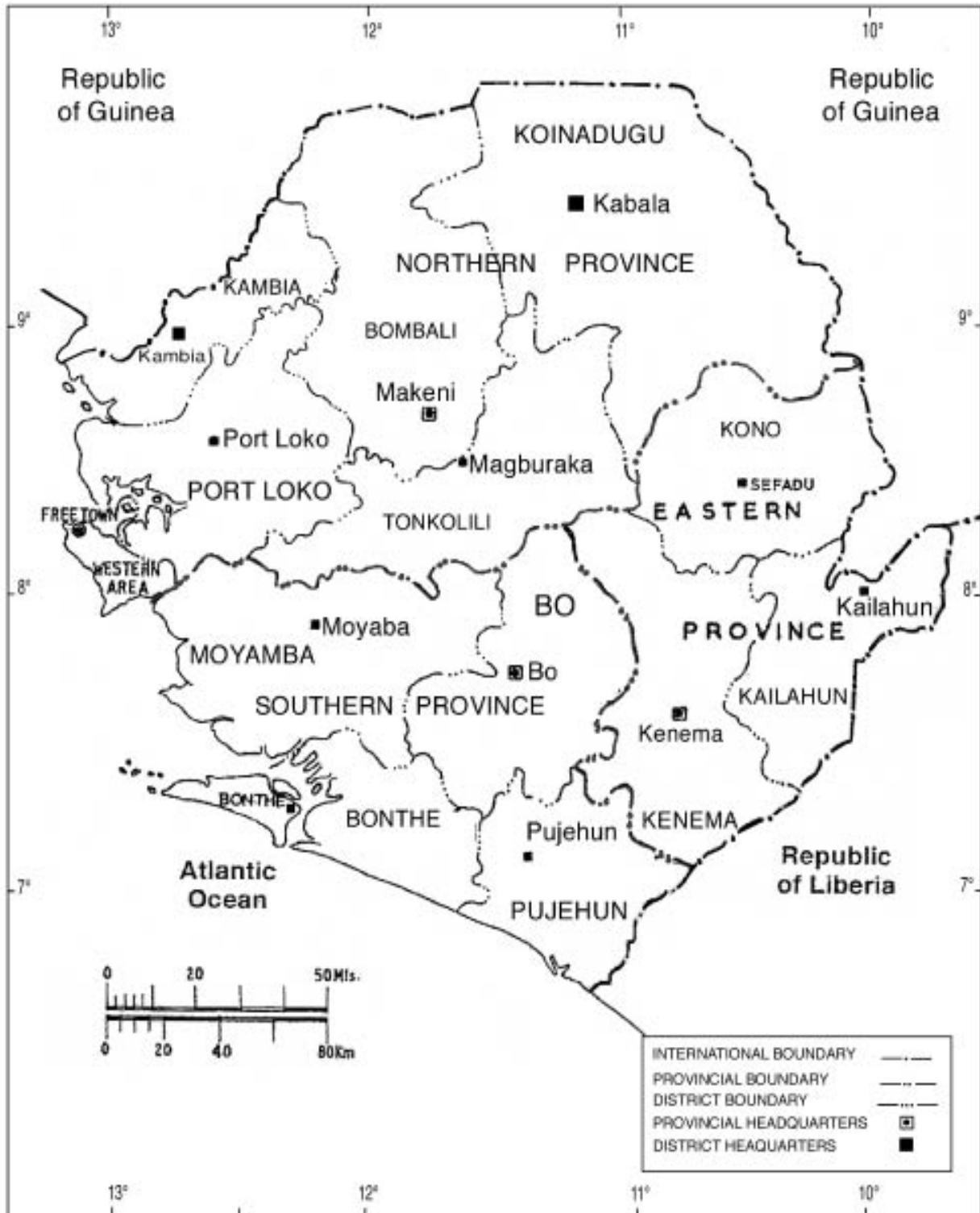
8.3. The main lessons and recommendations are as follows:

- The focus on governance reform continues to be central to Sierra Leone, and the ERRP III has proven to be successful in supporting such reforms. It is an area of high risks with respect to implementation and political commitment, which needs to be factored into programme design.
 - ⇒ Support to governance reform in Sierra Leone should continue.
 - ⇒ Risks on the macro-side and risks related to difficult areas of reform, e.g. procurement practices should be more clearly assessed. Ways to move forward in case of non-compliance in key areas of concern need to be devised.
 - ⇒ Given that a new government is in power, the ADF needs to ensure that the dialogue on economic governance and poverty reduction continues and that the government is committed to continuing the reform programme embarked upon by its predecessor.
- Disbursement delays from the ADF (and by consequence volatility in external financing) appears to arise due to insufficient communication or misunderstandings from the part of the government and sometimes also within the ADF, either in terms of exactly what the grant condition stipulates, or in terms of what kind of evidence is needed. The latter form of misunderstandings appears to have resulted in some unnecessary delays in disbursement, i.e. reforms were in place – even mentioned in the appraisal report – but evidence was not provided to that effect.
 - ⇒ The Government (through the PSC and TC) need to be clearly informed on what information constitutes satisfactory evidence to the Fund.
 - ⇒ Within the ADF, efforts should be made to speed up intra-office communication in inconclusive matters.
- The focus on a relatively narrow set of indicators in ERRP III in principle facilitates monitoring and follow-up – but precise reform indicators, apart from tranche conditions, were not monitored by the ADF. Conversely, the PAF through which the MDBSG monitors reforms in Sierra Leone and to which ADF adheres in principle has been consolidated and prioritised but still contains 31 indicators which puts an undue burden on the government to follow up and act upon. Currently, ADF is not taking the lead on any of the indicators in the PAF.
 - ⇒ ADF should work with the MDBSG on assessing the key priorities in governance reform and focus the PAF on a limited set of indicators which can be verifiable.
 - ⇒ ADF should take the lead in one area of reform, consistent with the new PAF, and ensure follow-up for this area.

- ⇒ The country office, now fully staffed and operational, is ideally placed to assume a stronger role in programme preparation, supervision and coordination. The country office should work closely with the programme team to help bridge communication problems and ensure a continuous dialogue and permanent presence with GoSL and MDBSG.
- Strong monitoring and evaluation is an integral part of programme implementation and success. Although the ERRP II suffered from weaknesses in reporting, problems and weaknesses both on the GoSL and ADF side have persisted. Change in task management may have exacerbated this problem.
 - ⇒ Operation design should continue to stress the importance of reporting arrangements, including continued communication on reform progress and clarify the implications of not adhering to such arrangements. Again, this area should improve as donor coordination improves, eliminating the need for different progress reports to different donors.
 - ⇒ ADF should ensure timely monitoring and continuous evaluation of the programme to guarantee efficient use of scarce grant resources and assist the Government in meeting the requirements set forth in the agreements.
 - ⇒ At appraisal, verifiable indicators should be carefully chosen to ensure that they (i) reflect reform progress; but also (ii) can be monitored during the programme and/or shortly after programme completion – or they become meaningless. Quantifiable indicators should be documented in the appraisal report and the source of information should be included.
 - ⇒ Improved documentation and filing practices during programme preparation and execution would reduce problems associated with changes in task management and other transfers of responsibility.
- Capacity constraints more generally and in particular the difficulty to identify and recruit sufficiently qualified staff with non-competitive public sector remuneration packages has clearly affected the programme's implementation negatively.
 - ⇒ In coordination with MDBSG, ADF should ensure that institutional support accompanies budget support efficiently and effectively. The results of the ADF Institutional Support Project as well as other donors' efforts should be evaluated closely in this respect, and the costs and benefits of coupling capacity building to balance of payments support should be evaluated.
 - ⇒ The issue of capacity building should take a central role in discussions with donors and the Government and should be better factored in among the risks at the outset.

ANNEX I. MAP OF SIERRA LEONE

This map is intended exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.



ANNEX II. TABLES

**Table 1: Sierra Leone's External Financing Requirements
2005-2007 (At Appraisal)**

Item	Total 2005-2007 (Million US\$)	As % of GDP (cum)
External Financing Requirements	677.4	17.9
Project Loans	168.0	4.4
Grants	287.2	7.6
o/w ADF	29.6	0.8
MDBSG	194.5	5.1
HIPC	105.8	2.8
FDI and short term capital	116.3	3.1

Source: Appraisal Report. UA/US\$ exchange rate = 0.668

Table 2. ERRP III: Conditions for tranche release

Preconditions
<i>PRGF on track.</i> This condition was not met until late December 2005 following an Assessment Letter from the IMF.
<i>Commitment to reform agenda:</i> This condition was not met until late December after review of a Government letter to the IMF.
<i>Opening of account with the Central Bank.</i> This condition was not immediately met as an account was opened in a correspondent bank.
<i>Establishment of the Steering and Technical Commitments.</i> These two conditions were not immediately met as the names of representatives were not forwarded to the ADF when the disbursement request was made.
Reform agenda, first tranche
<i>Enactment of the GBAA.</i> This condition was met in early 2005 (as described in the Appraisal Report).
<i>Members of the Local Government Finance Committee appointed and have taken up their duties.</i> According to the Appraisal Report, this condition was satisfied in early 2005; however, evidence was not submitted to the ADF until late 2005.
<i>Adoption and publication of regulations specifying details of the Local Government revenue allocation or transfers formulas.</i> This condition was not met until late 2005, because of what appears to be disagreement within the ADF as to whether regulations or allocation formulas had been published in the Sierra Leone Gazette.
<i>Establishment of the Boards of the National Public Procurement Authority and the Independent Procurement Review Panel, and Procurement Committees in various ministries.</i> Names for the procurement committee for the Ministry of Mining and Mineral Resources were not submitted until end of December.
<i>Advertisement and appointment for Accountant General and two Deputy Accountant-Generals.</i> This condition was initially not met as only one Deputy post was advertised. Subsequently, a second post was advertised but remained unfilled because of severe shortage of qualified candidates and competition with the private sector. The condition was met in December, 2006.
Reform agenda, second tranche
<i>A comprehensive implementation plan for the new GBAA.</i> No evidence is available as to when this condition was met.
<i>At least 5 local government councils pass the minimum conditions for disbursement under the Local Government Grant Operation Manual.</i> This condition was met by early 2006, when 16 local councils were eligible for fund transfer and 13 had received such transfers.
<i>NPPA and the IPRP staffed and operational in 2005.</i> Satisfactory evidence of fulfilment of this condition – the letters of appointment - was not provided until November 2006. In the absence of reviewing the actual appointment letters, it is not clear whether the delay occurred because the persons were not appointed (incomplete reform) or because the required evidence was not forwarded to the ADF (communication /requirement issues).
<i>Advertised and published the revised procedures for the procurement and distribution of essential drugs, as well as distribution targets for each district through media.</i> This was satisfied by early 2006.

ANNEX III. AFRICAN DEVELOPMENT BANK (ADB) ECONOMIC REHABILITATION AND RECOVERY PROGRAMME (ERRP III) GRANT — PROJECT COMPLETION REPORT

Introduction

The Economic Rehabilitation and Recovery Programme (ERRP III) Grant Agreement of UA10.70 million was signed on 27th July 2005 between the Government of Sierra Leone (GOSL) and ADB. The purpose of the grant was to provide balance of payment support that will contribute to and facilitate the restoration of economic growth and poverty alleviation in economy. The programme was to consolidate and deepen the reform agenda in two key areas of economic governance set under ERRL II & I: (a) promoting accountability and transparency in public financial management: and (b) promoting decentralization of economic management and local governance reform.

This report will focus mainly on the disbursement, accounting for the loan funds and counterpart funds generated from the sale of foreign exchange to finance eligible imports and achievements of programme objectives.

Disbursement of funds

In accordance with the Grant Agreement, an adequate accounting system was put in place to monitor and account for the disbursement of funds. A special Account was opened with Crown Agent Bank Limited, London to receive part of the funds disbursed from the Grant account to finance eligible imports. A total of UA10.70 million was disbursed in two tranches. The amounts disbursed were as follows:

<u>Loan Amount</u>	<u>Unit of Account (UA)</u>
First Tranche	5,350,000
Second Tranche	5,350,000
Total Loan Amount	10,700,000

The first Tranche of UA5.35 million/US\$7.73 million was disbursed into a Special Account held with Crown Agent Bank Limited, London on the January 19, 2006. The first tranche of UA5, 350,000 equivalent to US\$7,725,828.00 was utilized to fund the Foreign Exchange Auction to finance eligible imports as follows:

<u>Date</u>	<u>Amount in US Dollars</u>	<u>Leone Equivalent</u>
February 15, 2006	500,000.00	1,478,800,000.00
February 22, 2006	1,131, 200.00	3,347,632.022.00
March 1, 2006	1,100,000.00	3,258,862,710.00
March 8, 2006	1,100,000.00	3,264,400,000.00
March 15, 2006	1,120,000.00	3,326,298,200.00
March 22, 2 006	1,020,000.00	3,036,540,000.00
March 29, 2006	1,020,000.00	3,039,804,000.00
April 5, 2006	600,000.00	1,792,600,000.00
	<u>7,591,200.00</u>	<u>22,544,526,942.00</u>

The second and final tranche of UA5.35 million (US\$8,042,280.50) was also disbursed into the Special Account held with Crown Agents Bank Limited, London on the December 8, 2006. The second and final tranche of US\$8,042,280.50 was also utilized to fund the Foreign Exchange Auction to finance eligible imports as follows: -

<u>Date</u>	<u>Amount in US Dollars</u>	<u>Leone Equivalent</u>
January 10, 2007	1,140,000.00	3,392,838,600.00
January 19, 2007	1,160, 000.00	3,448,936.700.00
January 24, 2007	1,140,000.00	3,396,064,000.00
January 31, 2007	1,140,000.00	3,398,709,100.00
February 7, 2007	1,160,000.00	3,460,426,793.00
February 14, 2007	1,160,000.00	3,464,178,655.00
February 21, 2007	1,172,563.14	3,504,944,858.67
May 2, 2007	100,000.00	296,000,000.00
	<u>8,172,563.14</u>	<u>24,361,097,706.67</u>

Accounting for Fund Disbursed

In accordance with the Grant Agreement, an adequate accounting system was put in place to monitor and account for the disbursement of funds. A special Account was opened with Crown Agents Bank Limited, London to receive all funds disbursed from the Grant account to finance eligible imports. The Special Account was credited with the first tranche of UA5.35 million and Second and final tranche of UA5.35 million.

The first tranche of UA5.35 million counterpart funds of Le22, 492,976,639.20 and second tranche of UA5.35 million with counterpart equivalent of Le23, 678,082,248.10 were immediately credited into the Government Treasury main Account No. 1100823 held with the Bank of Sierra Leone upon disbursement of the funds into the Special Account at Crown Agents limited, London.

An amount of US\$4,345.36 represents the unutilised balance in the Special Account held in the Crown Agents Bank Limited, London.

Achievement of the Programme Objectives

Impact of Grant on the Economy The ERRP III funds provided balance of payments support that contributed and facilitated the restoration of economic growth, supply response and poverty alleviation.

Macroeconomic Performance Domestic output grew by 7.3 percent and 7.4 percent in 2005 and 2006, respectively, reflected in part by increased activity in agriculture, diamond, rutile and bauxite mining, manufacturing, construction and services. Year-on-year inflation declined from 13.1 percent in end-2005 to 8.26 percent in end-2006.

However, electricity generation hit new lows, and is cited as a major impediment to broad-based growth particularly in industry. This has the potential of having a negative impact on the inflation rate in 2007, which is already in the double digits at 12.8 percent by end-February 2007.

Fiscal Management Domestic revenue amounted to 11.5 percent of GDP in 2006 compared to 11.8 percent in 2005, but fell well short of the programme target of 12.7 percent of GDP. This performance reflects missed targets across Income Tax, Customs and Mineral revenue collection particularly in the second half of 2006 and provides cause for concern. Total expenditures amounted to 16.2 percent of GDP in 2006 compared to 17.6 percent of GDP in 2005, and narrowly exceeded the programme ceiling of 15.9 percent of GDP.

Total expenditures equaled 16.2 percent of GDP in 2006 compared to 17.6 percent of GDP in 2005 and narrowly exceeded the programme ceiling of 15.9 percent of GDP. Recurrent expenditure was very narrowly below the programme ceiling of Le 389.6 billion or 9.1 percent of GDP. Wages and salaries narrowly exceeded program targets but were below those paid out in 2005 as a percentage of GDP.

Goods and services expenditures amounted to 7.2 percent of GDP in 2006 relative to 7.6 percent in 2005 and narrowly exceeded the programme ceiling as the over-run in 'general and others' more than offset the under-spending in the social and economic sectors and defense. Total interest payments declined to 2.7 percent of GDP in 2006 from 3.5 percent in 2005.

Development expenditure amounted to 5.0 percent of GDP compared to 5.8 percent of GDP in 2005 and fell short of program targets due to lower than budgeted disbursement of foreign loans and grants. Development expenditure however rose sharply in the second half of 2006 due to an increase in payments for completion of Bumbuna and rehabilitation of trunk and feeder roads.

As a result of the lower than expected domestic revenue collection and higher than budgeted expenditures the overall budget deficit on commitment basis excluding grants was estimated at 9.7 percent of GDP compared to the programme target of 8.3 percent of GDP. This however represented an improvement on the deficit of 11.7 percent of GDP for 2005.

Monetary Performance The general trend in monetary aggregates in 2006 was expansionary though at a much slower rate of growth compared to 2005. Money supply (M2) expanded by 21.45 percent in 2006 compared to 31.29 percent in 2005, while Reserve Money also increased by 10.65 per cent in compared to an expansion of 24.26 per cent in 2005. The increase in M2 resulted from the expansion in M1 (Le65.13bn) and commercial banks' deposits (Le90.21bn). The rise in M1 was due to the Le44.13bn increase in currency in circulation and Le20.99bn in demand deposits. The high demand for cash during the festive season in 2006 contributed greatly to the large increase in M1. The source of growth in M2 could be attributed to the rise in Net Domestic Assets

(Le108.85bn) coupled with Net Foreign Assets (Le46.48bn). The increase in Net Domestic Assets of 17.06 per cent was mainly the result of the rise in Net Credit to Government by the Banking System and Credit to Private sector. Net Foreign Assets expanded by 54.10 per cent but was far lower than the growth in 2005 of 182.76 per cent.

Commercial banks credit to the private sector grew by Le29.25bn (18.51%) in 2006 compared to 17.83% in 2005. Most of the commercial banks credit to the private sector during the review period went to services (Le19.17bn), commerce and finance (Le5.58bn), construction (Le4.06bn) and Electricity, Gas and Water (Le3.43bn) sectors. The increased demand for the limited securities in the primary market meant higher bidding prices and thus lower returns on these assets. This saw the average annual yield on the 91 day Treasury Bills declining to 14.19 per cent from 20.41 per cent in December 2005. Similarly, the average interest rate on Treasury Bearer Bonds went down to 17.00 per cent in December 2006 from 19.00 per cent in December 2005. Interest rates on commercial banks deposits also remained unchanged over the review period. Savings deposits stood at 7.63 per cent. 1 month, 3 month, 6 month, 9 month and 12 month time deposits were 10.38, 10.43, 11.14, 11.40 and 12.83 per cent respectively. Average lending rate on overdraft remained unchanged during the period at a range of 24.00 – 30.00 per cent.

Exchange rate market The utilization of the ERRP III funds impacted significantly on the overall monetary operations programme of the Bank of Sierra Leone, specifically in sterilising high-powered money and stabilising the exchange rate. The foreign exchange auction rate injected hard currency into the market that slowed down the rate of depreciation, which is underpinned by persistent poor foreign exchange receipts of commercial bank, shock in global market and volatility in oil prices and high import dependency needed to rebuild essential economic infrastructure.

The relatively low demand for foreign exchange plus the increase in foreign reserves coupled with prudent economic policies led to low pressure on the exchange rate, which depreciated just slightly over the year against a basket of currencies. Overall, the official exchange against the US dollar remained relatively stable throughout 2005 and 2006.

Balance of Payment Export performance improved considerably, with the total value of merchandise exports amounting to 15.0 percent of GDP, an increase of 39 percent over the 2005 figure which equaled 13.0 percent of GDP. This encouraging performance is mainly due to the resumption of rutile and bauxite mining and export activities by Sierra Rutile. The economy is still overwhelmingly dependent on minerals for export performance.

The total value of merchandise imports in 2006 amounted to 27.2 per cent of annual GDP, representing a fall in terms of percentage of GDP from the 28 percent recorded in 2005. The increase was largely explained by an increase in import of mineral fuel and lubricants due to increase in the use of vehicles and private generators to produce electricity and the import of machinery and transport equipment mainly for the continued rehabilitation of the rutile and bauxite mines.

As a result of these positive trends, the trade deficit narrowed to 12.2 percent of GDP compared with 15.2 percent in 2005.

Debt management Total external debt stock fell by 0.69% from US\$1,710.15 million in 2004 to US\$1,698.3 million at end of December 2005. This fall was primarily due to a reduction in bilateral Paris Club Debt resulting from debt cancellation. On December 15, 2006 the IMF and World Bank approved Sierra Leone HIPC Completion Point, thereby qualifying Sierra Leone to receive irrevocable debt relief from its external creditors under the Enhanced HIPC Initiative and the Multilateral Debt Relief Initiative. The Paris Club also delivered a total debt cancellation owned by Sierra Leone amounting to \$240 million.

External Reserves Official reserves rose from US\$169.7 million (3.1 months of import) in 2005 to an unexpected figure amounting to US\$184 million (3.9 months of import) in 2006.

The counterpart funds generated from the sale of the foreign exchange made available under ERRP III programme provided critical budgetary support, which enhanced the Government fiscal position to meet its commitments.

Prospects for 2007

A recent review of the economy conducted by the IMF indicates that the trend in economic performance is very likely to worsen imposing a risk to macroeconomic stability, failing the adoption of strong corrective measures. A revenue shortfall amounting to Le55 billion or 1.1 percent of GDP is anticipated and expenditures will exceed by Le23 billion or 0.5 percent of GDP, leading to a deficit of Le78 billion or 1.6 percent of GDP. Given this trend, and where uncertainties and delays occur in donor budgetary support, government will have to resort to bank financing to a level of about Le69 billion for 2007, further fanning inflationary pressures. The prevailing energy shortage is bound to worsen and further erode corporate profits and weaken NRA's ability to collect needed tax revenues.

Structural Policies and Institutional Reforms

Within the framework of agreed reforms under the ERRP-III, Government has made significant progress in the reform agenda defined by the following strategies: (a) improving public financial management by deepening the fiduciary standards; (b) strengthening budget execution; (c) designing and supporting financial management systems for local governments; and (g) reforming the public procurement system.

Improving the Budget Framework and Public Financial Management:

Participatory Budget Process – MTEF The budget formulation and execution process, once the privilege of those in high places has been radically changed from what was “a

top-to-bottom” approach to one that is now “a bottom-to-top approach”. All stakeholders are fully involved in the budget process.

The Ministry of Finance introduced a set of Medium-Term Expenditure Framework (MTEF) guidelines in August 2003 to ensure strategic planning, focusing on output/outcome (performance) indicators to enable MDAs to monitor improvements in the delivery of public services. Participation in the budget preparation and execution has been broadened to include Cabinet Ministers, vote controllers, professionals and programme managers in line ministries, civil society representatives, and NGOs. District Budget Oversight Committees have been established with the collaborative efforts of the Paramount Chiefs and Community representatives to fully participate in all stages of the budget process. The Parliamentary Finance Committee also participates in the budget preparation and provides oversight responsibilities in its execution.

Public Financial Management Following the introduction of Public Financial Management (PFM) reforms in 2004 and the adoption of a new Integrated Financial Management Information System (IFMIS) which incorporates the Chart of Accounts, a roll-out programme was started. The Police and the Ministry of Finance were first connected to the IFMIS. The plan to connect key ministries via wireless has actualised with inter-connectivity to four (4) MDAs, namely, Ministries of Health and Sanitation; Agriculture and Food Security; Education, Science and Technology; and Ministry of Works and Technical Maintenance. Further interconnectivity to all the sites is the slate which will be done as soon as the wireless connectivity proves sustainable and the necessary funds are provided.

Similarly, additional modules have been installed in the IFMIS programme: revenue, fixed assets, stores purchasing (procurement) and performance budgeting modules. The system has stringent security controls to check fraud. Bank reconciliation is now automated and performed periodically; thus giving credibility to management reports.

The legal and regulatory framework for PFM has been significantly strengthened through the enactment of the Government Budgeting and Accountability Act (2005) and the preparation of financial regulations for the implementation of the Act. The main thrust of the Act is to secure transparency, accountability, and sound management of the budget, assets and liabilities of the Government of Sierra Leone.

In accordance with the Country Financial and Accountability Assessment (CFAA) report of 2001, the Act intends to rectify a number of clumsy provisions of the Public Budgeting and Accounting Act 1992 (as amended) which did not adequately reflect the important oversight roles of both Parliament and the Audit Service in the execution and monitoring of the national budget, including the internal audit and public expenditure tracking survey issues.

To improve financial accountability and reporting systems, the Accountant General and one Deputy including seven professionally qualified accountants were appointed.

Training is underway for the middle-level cadre of staff of the Accountant General's Department.

Fiscal Decentralization Government took positive steps in 2004 in reinstating decentralized governance and a democratic local government system dissolved for 32 years. The Local Government Act was enacted in March 2004 followed by local government elections in May 2004. Consistent with the Act, a devolution plan and timetable were developed by MDAs for the transition period 2005-2008. Staffing in the 19 councils was completed followed by training and orientation of local councils' staffs. The Ministry of Finance identified budgetary resources (for the 2005 budget) from line ministries for the devolved functions using a grants distribution formula, which reflects the relative needs of each council. The Ministry of Finance supported all councils to prepare, approve and successfully implement medium term budgets for 2005 and 2006, in an inclusive, participatory manner and organised Public Budget Hearing for the first time in 2006/07.

By 2006, all the 19 local government councils had passed the minimum conditions for disbursement under the Local Government Development Grant Operational Manual and the local government finance distribution formula which were gazetted. In 2006, the Ministry of Finance ensured that all councils were appropriately and equitably funded to maximise service delivery in health, education, agriculture, solid waste, social welfare, youths and sports, development projects, and administrative functions in line with budgetary provisions. Total funds transferred were Le 33.4 Billion from the non-salary recurrent expenditure, representing more than 80 percent of effective functional devolution.

The Government will transfer in 2007, the total amount of Le 47.1 billion as non-salary recurrent grants representing 13.6% of total non salary recurrent expenditure.

The Ministry of Finance supported councils in enhancing their revenue raising capacity and maximising fiscal autonomy. Total Revenue collected by all 19 councils in 2005 was Le4.5 billion. In 2006, the amount is almost Le 5 billion, representing 1.06 % contribution to national domestic revenue effort.

The National Revenue Authority To improve tax administration, the Ministry of Finance established the National Revenue Authority (NRA) in 2002. NRA has decentralized the income tax department through the creation of tax districts and Taxpayer Service Units (TSU) in each district; established a Large Taxpayer Unit (LTU) to improve the management of tax arrears; streamlined the clearing of goods at the port; established Flexible Anti-Smuggling Teams (FAST) to lead the fight against smuggling; developed a strategy for the computerization of tax procedures; and mounted effective publicity and education campaigns to sensitize taxpayers on their obligation. In 2004, the Government transferred to the NRA the three percent of tax revenues specified in the Act in order to strengthen the institution. The Government Gold and Diamond Evaluation Office became fully integrated into the NRA's Income Tax Department to facilitate the collection of the withholding tax for diamond exports. The assessment and collection of

non-tax revenues have been fully delegated to NRA. NRA has developed appropriately securitized receipts now in use in the assessment and collection of all public revenues.

The Ministry of Finance initiated in 2004 the process for Sierra Leone to adopt the ECOWAS Common External Tariff (CET) by undertaking a study to determine the impact of adopting the CET on government revenues. Implementation of the recommendations of the study commenced in fiscal year 2005, making Sierra Leone the first WAMZ member country to adopt the CET in the agreed transition period 2005-2008.

The National Revenue Authority now processes duty waiver requests from all other NGOs.

Payroll Management The most challenging aspect of budget execution in recent years has been the management of the Government wage bill, which has been adversely affected by instability and unpredictability. A payroll audit has been done and steps are being taken to take corrective measures. All civil servants now receive wages and salaries through the commercial banking system. This has led to enhancing the control mechanism to curb wastage of public resources and eliminate the “ghost workers” syndrome.

Procurement Reforms The Ministry of Finance embarked on reforms to the procurement system and improvement in its efficiency and transparency from 2002 to 2004. Following the suspension of the activities of the Central Tender Board in March 2003, a Procurement Reform Steering Committee chaired by the Vice President and a Technical Working Group were established. The cumulative effort of the Steering Committee and the Technical Working Group resulted in passing into law the new National Public Procurement Act by Parliament in December 2004. A National Public Procurement Authority Board and an Independent Review Panel have been established and procurement committees with responsibility to determine the procurement needs on of their entities based on a decentralized procurement system were created in all MDAs including Local District Councils.

The Ministry in collaboration with the National Public Procurement Authority (NPPA) has pioneered the preparation of procurement plans by all MDA. Concurrently, procurement committees have been established in all MDAs and Local Councils, as well as procurement units which are charged with the responsibility for all procurements.

Improving Service Delivery As part of its continuing effort to ensure transparency and accountability in the management and use of public resources, the Ministry of Finance introduced annual public expenditure tracking surveys (PETS) in 2001. To date, 7 PETS have been conducted. This has improved public service delivery especially in the social sectors. It has also promoted transparency and accountability in the management and use of public resources.

The implementation of the recommendation of the Public Expenditure Tracking Surveys (PETS) has enhanced transparency and accountability in the management of public resources. This include advertising and publication of the revised procedures for the procurement and distribution of essential drugs, as well as the distribution targets for each district in local newspapers and posting of such procedures on district notice boards and in PHUs.

Private Sector Development The private sector is critical to economic growth, income generation, employment, and ultimately poverty reduction. Consistent with Government's commitment to create the enabling environment for the private sector to become stimulated and participate in the recovery and growth of the economy, over the years Government has made several efforts to rationalize our tax regime to make it investment friendly. As a result portfolio investments from overseas are on the increase, evidenced by the resuscitation of rutile and bauxite mining. Import tariffs have been gradually reduced including the enactment of an Investment Promotions Act in 2004 to provide guarantees for investors and to create a level playing field and security for investors. Government has streamlined the clearance process at the quay to rationalize clearing and forwarding activities and charges with a view to minimizing the transaction costs of these activities at the port.

The study on 'Administrative Barriers to Investment' has been completed and implementation of the recommendations has commenced since January 2006. The Foreign Investment Advisory Service (FIAS) of the World Bank and DfID have already committed funds for the creation/establishment of a new Investment Agency and Export Development Organ to replace the Sierra Leone Export Development and Investment Corporation. An Investment Incentives has been laid in Parliament to give additional incentives, while targeting key production areas including agriculture, agro-processing and tourism. Similarly, a private sector development strategy for the medium- to long-term is being developed including a policy for micro, small and medium enterprises (MSMEs).

Government interests in our public enterprises are being divested under a divestiture programme of the National Commission of Privatization (NCP). Donor partnership is being leveraged to efficiently divest government interests while making some others better service providers and less dependent on government support.

To ensure market efficiency, boosting production, and improving the competitiveness of the economy, Government sees the provision of good infrastructure including roads, electricity and water supply as the main drivers. In this regard, substantial funds have been allocated in the medium term to complement donor funding for the construction, reconstruction and rehabilitation of intercity and feeder road networks throughout the country.

The Law Reform Commission is currently reviewing several laws with a view to improving the rule of law and ensuring fear treatment of all persons. This includes the promulgation of the Anti-Money Laundering Act for combating the laundering of illicit

money in Sierra Leone. Several old laws such as the Companies Act of 1875 are being reviewed. The Bankruptcy Act and the Payment Systems Act are expected to be enacted into law shortly.

The Bank of Sierra Leone has adopted policies to encourage the modernization of the banking sector. Several commercial banks and other financial institutions, in insurance and capital market transactions are springing up, with impressive infrastructure with a network of branches across the country to promote a massive boost in financial intermediation. Currently, the Bank of Sierra Leone is seeking to improve the credit risk assessment capacity of commercial banks and explore the possibility of setting up a Credit Bureau to improve the flow of information on current and potential bank customers. In order to facilitate medium and long term lending and borrowing transactions in money and money denominated instruments and subsequently enhance development of both the private and public sectors, the Bank is supporting the establishment of a Stock Exchange which will also assist the privatization efforts of Government. Also, the Bank is pursuing the modernization of the national payments system supported by the establishment of an Electronic Clearing House to expedite the settlement of cheque payments with a long-term objective of a Real Time Gross Settlement (RTGS) System which will fall within the framework of achieving the proposed harmonization of national payments systems programme in the West African Monetary Zone (WAMZ). The drive to improve rural financial intermediation has been effectively pursued by the Bank of Sierra Leone. Several Community Banks have been opened in the provinces.

Government of Sierra Leone

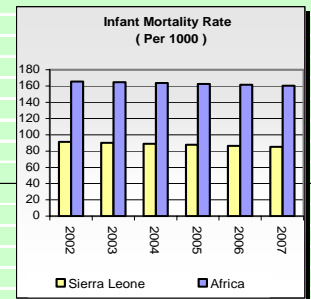
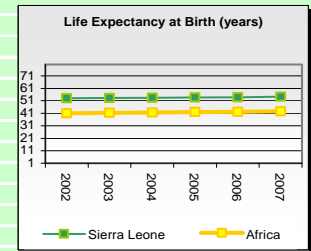
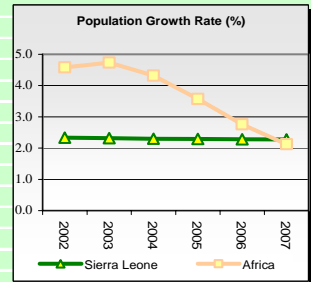
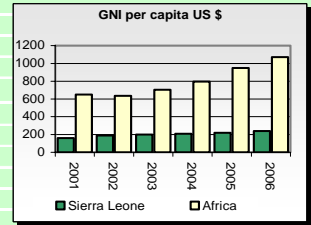
May 2007

ANNEX IV. SOCIO-ECONOMIC INDICATORS

Sierra Leone

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Sierra Leone	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		72	30 307	80 976	54 658
Total Population (millions)	2007	5.9	963.7	5 448.2	1 223.0
Urban Population (% of Total)	2007	37.2	39.8	43.5	74.2
Population Density (per Km ²)	2007	81.8	31.8	65.7	23.0
GNI per Capita (US \$)	2006	240	1 071	2 000	36 487
Labor Force Participation - Total (%)	2005	36.1	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	37.6	41.1	39.7	44.9
Gender-Related Development Index Value	2005	0.320	0.486	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2005	177	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2003	70.0	34.3
Demographic Indicators					
Population Growth Rate - Total (%)	2007	2.1	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2007	3.9	3.5	2.6	0.5
Population < 15 years (%)	2007	42.9	41.0	30.2	16.7
Population >= 65 years (%)	2007	3.3	3.5	5.6	16.4
Dependency Ratio (%)	2007	85.9	80.1	56.0	47.7
Sex Ratio (per 100 female)	2007	97.0	99.3	103.2	94.3
Female Population 15-49 years (% of total population)	2007	23.2	24.2	24.5	31.4
Life Expectancy at Birth - Total (years)	2007	42.6	54.2	65.4	76.5
Life Expectancy at Birth - Female (years)	2007	44.2	55.3	67.2	80.2
Crude Birth Rate (per 1,000)	2007	46.2	36.1	22.4	11.1
Crude Death Rate (per 1,000)	2007	22.1	13.2	8.3	10.4
Infant Mortality Rate (per 1,000)	2007	160.3	85.3	57.3	7.4
Child Mortality Rate (per 1,000)	2007	278.1	130.2	80.8	8.9
Total Fertility Rate (per woman)	2007	6.5	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2005	2 100	723.6	450	8
Women Using Contraception (%)	2000	4.3	29.8	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	3.1	39.6	78.0	287.0
Nurses (per 100,000 people)	2004	34.2	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	43.0	50.4	59.0	99.0
Access to Safe Water (% of Population)	2004	57.0	62.3	80.0	100.0
Access to Health Services (% of Population)*	2004	38.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	39.0	45.8	50.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	1.6	4.7	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	475.4	300.7	275.0	18.0
Child Immunization Against Tuberculosis (%)	2006	82.0	83.7	85.0	93.0
Child Immunization Against Measles (%)	2006	67.0	75.4	78.0	93.2
Underweight Children (% of children under 5 years)	2005	30.0	28.6	27.0	0.1
Daily Calorie Supply per Capita	2004	1 849	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2004	1.9	2.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2004	145.0	96.4	91.0	102.3
Primary School - Female	2004	122.0	92.1	105.0	102.0
Secondary School - Total	2004	14.0	44.5	88.0	99.5
Secondary School - Female	2004	14.0	41.8	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2001	38.4	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2006	64.9	33.3	26.6	1.2
Adult Illiteracy Rate - Male (%)	2006	53.1	25.6	19.0	0.8
Adult Illiteracy Rate - Female (%)	2006	75.6	40.8	34.2	1.6
Percentage of GDP Spent on Education	2006	5.6	4.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005-07	6.8	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-07	2.9	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-07	3.0	10.9
Per Capita CO2 Emissions (metric tons)	2005-07	0.1	1.0	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : April 2008

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available;

ANNEX V: IMPLEMENTATION PERFORMANCE

Component indicator	Score	Remarks
<i>Government of Sierra Leone</i>		
1. Compliance with general time schedule	3	After the delays incurred in effectiveness, disbursement was on track. The Government responded to request for more information or evidence on the fulfilment of loan conditions.
2. Compliance with general cost schedule	4	99.5 percent of resources disbursed in 2006
3. Compliance with contractual clauses	2	Quarterly or other regular reports on reform progress were not submitted. Macroeconomic information sent to IMF but not to donor group.
4. Adequacy of monitoring, evaluation and reports.	2	Weak reporting. Evidence was available from the PAF monitoring framework, however.
5. Operation satisfaction.	3	Overall reform progress was satisfactory given capacity constraints.
TOTAL	14	
OVERALL ASSESSMENT	2.8	Satisfactory
<i>ADF</i>		
1. Identification	3	Relevant identification of Grant Recipient's needs grounded in PRSP and CSP.
2. Preparation	3	The preparation of the ERRP III relied on experience from previous operations as well as other donors. The programme was prepared in close liaison with the Government and the MDBSG. PAF not yet fully aligned, however.
3. Appraisal	3	Comprehensive appraisal report. However, risks related to election-driven spending as well as capacity constraints may not have been sufficiently addressed and recognised. Some reform progress indicators inadequate.
4. Supervision	2	Weakest point as limited reporting from the government should have warranted close follow-up from the Fund.
TOTAL	11	
OVERALL ASSESSMENT	2.8	Satisfactory
<u>Legend:</u> 4 = Highly satisfactory. 3 = Satisfactory, occasional problems, monitoring required. 2 = Unsatisfactory; problems, close monitoring required. 1 = Highly unsatisfactory. Action is required.		

ANNEX VI. DOCUMENTS CONSULTED

IMF:

IMF Article IV, February 2007: Main report and Statistical Appendix
IMF Mission A-M, November 2007.

World Bank:

ERRL IV Project Completion Report
PER Concept Note
Fiduciary Risk Assessment

AFDB:

ERRP II Project Completion Report
Supervision missions
Protocol of Agreement for ERRP III
Appraisal Report
BTOR supervision mission 9-22 September, 2006
BTOR supervision mission 29 November 2006 -8 December 2006
BTOR supervision mission 12 -26 May 2007
Negotiation documents
Correspondence and matrices for tranche release

Multi-Donor Budget Support Group:

MOU for the Joint Assessment of the PAF, 2006
MOU for the Joint Assessment of the PAF, 2007
PEFA Report, August 2007

Government of Sierra Leone:

Government Budget Speech 2007
Letter of Development Policy, 10th May, 2005
Project Completion Report (Annexed)
Correspondence and matrices for tranche release

Other:

Lawson, 2007, DFID budget support to Sierra Leone 2004 – 2007: Achievements and lessons for the future. Review Report, Overseas Development Institute, August 2007