AFRICAN DEVELOPMENT FUND

PROJECT COMPLETION REPORT

STRUCTURAL ADJUSTMENT LOAN
(SAL I)

REPUBLIC OF SIERRA LEONE

COUNTRY OPERATIONS DEPARTMENT **OCCW**
WEST REGION **OCTOBER 2005**

SCCD: G. G.

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EXECUTIVE SUMMARY

1. This was the first structural adjustment loan extended to Sierra Leone by the Bank Group. As a result of inappropriate economic policies pursued by the Government of Sierra Leone (GOSL), a drop in the volume of exports and the adverse terms-of-trade stemming from the sharp oil price increases, the economy of Sierra Leone had significant deterioration in the 1970s and 1980s. The country at the time, as now, boasted some of the poorest socio-economic indicators in the World. To deal with a highly overvalued exchange rate regime, declining government revenues, collapse of most social and economic infrastructure, sharp decline in aid flows, and the imposition of sanctions by the donor community, the GOSL introduced a home grown structural adjustment programme aimed at addressing these problems. The government implemented its programme while facing the increased influx of refugees from Liberia and a displacement of almost a third of its own population by the incursion of rebels from Liberia into the country. After reaching an agreement on a policy framework paper (PFP) with the World Bank and the IMF in 1990, the country entered into a rights accumulation programme with the IMF for the period 1992-94, and a structural adjustment programme with the World Bank for 1992-93. It was against this background that the Bank Group negotiated its adjustment programme with Sierra Leone which was approved by its Boards in October 1992 and became effective in June 1993.

2. The objectives of the Structural Adjustment Programme included: (a) creating macroeconomic stability, lowering inflation to facilitate sustainable growth; (b) restoring government's capacity to provide basic services; (c) establishing a conducive economic, institutional, and regulatory environment for private sector development; and (d) highlighting social problems and poverty issues bringing them to the forefront of national policy agenda and incorporating concrete actions to address directly, the impact of the structural adjustment programme on vulnerable social groups and poverty. To ensure the success of the programme and boost Government's implementation capacity, institutional arrangements were put in place to ensure the effective formulation, co-ordination, implementation and commitment to economic and social policy reform at the highest level of Government.

3. Most of the conditions for the release of the first tranche of the loan were either already fulfilled at the time of loan appraisal or were in the process of fulfillment prior to effectiveness in June 1993. As a result, the first tranche of the loan (UA 11.05 million) was released on effectiveness. At the time of the mid-term review in April 1995, however, it was discovered that two of the eight conditions for second tranche release had not been met. Instead of entering into performance contract with the Sierra Leone Ports Authority and the Guma Valley Water Company as required under the loan, the Government had, in fact, procured the services of a management company for the former and was reorganizing the latter. Secondly, the Government had failed to consult and agree with the ADF on the composition of revenue and expenditure proposals for 1993/94, and the 1993/94-1995/96 public investment programme as required under the loan agreement. Even after waivers of these conditions were secured, the second tranche could not be released because of slow utilization of the first tranche released earlier, because of a very strict and limiting interpretation of the negative list. Resolution of this question took an inordinately long time to arrive at, resulting in the deletion of the limiting items from the negative list. The protracted rebel war, procurement-related issues, and delay in releasing the final one percent of the loan, adversely affected the execution of this project. This also affected the degree of compliance with reporting requirements on the part of the Government.

4. The serious security situation prevailing in the country resulted in considerable delay in implementing and completing the programme. As a result of the conflict, the economy has deteriorated over the years, rendering projected economic performance indicators contained in the appraisal report irrelevant. Nevertheless, the programme has succeeded in providing much needed resources for the importation of essential commodities and inputs that kept the economy going, sustained manufacturing production, assisted in closing the budgetary and foreign exchange gaps and helped to impart some degree of stability to the exchange rate.

5. The programme was packaged with the companion Social Action and Poverty Alleviation Loan (SAPAL) which directly focused attention on addressing the social impact of the adjustment programme and give center stage to poverty alleviation. Unfortunately, the deterioration in the security situation in the country during the implementation of SAL I prevented the socio-economic indicators from improving. However, it is probably safe to say that without the programme, the social situation would have been much worse than was the case.

6. The programme is sustainable given that the Government feels a sense of ownership of the programme and is willing to continue the reforms instituted under the programme. In fact, the Government has undertaken other adjustment operations with other donors where the reforms introduced under SAL I have been deepened. Adverse war and security situations have not deterred the Government in its goal of pursuing policy reforms.

7. Both the Bank Group and the Borrower (GOSL) performed generally well given the circumstances. The appraisal report correctly identified and presented priorities and problems of the economy, the conditions included in the loan were appropriate and reflected a correct assessment of the requirements to move the economy forward at the time. The objectives of the loan were clear and relevant and the justification for the loan was well thought out. The number of supervision missions fielded were too few given the length of the project, but the missions were adjudged useful. Nevertheless, it took to long to resolve issues particularly relating to the negative list and disbursement. The Borrower, on the other hand, established a monitoring and data collection function within the project implementing unit but fell short in terms of following up on the fulfillment of conditionalities or familiarizing itself with, and following the Bank Group's disbursement and procurement procedures and rules and reporting requirements.

8. The overall programme is rated unsatisfactory (with an average score of 2) because of the long time overrun and less than full compliance with covenants/conditions and the low number of progress reports submitted to the Bank in relation to the length of the programme. Also, while the programme provided some of the foreign exchange needed by the country, the projected growth of the economy was not realized (even though this is due to the security situation).

9. Some of the lessons learned from the project include:

- A well designed programme can withstand the impact of war to provide much needed assistance and foreign exchange for the economy;

- Implementation should be flexible enough to take account of altered conditions or assumptions regarding the security situation facing the borrower;

- The performance or output of an adjustment operation such as this need not be judged in the context of economic growth rate only, but in terms of its impact in easing some of the constraints facing the economy, such as balance of payments and budgetary constraints;

- It is costly to keep an aged project in the portfolio for too long because it becomes an at-risk project and needs special concessions and attention. It is best to close such a project and design/appraise a new project to deal with changed circumstances of the Borrower that are expressly taken into account in the design of the new project;

- It is important to harmonize procurement, disbursement and intervention modalities with those of other development partners and donors operating in the country because it makes it easier for the Borrower to follow the same types of rules in procurement and disbursement, thereby facilitating implementation.

To minimize the problems encountered in implementing this programme, the following suggestions should be taken into account in the design and implementation of future programmes:

(a) The Bank Group should review its modality for policy-based interventions in member countries in order to bring it more in line with other donors. In particular, where the exchange regime permits, more use should be made of budgetary support in channeling quick disbursing loans to borrowers while ensuring that systems of resource and expenditure tracking are instituted to monitor funds made available in this manner. This, to be done according to Bank policies and rules, will ensure that the resources reach the beneficiary in a timely manner, and expended when needed most, without distracting from transparency and accountability.

(b) Where supporting import documents are required the procurement rules should be streamlined and simplified so that the borrower is very clear of what is required and the procedures are simple but effective;

(c) The negative list should be short and simple and standardized across loans and countries and the language should be in harmony with the objectives of the loan;

(d) There should always be an alternate economist in charge of each country in the Macroeconomic Division of the Country Operations Department to ensure that, if the substantive economist is not available, either because of missions, leave or transfer/separation, the institutional memory can be maintained and quick response provided to problems and inquiries from the Borrower;

(e) In line with current thinking in the Bank, Supervision missions, whenever feasible, should act and take decision promptly in the field on problems that come up during their missions to save time and improve implementation without sacrificing transparency and accountability;

(f) The Borrower should treat each loan and lender as separate and distinct and ensure that all covenants and conditions are met for that particular loan and lender;

(g) There should be better coordination between the Executing/Implementing Agency and the relevant arm of the Government, in this case the Ministry of Finance so that relevant information exchange between them on the project is maintained.

(h) The Borrower should familiarize itself with the rules and procedures of the Lender and make every effort to comply with them as closely as possible.

BASIC PROGRAMME DATA

1.	Loan Number	:	
2.	Borrower	:	Government of Sierra Leone
3.	Guarantor	:	Government of Sierra Leone
4.	Beneficiary	:	Republic of Sierra Leone
5.	Executive Agency	:	Ministry of Finance/Bank of Sierra Leone

A.

	LOAN	APPRAISAL ESTIMATE	ACTUAL
1.	Amount (UA/Million)	18.421	18.421

2. Interest Rate: Service charge of 0.75% p.a. on amounts disbursed/outstanding

3.	Repayment Period	:	50 years
4.	Grace Period	:	10 years
5.	Loan Negotiation Date	:	19 September, 1992
6.	Loan Approval Date	:	2 October 1992
7.	Loan Signature Date	:	06 November 1992
8.	Date of entry into force	:	21 June 1993

B. PROJECT DATA

		Appraisal Estimate		Actual	
1.	Total Cost (UA/Million)	UA 54.4		UA 52.821	
2.	Financing Plan (UA/Million)	FC	LC	FC	LC
	ADB				
	ADF	20.0		18.421	
	NTF				
	Government				
	Others: IDA	34.4			

3.	Effective Date of First Disbursement	10 September 1993
4.	Effective Date of Last Disbursement	31 December 2000
5.	Commencement of project implementation activities	21 June 1993
6.	Date of Completion of project implementation activities	September 2000

C. PERFORMANCE INDICATORS

1.	Cost overrun/underrun (%)	0%
2.	Time Overrun/underrun (%)	521%
VIII.	Slippage on Effectiveness (%)	8 months
IX.	Slippage on Completion Date (%)	84 months
X.	Slippage on Last Disbursement (%)	87 months
XI.	Number of extensions of last disbursement Completion date	5
3.	Project Implementation Status:	Completed

4. List of Verifiable Indicators and levels of achievement (expressed as % of planned levels)
5. Institutional Performance: Unsatisfactory

6. Contractor Performance: Not Applicable
7. Consultant Performance: Not Applicable

			APPRAISAL	PCR
8.	I E R	N/A		
9.	I F R	N/A		

D. MISSIONS

	No. of Persons	Composition	Man-days
XII. Identification			
XIII. Preparation			
XIV. Appraisal	5	3 Staff 2 Cons.	160
XV. Follow-Up			
XVI. Supervision	2	2 Staff	62
XVII. PCR	2	1 Staff 1 Cons.	14

E.

DISBURSEMENT -	APPRAISAL ESTIMATE	ACTUAL	PERCENTAGE DISBURSED
XVIII. Total Disbursed	18.421	18.421	100%
XIX. Amount Cancelled	0.0	0.0	0%
XX. Unused Balance	0.0	0.0	0%
XXI. Yearly Disbursement			

F. CONTRACTOR(s)/SUPPLIER(s)

XXII. Name	:	Chevron International Trading Company
XXIII. Responsibility	:	Supply of Petroleum Products
XXIV. Date contract signed	:	6/11/92
XXV. Date contract terminated	:	5/7/96
XXVI. Contract Duration	:	4 years
XXVII. Amount (UA/Million)	:	4.61 UA million (25% of total loan amount)

G. CONSULTANT: N/A

1. Introduction

1.1 This was the first Structural Adjustment Loan extended to Sierra Leone by the Bank Group. The economy of Sierra Leone had experienced significant deterioration in the 1970s and 1980s. This resulted from inappropriate economic policies pursued by the government, a drop in the volume of exports and adverse terms of trade stemming from the sharp increases in petroleum prices and deterioration in the prices of domestic exports. In 1986, the Government had introduced the Programme for Economic Recovery (PER) and the Green Revolution Programme (GRP) covering 1986-1989 and supported by an IMF standby arrangement. The programmes introduced reforms in the exchange rate system, public sector management and liberalised prices and provided better incentives in agriculture and industry and attempted to achieve food self-sufficiency. They introduced strict controls over public expenditures, domestic credit and non-concessional borrowing, and reduced external payment arrears and float the leone. The government was unable to sustain the reforms under the programme. Consequently, the programme failed and arrears started to build up, forcing major donors to suspend disbursements.

1.2 In November 1987, the government introduced the National Economic Emergency Programme (NEEP), which was characterised by strict controls over foreign exchange with consequent overvaluation of the exchange rate, increasing parallel market premium, smuggling and deterioration in the current account deficit and exchange reserves. With an overvalued exchange rate, declining government revenues, collapse of most social and economic infrastructure, sharp decline of foreign aid, and the imposition of sanctions by the donor community, the Government embarked on a home-grown Structural Adjustment programme in 1989 designed to address these problems. The programme included introduction of a market-determined exchange rate, restoration of monetary and fiscal balance and adjustment of relative prices in favour of the productive sectors and rehabilitation of the economic and social infrastructure. The Government implemented this programme while facing the increased influx of refugees from Liberia and the displacement of almost a third of the population by the incursion of the rebels from Liberia. Coupled with the oil price increase occasioned by the Gulf war, these conditions worsened the prospect of economic growth and exacerbated the macroeconomic imbalance.

1.3 The Government reached agreement on a PFP with the World Bank and the International Monetary Fund, which was approved by their respective Boards in August of 1990. Subsequently, the Government entered into a rights accumulation programme with the IMF for 1992-94 and a Structural Adjustment Programme (Reconstruction Import Credit) with the World Bank for 1992-93. The African Development Bank participated in earlier discussions of the RAP and RIC with the Government in September 1991. It also participated in the SPA meetings in April and October of 1991 and the informal donors' meeting held in February 1992 where the donors expressed strong support for the Government's reform effort. The Bank Group also expressed an interest in co-financing the Structural Adjustment Programme. The World Bank's RIC was approved by the IDA Board on April 14 1992 following the IMF Board's approval of the RAP on April 3 1992.

1.4. It was against this background that the Bank's programme was appraised between March 21 and April 5 1992. In order to set up an effective policy, institutional and operational framework at the highest level of Government to manage the adjustment programme, a post appraisal mission was mounted from June 1-18 1992. Loan negotiation took place on 19 September, 1992, the loan was approved on 2nd October 1992, signed on 6th November 1992 and became effective on 21 June 1993.

1.5. The appraisal document combined two loans: the SAL and the SAPAL. The programme was designed and implemented at a time when Sierra Leone was entering into one of the worst period of human tragedy in its history. It was felt that to minimize the substantial loss of lives, particularly infants, as a result of the severe economic and social upheaval, additional resources were urgently required. It was also recognized that implementation of an adjustment programme under the circumstances could potentially worsen the hardship of vulnerable groups. To mitigate these adverse impacts on vulnerable groups, the Social Action and Poverty Alleviation Loan (SAPAL) was combined in the appraisal document with the SAL. Both programmes conformed to the Bank Group's medium term lending strategy for Sierra Leone at the time. 50% of the ADF V allocation could be used for policy-based lending. The emergency SAPAL programme which conformed to the Bank's sectoral strategy for the country placed emphasis on rehabilitation of basic social and economic services, particularly basic and vocational education, and primary health care, support for increased productivity in small and medium scale activities. Prior to SAL I, the Bank Group had been involved in 18 operations amounting to UA 11.4 million for the ADB and UA 100.04 million for ADF. At the time, seven of the 18 projects approved had been completed. The projects were in agriculture, public utilities, social sector (particularly in education), and transport. There was one multi-sector operation – and institutional support for the Debt Management Units in the Ministry of Finance and the Bank of Sierra Leone approved in 1991.

1.6. The social indicators, then as now, were among the worst in the World. Per capita GDP had declined by over half from 1980 to 1990/91. School enrolment, infant mortality and child nutrition had deteriorated; only a small proportion of the population had access to health facilities and other social services, safe drinking water and electricity. Inflation was high as a result of the lax monetary and fiscal policies pursued by Government, and the exchange rate was overvalued, resulting to a wide premium between the official and the parallel market exchange rate.

2. <u>Project Objectives and Formulation</u>

2.1 The objectives of the Structural Adjustment Programme included: (a) creating macroeconomic stability, lowering inflation to facilitate sustainable growth; (b) restoring government's capacity to provide basic services; (c) establishing a conducive economic, institutional, and regulatory environment for private sector development; and (d) highlighting social problems and poverty issues bringing them to the forefront of national policy agenda and incorporating concrete actions to address directly, the impact of the structural adjustment programme on vulnerable social groups and poverty.

2.2 Real GDP was expected to grow at an average rate of 4 percent per annum in 1992-93, with higher growth rates in subsequent years, on the assumption that the security situation improved. Investment was expected to increase from 10.7% of GDP in 1990/91 to 15 per cent in 1993/94, financed largely from foreign sources. The budget deficit which was 5.5% in 1990/91 was targeted to disappear in 1993/94. Inflation rate was also expected to decline from 101% in 1990/91 to 37.1 percent in 1992/93, with private investment rising from 6.8% of GDP in 1990/91 to 9.3% in 1993/94 and the current account deficit declining from 17.3% of GDP in 1990/91 to 14.6% in 1993/94.

2.3 To ensure the success of the programme and boost Government implementation capacity, institutional arrangements were put in place to ensure the effective formulation, coordination, implementation and commitment to economic and social policy reform at the highest level of Government. These included the Inter-Ministerial Economic and Social Policy Council comprising of the Secretary of State for Finance, Development and Planning as chairman; and his counterparts for Agriculture, Forestry and Fisheries; Labour; Energy and Power; Trade, Industry and State Enterprises;

Internal Affairs and Rural Development; Education, Sports and Culture; Health and Social Services; Attorney-General and Secretary for Justice; Economic Advisers to the Government; Governor of the Bank of Sierra Leone and two representatives of the Private Sector. Others were the Committee for Public Enterprise Reforms; the Inter-ministerial Technical Co-ordinating Committee; the Fiscal Monitoring Committee and the Social Actions and Poverty Alleviation (SAPA) Committee. Operational support for the Technical Committee was to be provided by the Economic Policy and Research Unit (EPRU) of the Ministry of Finance, Development and Economic Planning and the Research Department of the Bank of Sierra Leone.

3. Project Execution

3.1 The conditions for entry into force of the loan were that the Government would have:

- i). opened, and undertaken thereafter to maintain, on terms and conditions acceptable to the ADF, a Special External Account into which the proceeds of the ADF Structural Adjustment Loan (SAL) shall be deposited. However, it is expressly stipulated that the venue of the Account shall be agreed upon between the Borrower and the ADF;

- ii). given an undertaking that proceeds of the ADF loan resources will not be applied for servicing the Government's debt obligations to internal and external creditors;

- iii). expanded the membership of the Inter-Ministerial Economic and Social Policy Council, headed by the Secretary of State for Finance, Development and Economic Planning, to include Secretaries of State for the social sector ministries, namely Education, Sports and Culture; Health and Social Services and Internal Affairs and Rural Development, as well as a representative of the private sector;

- iv). established (a) an Inter-Ministerial Technical Coordinating Committee headed by the Financial Secretary (b) a Social Action and Poverty Alleviation (SAPA) Committee headed by the Development Secretary;

- v). upgraded the SAPA Division, designated the Head of the Unit at the equivalent of a Director and appointed staff with the appropriate backgrounds to the posts of Director, Social Action and Poverty Alleviation expert, and Monitoring and Special Studies Programme expert in SAPA Division (b) Director, Fiscal expert and Planning expert in the EPRU, to be reviewed and approved by the ADF, and also undertaken to provide adequate office space for the SAPA Division and the EPRU;

- vi). submitted to ADF, an action plan for the settlement of outstanding domestic claims on the government;

- vii). introduced the enabling legislation to empower the Income Tax Department to conduct field audit and streamline the structure of Income Tax Department;

- viii). submitted to ADF and action programme for the integration of the retrenched workers and those targeted to be retrenched into productive activities in the private sector; and

- ix). implemented the licensing of the foreign exchange bureau.

3.2 Most of the conditions for the release of the first tranche of the loan were either already fulfilled at the time of appraisal or were in the process of fulfillment prior to effectiveness on June 21 1993. Once the effectiveness conditions were fully met, the first tranche of UA 11.05 million was released.

3.3 The conditions for the release of the second tranche required that government would have:

- i). implemented the recommendations of the report on streamlining the structure of the Customs and Excise Department;
- ii). completed a comprehensive review of the mining investment taxation and incentive policies;
- iii). completed job inspection/functional reviews of the Ministries of Finance, Development and Economic Planning; Agriculture; Works; Education and Health;
- iv). completed the implementation plan for the settlement scheme on cross debts, including tax and dividend arrears agreed among the public enterprises concerned;
- v). entered performance contract with Sierra Leone Ports Authority (SLPA) and Guma Valley Water Company (GVWC);
- vi). started divestiture process of the Government's share in Sierra Leone National Petroleum Company (NP) and National Insurance Company (NIC);
- vii) taken the necessary actions to privatize all productive and commercial activities under the Sierra Leone Produce Marketing Board; and
- viii). Agreed with the ADF on the composition of revenues and expenditures proposal for 1993/94, and the 1993/94-1995/96 PIP.

3.4 Releasing the second tranche of the loan was more problematic. Of the eight conditions precedent to the release of the second tranche, six had been fulfilled, but it was discovered during the portfolio/mid-term review in April 1995 that (a) contrary to Government's agreement to enter into performance contract with the Sierra Leone Ports Authority and the Guma Valley Water Company, (condition v above) the Government had in fact procured the services of a management company for the former and was reorganising the latter, and (b) the Government had failed to consult and agree with the ADF on the composition of revenue and expenditure proposals for 1993/94, and the 1993/94-1995/96 Public Investment Programme (PIP) (condition viii) above. Since ADF had not been consulted on either of these issues prior to taking contrary actions, the Government apologised and waivers were granted leading to the deletion of sections 4-02 (5) and (8) respectively from the Loan Agreement N0. F/SIL/SAP/92/13 on 2 November 1995. The rationale under (a) above was that a performance contract was no longer necessary since Sierra Leone Ports Authority had already contracted the services of a German firm as manager, and Guma Valley Water Company was being restructured under the World Bank Urban Water Supply Project. Guma Valley Water Company was considered one of the most profitable companies in the country so that not much could be gained by insisting on a performance contract.

3.5 In effect, the Government's actions and future intentions regarding the two parastatal entities were deemed to be in line with the original objectives of entering into performance contracts with them. It was believed that if Government continued to consolidate its efforts on the operations of the two enterprises, it would achieve largely the same or even better results than would be achieved under performance contracts. It was therefore deemed unnecessary for the Bank to continue. Therefore, the second tranche was released in order to sustain gains already made under the programme.

3.6 It was discovered that the second tranche could not be released in time because justification had not been provided for utilisation of at least 75% of the first tranche as required by the loan agreement.

3.7 A major problem that developed during programme implementation was the strict interpretation of the negative list (non-eligible imports). Items i, iv and vi precluded the importation of food items, processed and unprocessed, animal and vegetable oils for edible use and manufactured products for final consumption. Since much of the procurement were for use in light processing industries, the government found that its ability to use the proceeds of the loan for this purpose was highly circumscribed. In the event, it requested a waiver of the language of the negative list to enable it utilize the loan to finance import needs of industry at an accelerated rate. The Bank Group for a long time stuck to a strict interpretation of the negative list. The pace of utilization of the loan was therefore considerably slowed down during this period. After several years of insisting on the strict interpretation of the negative list, the Bank Group finally agreed, in August, 1998, to modify the Loan Agreement by deleting items i and iv of the negative list.

3.8 The programme provided for the use of 25 percent of the total loan amount to procure petroleum products. This was accomplished through the award of contract to Chevron International, through a process of international competitive bidding in line with Bank procedures.

3.9 Quarterly Progress Reports were required from the Borrower. Of the 32 quarterly progress reports that should have been sent over the eight years of the project, the performance of the borrower was unsatisfactory as only four were actually submitted. Annual audit reports were also required, but with no disbursements or procurements in some years, audit reports were not submitted by the Government. The same reason can be blamed for the non-submission of some of the quarterly progress reports.

3.10 On procurement, the Government of Sierra Leone claims that the Bank's procurement rules created problems for it by requiring international competitive bidding. However, it is claimed that most of the companies sourcing their inputs with the proceeds of the loan normally obtained their inputs from their headquarters and were therefore reluctant to purchase from other sources. This should not be a valid complaint for generic products since the principle of transparency is vital for the procurement process. Where proprietary inputs are concerned, however, the procurement rules provide special procedures, particularly for procurement of compatible equipment.

3.11 One other procurement related issue was related to the question of whether to seek replenishment or reimbursement for expenditures. At times it appears that the Borrower was confused as to which of these modalities to use in obtaining payment. At other times, the confusion came from the part of the Bank, which called for the country to request replenishment and thereafter informed them that the correct request should have been for reimbursement. The Bank's Disbursement Department will provide information on the average response time for disbursement, replenishment or reimbursement application by the Borrower. One glaring case was the final disbursement of UA

181,538.65, which represented less than one percent of the total loan amount but took four years to finally disburse – 1996 to 2000.

4. Programme Performance and Results

4.1 The serious security situation prevailing in the country resulted in considerable delay in implementing the programme. The programme started late, and there was a 521 percent delay in completing it as compared to the original completion date. However, the security situation was not as serious a problem as the delay in resolving the negative list or releasing the final one- percent of the loan for the long delay in completing the project.

4.2 Because of the continuing conflict in Sierra Leone throughout the period of implementation of this loan, the economy has deteriorated over the years rendering projected economic performance contained in the appraisal report irrelevant. The rebel occupation of the mining districts and the curtailment of official exports from Sierra Leone have had a negative impact on the achievement of the macroeconomic objectives and targets of the programme.

4.3 In spite of the deteriorating security situation, the programme has succeeded in providing resources for the importation of essential commodities and inputs that kept the economy going. Without donor resource inflow, the rebels would have overrun the Government of Sierra Leone as it could not have been able to maintain essential services or would have run out of foreign exchange as a result of being cut off from the source of foreign exchange earnings by the continued occupation of the export producing areas by the rebels. In addition to the much needed foreign exchange provided by the programme, it sustained manufacturing production in the country by making it possible for these industries to purchase imported inputs and spares for the running of their operations.

4.4 Without this type of support, the industries would have closed down. By remaining open and engaging in production, it also provided valuable source of employment for the population. Income from production and from employee wages in turn provided sources of revenue for the Government through taxation thereby ensuring the provision of some public services and reducing the level of fiscal deficit that would otherwise have resulted. The foreign exchange made available by the loan increased the supply of foreign exchange thereby imparting some degree of stability to the exchange rate for the leone. It went a long way in closing the foreign exchange and budgetary gaps. In the course of implementation of the programme, some technical assistance and capacity building were provided which compensated for the loss of manpower through displacement and emigration.

4.5 In spite of the foregoing, the rebel war had a negative impact on the performance of the economy. Not unexpectedly, most macroeconomic indicators fell short of appraisal estimates mainly because of the intensification of the war. Real GDP declined in every year from 1992 to 1999. Most of the other indicators (economic and social) worsened during the period. Nevertheless, although it is difficult to be categorical about what would have happened in the absence of the programme, there is no doubt that the existence of the programme, and the resources and policy reforms it provided, cushioned the extent of the deterioration that would otherwise have taken place. The 4% or higher annual growth projected for 1992/93 and beyond hinged on an improvement in the security situation, which did not materialize.

5. Social and Environmental Impact of Programme

5.1 The Structural Adjustment Programme had a social action and poverty alleviation programme component. Although it was a separate loan, this programme has had significant impact on the social landscape of Sierra Leone. In addition to providing foreign exchange for the importation of essential commodities and inputs for industry, it also endeavored to mitigate some of the adverse impacts of adjustment on the most vulnerable groups in the society. By providing inputs for industry, the loan also provided jobs for people, which helped to reduce the level of poverty that would have resulted from the war.

5.2 The loan included several conditionalities related to ensuring its social impact. First, it called for the establishment of a Social Action and Poverty Alleviation Committee, headed by the Development Secretary. Secondly, it called for the inclusion of the social sector ministries in the Inter-Ministerial Economic and Social Policy Council. Thirdly, it called for the submission to ADF of an action programme for the integration of the retrenched workers and those targeted to be retrenched into productive activities in the private sector. The foregoing were among the conditions for first tranche release. As a condition for the second tranche release, the Government was expected to agree on the composition of revenue and expenditure proposals for 1993/94 and the PIP for 1993/94-1995/96 with the ADF. This condition was included to ensure that social expenditures were protected. These were in addition to the specific conditionalities included in the companion loan, SAPAL. Unfortunately, the deterioration in the security situation in the country during the implementation of SAL I prevented the socio-economic indicators from improving markedly. However, it is safe to say that without the programme, the social situation would have been much worse than is the case today.

5.3 The SAL programme did not have any reforms directly related to the environment. As a policy-based operation, it had no adverse environmental impact, however, and may have had positive impact on the environment by promoting socially desirable expenditures such as increased spending on health and sanitation. Such emphasis should be positive for the environment. In addition, increasing expenditure on education should make the citizens more informed about their environment and how best to protect it leading to a higher impact on the environment.

6. Programme Sustainability

6.1 The programme is sustainable in the sense that the Government is concerned about continuing with the reforms started under the programme. In fact, it has undertaken other adjustment operations with other donors where the reforms introduced under SAL I have been deepened or extended. Institutional arrangements introduced under the programme, have also continued or have been improved upon.

6.2 The Government has shown a high degree of ownership of the programme and is willing to continue the reforms instituted under the programme. This is a very important factor in sustainability of the project, because it demonstrates willingness to deepen the reform programme and a conviction of their usefulness. In spite of the war that has dragged on for the past decade, the Government has stuck to the reform programme, with no hint either of abandoning it or watering it down in face of difficulties.

7. **Performance of Bank, the Borrower and Co-financiers**

A. Bank Group Performance

7.1 The appraisal report correctly identified and presented the priorities and problems of the Sierra Leone economy at the time the programme was appraised. The conditions included in the loan were appropriate and reflected a correct assessment of what was required to move the economy forward at the time. The objectives of the loan were clear and relevant and the justification for the loan was well thought out.

7.2 The Bank undertook a total of four supervision missions during the 8-year life of the programme. This translates into one half supervision per year. The number of supervision missions is therefore inadequate in terms of frequency, but given the security situation in the country, this is understandable. The Project Completion Report submitted by the Government acknowledges that the supervision missions were useful as they provided feedback on problems encountered with disbursement, the interpretation of the negative list and other operational problems such as timely processing of withdrawal/reimbursement applications. It also provided the mission an opportunity to validate and confirm the disbursement against supporting documents that justify the use of funds. Nevertheless, the Government felt that precious time was wasted by the inability of or lack of authority on the part of visiting missions to take action or resolve operational problems brought to their attention without reference to headquarters.

7.3 The Bank was partially responsible for the failure to complete disbursement in a timely manner and for the repeated extension of final closing date for the project. It usually took too long to arrive at a decision that would facilitate implementation of the project, where no clear cut issues of transparency or accountability were involved. One case in point was the question of the interpretation of the negative list. This is an issue that could have been resolved by a Supervision mission which could have verified the types of imports involved and traced their usage through the system to confirm whether these were consumption items or inputs into further production. This and similar incidents reveal a degree of rigidity on the part of the Bank in terms of project decision making affecting implementation. The result is that a process of protracted correspondence between the Bank and the Borrower ensues culminating in a simple solution that could have been arrived at much earlier. One source of delay related to the Borrower’s submissions for replenishment or reimbursement. It was sometimes difficult to know *a priori*, which to request leading to unnecessary delays and correspondence. Such delays negate the very concept of “quick disbursing” in quick disbursing policy-based operation.

B. Borrower Performance

7.4 The Borrower was quite effective in implementing the loan, given the circumstances (security situation) under which the loan was implemented. The implementing agency established a monitoring and data collection function within the project-implementing unit. However, records relating to the Loan held by the Ministry of Finance were burnt in the course of the events of May 1997. As mentioned earlier, special concessions had to be made, and the loan agreement amended in order to release the second tranche of the loan. This was because of the non-fulfillment of some of the loan conditionalities as a result of the Borrower's oversight. This may have occurred because the Bank was co-financing the loan with the World Bank and sufficient attention was not paid to the fact that the Bank Group is a separate and distinct lender with its own set of loan covenants. With effort already made *ab initio* by the Bank Group to harmonize its conditionalities as much as possible with those of

World Bank and avoid cross-conditionalities for the benefit of the Borrower, effort should have been made by the Borrower to fulfill the conditions of each lender separately. It is possible, though, that the mix-up resulted from breakdown in communications between the Government (Ministry of Finance) and the Project Implementation Unit (the Bank of Sierra Leone) in terms of communicating or ensuring fulfillment of loan conditions.

7.5 Much of the delay attributable to the Borrower had to do with issues involving procurement or disbursement procedures. The Borrower should be thoroughly familiar with the Bank Group's procurement and disbursement procedures and endeavor to comply with them in order to minimize delay. Although disbursement seminars and workshops were arranged for the Borrower, errors persisted in submitting disbursement requests, even when the rules were quite clear. Borrower performance in this area was unsatisfactory.

7.6 The Borrower exhibited ownership of the programme. In terms of reporting requirement, it provided eight progress reports instead of the thirty-two or so reports that would have been expected given the length of the programme. Given the war situation and the fact that there was little or no activity after 1996, the number of progress reports does not appear too bad, but borrower performance can only be rated as unsatisfactory. The borrower also performed unsatisfactorily in respect of submission of audit reports.

8. Overall Performance and Rating

8.1 The overall programme is rated unsatisfactory (an average score of 2) on account of the long time overrun and less than full compliance with covenants/conditions and the low number of progress reports submitted by the Borrower and hence the inadequacy of the monitoring and evaluation reporting. It is also true that while the programme made substantial progress in providing for the foreign exchange needs of the country, the projected growth of the economy was not realized.

9. Conclusions, Lessons Learned and Recommendations

9.1 The loan was expected to disburse within two years, but ended up lasting eight years because of the war and poor security situation in Sierra Leone. The duration of the programme was not the result of only the security situation in the country. Equally important were the role of Bank Group, which exhibited lack of flexibility in some cases, and the Borrower, which sometimes did not follow the procurement or disbursement procedures of the Bank Group.

9.2 Some of the lessons learned from this project are:

- A well designed programme can withstand the impact of war to provide much needed assistance and foreign exchange for the economy;

- Implementation should be flexible enough to take account of altered conditions or assumptions regarding the security situation facing the borrower;

- The performance or output of an adjustment operation such as this need not be judged in terms of economic growth rate only, but in terms of its impact in easing some of the constraints facing the economy such as balance of payments and budgetary contraints;

- It is costly to keep an aged project in the portfolio for too long because it becomes an at-risk project and needs special concessions and attention. It is best to close such a project and design/appraise a new one to deal with altered situation of the Borrower that are expressly taken into account in the design of the new project;

- It is important to harmonize procurement, disbursement and intervention modalities with those of other development partners operating in the country because it makes it easier for the Borrower to follow the same types of rules in procurement and disbursement, thereby facilitating implementation.

9.3 To minimize the problem encountered in implementing this programme, the following suggestions should be taken into account in the design and implementation of future programmes:

(a) The Bank Group should review its modality for policy-based interventions in member countries in order to bring it more in line with other donors. In particular, where the exchange regime permits, more use should be made of budgetary support in channeling quick disbursing loans to borrowers while ensuring that systems of resource and expenditure tracking are instituted to monitor funds made available in this manner. This will ensure that the resources reach the beneficiary in a timely manner, and expended when needed most, without distracting from transparency and accountability.

(b) Where supporting import documents are required the procurement rules should be streamlined and simplified so that the borrower understands clearly what is required and the procedures are simple but effective;

(c) The negative list should be short and simple and standardized across loans and countries and the language should be in harmony with the objectives of the loan;

(d) There should be an alternate economist for each country in the Macroeconomic Division of the Country Operations Department to ensure that if the substantive economist is not available, either because of missions, leave or transfer/separation, the institutional memory can be maintained and quick response provided to problems and inquiries from the Borrower;

(e) In line with current thinking in the Bank, Supervision missions, whenever feasible, should act promptly and decisively in the field on problems that come up during their missions to save time and improve implementation without sacrificing transparency and accountability;

(f) The Borrower should treat each loan and lender as separate and distinct and ensure that all covenants and conditions are met for that particular loan and lender;

(g) There should be better coordination between the Executing/Implementing Agency and the relevant arm of the Government, in this case the Ministry of Finance so that relevant information exchange between them on the project is maintained.

(h) The Borrower should familiarize itself with the rules and procedures of the Bank and make every effort to comply with them as closely as possible.

ANNEX I

Actual Costs and Financing of Project by Category of Expenditures and/or by Components

Date	Details/Component	Currency	
		UA ('000)	US$ ('000)
10/09/93	Initial Deposit	5,000.00	7,018.00
29/03/94	Reimbursement	3,604.00	5,002.00
29/03/94	General Imports	317.00	435.00
02/02/95	General Imports	1,688.00	2,519.00
01/12/95	General Imports	5,251.00	7,839.00
27/12/95	General Imports	331.00	491.00
29/01/96	General Imports	180.00	260.00
31/01/96	General Imports	537.00	771.00
17/01/96	General Imports	113.00	164.00
31/05/96	General Imports	1,060.00	1,537.00
14/06.96	General Imports	125.00	180.00
15/06/96	General Imports	33.00	47.00
29/08/00	General Imports	181.00	233.00
TOTAL		**18,420.00**	**26,495.00**
Of which:			
Petroleum Import	Petroleum Products	4,	6,506.34

ANNEX II

Yearly Disbursement by Source of Funds

YEAR	CURRENCY			
	US$	JPY	DEM	EUR
1992	-	-	-	-
1993	7,018,000	-	-	-
1994	5,044,415	40,796,086	-	-
1995	491,052	-	14,909,402	-
1996	1,701,932	5,221,549	1,804,714	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	257,950
TOTAL	**14,255,399**	**46,017,635**	**16,714,116**	**257,950**

ANNEX III

Performance Evaluation and Rating

Form IP 1: IMPLEMENTATION PERFORMANCE

Component Indicators	Score (1-4)	Remarks
1. Adherence to Time Schedule	1	
2. Adherence to Cost Schedule	4	Not quite applicable
3. Compliance with Covenants/Conditions	3	
4. Adequacy of Monitoring & Evaluation Reporting	2	5 of 32 Quarterly Reports submitted
5. Satisfactory Operations (if applicable)		
TOTAL	6	1+3+4
Overall Assessment of Implementation Performance	**2**	

BP 1: BANK PERFORMANCE

Component Indicators	Score (1-4)	Remarks
1. At Identification	2	The Bank follows the lead of the World Bank
2. At Preparation of Project	2	The Bank follows the lead of the World Bank
3. At Appraisal	4	The Bank did a good job of adapting to its needs, rules and procedures
4. At Supervision	2	Hampered by the security situation/did not always provide definitive answers to problems
Overall Assessment of Bank Performance	2.5	

FORM PO 1: PROJECT OUTCOME

No	Component Indicators	Score (1-4)	REMARKS
1.	**Relevance and Achievement of Objectives**	2.8	
i.	Macro-economic Policy	2	Adversely impacted by the war
ii.	Sector Policy	3	Mainly social sector – see below
iii.	Physical (including production)	N/A	
iv.	Financial	3	Balance of payments support
v.	Poverty Alleviation & Social Sector/Gender	4	SAPA and other social sector focus of the programme
vi	Environment	N/A	
vii	Private sector development	2	Public sector reform and privatization adversely affected by the war.
viii	Other (Specify)		
2.	**Institutional Development (ID)**	3	
i	Institutional Framework, incl. Restructuring	3	Institutions set up by the programme, particularly in policy analysis
ii	Financial and Management Information System (incl. Audit Systems)	3	
iii	Staffing by qualified persons (incl. turnover) & training.	3	Quality staff for the EPRU, DMU and lately the SAPA
3.	**Sustainability**	3.7	
i	Continued Borrower Commitment	4	Borrower is staying the course and interested in follow up programme
ii	Environmental Policy	N/A	Policy based loan. Environmentally neutral
iii	Institutional Framework	4	Institutions set up as part of the programme are functioning and being strengthened.
iv	Technical Viability and Staffing	N/A	Not applicable to PBL
v	Economic Viability	3	Although not a project, policies introduced by programme are viable
vi	Environmental Viability	N/A	Environmentally neutral
vii	O&M facilitation (availability of recurrent funding, foreign exchange, etc)	N/A	This relevant mainly to projects. Nevertheless, funds and foreign exchange made available by the loan are useful in this respect
4.	**Economic Internal Rate of Return**	N/A	
	TOTAL	34	
	Overall Assessment of Outcome	1.85	

ANNEX IV

RECOMMENDATIONS AND FOLLOW-UP MATRIX

MAIN FINDINGS & CONCLUSIONS	LESSONS LEARNED/RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
Formulation & Project Rationale	Well-designed projects improve implementation, monitoring and outcome Increase number of economists working on each country	Ensure that future projects are well designed; set aside a small portion of the loan amount to do studies, if necessary	Bank Group Bank Group
Project Implementation	Familiarity with Procurement and Disbursement rules of the Bank Group facilitates implementation Simplification and harmonization of Disbursement and Procurement procedures with other donors facilitates implementation Having someone in-country to provide liaison with Borrower and Executing Agency and clarify rules important for better implementation and project outcome	Familiarization with procurement and disbursement rules of the Bank Group Simplify Bank Group Disbursement and Procurement procedures and harmonize with other donors' Set aside a very small portion of the loan to maintain a liaison office with one indigenous staff or consultant where there is no Bank Regional office.	Borrower/Executing Agency Bank Group Bank Group
Compliance with Loan Conditions & Covenants	Greater coordination between economic policy monitoring body (Ministry of Finance) and the Executing Agency (Bank of Sierra Leone enhances compliance	Promote greater coordination between Monitoring and Executing Agencies	Ministry of Finance; Bank of Sierra Leone
Performance Evaluation & Project Outcome	Adherence to reporting requirements important Increased supervision vital	Adhere to reporting schedule and requirements Increase delegation	Borrower Bank Group
Sustainability	Borrower ownership of programme enhances sustainability	Need to continue and deepen reform measures introduced	Borrower and Bank Group

ANNEX V

GOVERNMENT OF SIERRA LEONE
PROJECT COMPLETION REPORT (PCR)

COUNTRY: Sierra Leone

PROJECT TITLE: Structural Adjustment Loan (SAL)

LOAN NUMBER: F/SIL/SAP/92/13

BORROWER: Government of Sierra Leone

EXECUTING AGENCY: Structural Adjustment Programme Disbursement Unit (SAPDU) – Bank of Sierra Leone

DATE OF APPRAISAL:

DATE OF LOAN SIGNATURE: 6TH November 1992

LOAN ENTRY INTO FORCE: June 1993

COMMENCEMENT DATE:

COMPLETION DATE (IMPLEMENTATION)

DATE OF FINAL DISBURSEMENT: August 2000

FINANCING PLAN:
ADF: UA18.421 Million

LOAN AMOUNT:
UA18.421 Million

1. **PROGRESS REPORTS:**

The Structural Adjustment Programme Disbursement Unit (SAPDU), Bank of Sierra Leone, was responsible for administering, monitoring and accounting for the utilisation of funds.

The following Quarterly Progress Reports were submitted to the ADB during the period of the SAL Loan:

(i) For the eight period ended 30th June, 1994
(ii) For the year ended 30th June, 1995
(iii) For the year ended 30th June, 1996
(iv) For the year ended 30th June, 1997

2. **SUPERVISION:**

Four supervision missions were made during SAL Project period as follows:

(i) November 1-18, 1993
(ii) November 2-19, 1994
(iii) April 15-29, 1995
(iv) June 17-July 1, 1995

The supervision mission were useful as it provided feedback on problems encountered with the disbursement of funds, the interpretation of the negative list of goods and other operational difficulties like the timely processing of withdrawal/reimbursement applications. The Supervision mission also provided an opportunity to the mission team to validate and confirm the disbursement process and supporting documents justifying the use of funds.

The Supervision missions were however in some instances not in a position to give immediate approval on the interpretation of the negative list, which would have, enhance the quick disbursement of funds. There is the need to give some level of authority to the supervision mission to give approval on proposals to enhance the timely disbursements of funds. Supervision mission should also be in a position to resolve all operational difficulties in light of new developments that is consistent with the project objectives.

3. **FULFILLMENT OF LOAN CONDITIONS**

Under the disbursement of the 1st Tranche the following conditions were required to be fulfilled:

The Borrower shall have:

1. opened, and undertake thereafter to maintain on terms and conditions acceptable to the fund, a Special Account into which the proceeds of the Fund Structural Adjustment Loan shall be deposited. However, it is expressly stipulated that the venue of the Account shall be agreed upon between the Borrower and the Fund.

2. given an undertaking that the proceeds of the loan resources will not be applied for servicing the Government's debt obligations to internal and external creditors:

3. expanded the membership of the Inter-Ministerial Economic and Social Policy Council, headed by the Secretary of State for Finance, Development and Economic Planning, to include Secretaries from the social sector ministries, namely Education, Sports and culture, Health and Social Services and Internal Affairs and Rural Development, as well as a representative of the private sector.

4. established (a) an Inter-ministerial Technical Coordination Committee headed by the Financial Secretary. (b) a Social Actions and Poverty Alleviation (SAPA) Committee headed by the Development Secretary;

5. upgraded the SAPA Division, designated the Head of the Unit at the equivalent of a Deputy Secretary and appointed staff according to their terms of reference to the posts of a (a) Head of Division, Social Action and Poverty Alleviation expert and Monitoring and Special Studies Programme expert in SAPA division (b) Director, Fiscal expert and Planning in the EPRU, to be reviewed and approved by the ADF, and also undertaken to provide adequate office space for the SAPA Division and EPRU;

6. submitted to the Fund, an action plan for the settlement of outstanding domestic claims on the government;

7. introduced the enabling legislation to empower the Income Tax Department to conduct field audit and streamline the structure of Income Tax Department;

8. submitted to the Fund an action programme for the integration of the retrenched workers and those targeted to be retrenched into productive activities in private sector;

9. implemented the licensing of the foreign exchange bureaux.

<u>Conditions relating to the second tranche</u>

1. implemented the recommendations of the report on streamlining the structure of the Customs and Excise Department;

2. completed a comprehensive review of the mining investment taxation and incentive policies;

3. completed job inspection/functional review of the Ministries of Finance, Department and Economic Planning; Agriculture; Works; Education and Health;

4. completed the implementation plan for the settlement scheme on cross debts, including tax and dividend arrears agreed among the public enterprises concerned;

5. entered performance contract with Sierra Leone Ports Authority (SLPA) and Guma Valley Water Company (GUMA);

6. started divestiture process of the Government's share in Sierra Leone National Petroleum Company (NP) and National Insurance Company (NIC);

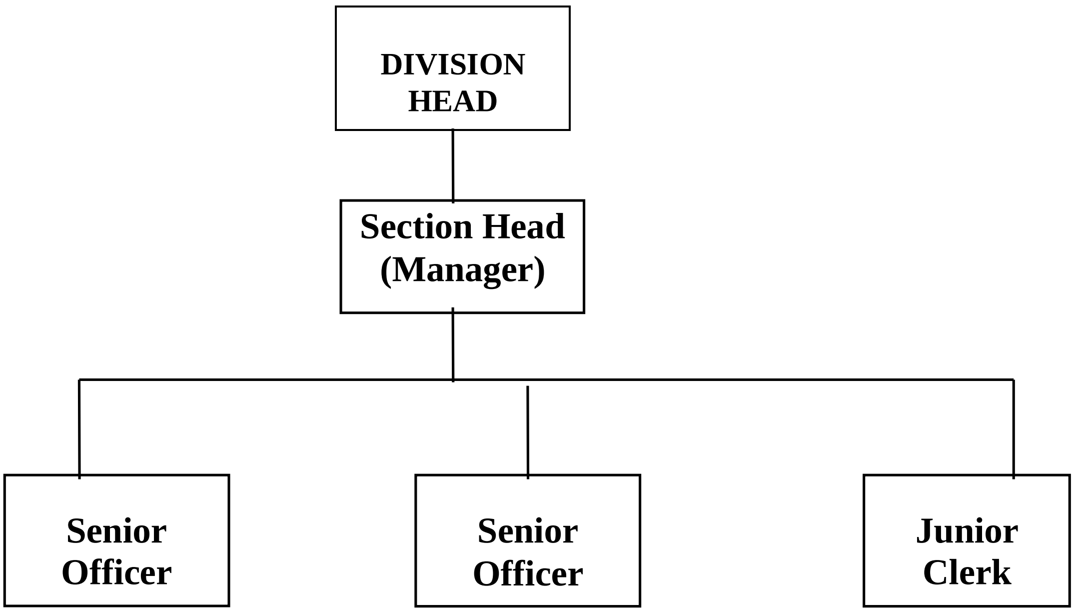
7. taken the necessary actions to privatise all productive and commercial activities under the Sierra Leone Produce Marketing Board.

8. agreed with the Fund on the composition of revenues and expenditures proposal.

4. **ORGANISATION AND MANAGEMENT**

The Structural Adjustment Programme Disbursement Unit (SAPDU) of the International Finance Department, Bank of Sierra Leone is responsible for administering, monitoring and accounting for the disbursement of all import supports funds including the SAL funds and the counterpart funds generated from the sale of foreign exchange to finance eligible imports. The Unit is under the supervision of a Division Head, with a Section Head (Manager), two Senior Officers and a Junior Clerk.

ORGANISATIONAL CHART OF SAPDU



5. **PROCUREMENT**

Procurement were done in line with the disbursement Guidelines after receiving ADB's "No Objection". These disbursement Guidelines were circulated to commercial banks, and provided details of the eligibility criteria, lower and upper thresholds, required supporting import documents and the disbursement and monitoring procedures.

Oil imports were done through International Competitive Bidding (ICB). The following were the procedures followed:

1. Specifications on the type and nature of goods required. The Petroleum Unit and the Ministry of Trade & Industry provides specification details.

2. The bidding document together with the advert text were submitted to the ADB for "No objection".

3. Invitation for tender was advertised in a newspaper of wide **<u>International</u>** circulation as well as in a newspaper of general circulation in the borrower's country after receiving the 'no objection' from the ADB.

4. The Central Tender Board (CTB) Secretariat is notified of an intended tender and the opening date of bids.

5. After bid opening, a Technical Committee evaluates the bids and makes recommendations to the CTB.

6. The CTB, evaluation report is submitted to the ADB for 'no objection'.

7. Upon receipt of the 'no objection' from the ADB, a contract is awarded to the most responsive bidder.

The date of the award of the contract becomes the effective date of the transaction. The transaction has to be supported by the following documents before request for payment is initiated.

i) Purchase order from the importer or pro forma invoice from the supplier according to the terms of the contract.
ii) Quotation submitted by the supplier at the time of bidding
iii) Contract award letter
iv) Letter of 'no objection' from ADB
v) Bidding document

8. Payments were made by Letter of Credit (L/C) drawn on special account or from the loan account by ADB.

5.1 **Summary of Transactions Done Through ICB**

Contract Date	Contract Amount	Mode of Payment	Quantity	Winning Bids
6/11/92	USD1,929,000.00	from the Loan A/c	9000MT AGO* 1500MT JET*	Chevron “
21/7/95	USD1,533,262.50	from the Loan A/c	7000MT AGO 1500MT JET	Chevron “
5/7/96	USD2,000,000.00	from the Special A/c	6,600MT AGO 4265.239mt JET	“
27/2/95	USD1,044,073.70	from the Special A/c	5014.437mt AGO 1536.795mt JET	“ “

*
AGO -GAS OIL
JET KEROSENE

**
ADDAX	**US$4,931,750.00**
CHEVRON INTERNATIONAL TRADING CO.	**US$4,900,000.00**
TRADELF	**US$4,944,989.00**

6. **Loan Utilization**

The total Loan funds were disbursed as follows:

(i) Payments from the Special Account : **USD 17,808,736.96**

(ii) Direct Payments from the Loan Account : **USD 3,451,615.64**

(iii) Reimbursement from the Loan Account : **USD 5,001,710.73**

6.1 The total Loan amount of UA18.421 million made available to the Government of Sierra Leone by the ADB, was completely disbursed, by mid September 2000. (See Annex 2). The funds were disbursed in three tranches as follows:

Tranche	UA
1	**10,609,166.73**
2	**7,630,334.62**
3	**181,538.65**

6.2 **DISBURSEMENT DETAILS**

Date	Details	Currency	
		UA('000)	**US$ ('000)**
10.9.93	Initial Deposit	5,000.00	7,018.00
29.3.94	Reimbursement	3,604.00	5,002.00
29.3.94	General Imports	317.00	435.00
2.2.95	" "	1,688.00	2,519.00
1.12.95	" "	5,251.00	7,839.00
27.12.95	" "	331.00	491.00
29.1.96	" "	180.00	260.00
31.1.96	" "	537.00	771.00
17.1.96	" "	113.00	164.00
31.5.96	" "	1,060.00	1,537.00
14.6.96	" "	125.00	180.00
15.6.96	" "	33.00	47.00
29.8.00	" "	181.00	233.00
		18,420.00	**26,495.00**

6.3 **Extension of Disbursement closing Dates**

Due to problems in the interpretation and restrictiveness of the Negative List of eligible imports which led to the slow utilisation of SAL funds, the following requests for extension of disbursement closing dates were made to the ADB:-

(i) From 1st January 1995 to 31st December, 1995

(ii) From 1st January 1996 to 30th June, 1996

(iii) From 1st July 1996 to 31st December, 1996

(iv) From 1st January 1997 to 30th June 2000

(v) From 1st July 2000 to 31st December 2000

6.4 **Accounting for Funds**

In accordance with the Loan Agreement, an adequate accounting system was put in place to monitor and account for the disbursement of funds. A Special Account was opened with Standard Chartered Bank, New York to receive all funds disbursed from the Loan account to finance eligible imports. The Special Account was replenished from the Loan Account until the total Loan amount was completely disbursed.

Cash Cover Accounts were opened by the participating commercial banks with their correspondent banks, into which funds were lodged from the Special Account for payment to suppliers in respect of eligible goods. The corresponding Cash Cover Accounts were in turn opened in Bank of Sierra Leone's books as well as the Treasury Counterpart Fund Account to receive proceeds generated from the sale of foreign exchange to eligible imports.

The total counterpart funds generated in respect of the sale of petroleum products and the sale of foreign exchange for the importation of general goods amounted to Le20.955 million as at 30th June 1999. In accordance with the Loan Agreement, these funds were credited into the Treasury Counterpart Fund Account No.1100510 held with the Bank of Sierra Leone. The Balance held in the Special Account as at end August 2000, is US$239,345.53.

In compliance with the Loan Agreement, the audit of the SAL Financial Records for 1993/94, 1994/95, 1995/96 and 1996/97 financial years had been concluded and the final accounts forwarded to the ADB. The Bank of Sierra Leone has also received the ADB approval not to audit the 1997/98 accounts since there were no activities during this period.

OPERATIONAL PERFORMANCE

Achievement of Programme Objectives

The Structural Adjustment Loan was provided in support of the Government's Structural Adjustment Programme which helped to maintain macro economic stability, facilitated a supply response and reduced poverty. The Programme was implemented under the most difficult of circumstances, notably the nine - year old rebel war in the country. Despite all of these difficulties, the SAL Programme was able to register significant success. The SAL funds were able to provide the much-needed foreign exchange to finance the imports of manufacturing industries, thus jump starting productive activities in the economy. Manufacturing industries, through the SAL funds, were able to import spares and raw materials to both resume and commence full-scale production. The SAL Programme further enhanced the capacity of the resuscitated manufacturing industries and created the enabling environment for the resumption of some exports to neighbouring countries.

As activities picked up in the private sector, the Government was able to derive increased revenue from Customs Duties as a result of increases in the level of imports, which went to enhance the overall Government Fiscal Position. Private Sector imports also increased substantially as more private importers came on board with the relaxation of the Negative list of goods during the programme implementation. This further increased the level of activities in the private sector and contributed to the overall economic growth. The SAL funds also helped to stabilise the exchange rate over the period. The counterpart funds generated from the sale of the foreign exchange made available under the SAL funds, provided critical balance of payment and budgetary support which also went to enhance the Government fiscal position. With an improved fiscal position, the Government capacity was also enhanced. The SAL Programme also supported the capacity building of Government and provided the much-needed working inputs through institutional support, which improved the Government's overall programme implementation.

Problems Encountered in Programme Implementation

Utilisation of Funds

The SAL Funds were initially targeted at the industrial sector with the aim of providing them with raw materials and spare parts in order to quickly 'jump-start' the productive sector of the economy. The eligible raw materials which qualified for funding excluded processed and unprocessed food items. Since most of the manufacturing industries in Sierra Leone, use mainly processed and unprocessed food items as raw materials or "inputs for industry", there was a slow demand and utilisation of funds by manufacturing industries, hence the slow utilisation of funds. This gave rise to series of requests for extension of the disbursement closing dates.

Problem relating to interpretation and restrictiveness of the Negative List

There were also problems with the interpretation and restrictiveness of the Negative List of goods. This contributed immensely to the slow utilisation of the SAL funds, and resulted in the holding of series of meetings with an ADB Mission in November, 1994 to clarify the interpretation of the Negative List with respect to wheat flour and sugar for the manufacture of biscuits and confectionery. The problem relating to interpretation of the Negative List prompted two visits to the ADB by officials from the Ministry of Finance and the Bank of Sierra Leone on 6th and 20th October 1995 respectively. After repeated requests by the Government of Sierra Leone, coupled with deliberations on the issue of interpretation of the Negative List, animal and edible vegetable oil, fats and wax were removed from the Negative List. This was also subsequently followed by the removal of processed and unprocessed food items from the Negative List on 4th August 1998.

Communication with ADB

One of the impediments to timely utilisation of the funds was the lack of effective communication between the ADB and the Bank of Sierra Leone. It has improved in recent times. However, the recent case relating to the advice on the cancellation of the SAL Loan without any prior consultation and the required period of notice of three months as spelt out under Section 2.10 of the Guidelines on cancellation of ADB Loans and ADF Loans and Grants shows that the problem of ineffective communication still exists.

Request for Waiver of Pre-Shipment Inspection Certificate (Clean Report of Findings)

On 3rd August 1998, the Bank of Sierra Leone had cause to send a request to the ADB for a waiver of the submission of Pre-shipment Inspection Certificate (Clean Report of Findings) as a requirement for disbursement of the SAL funds for importation. This request was necessitated by the fact that the above document was not submitted by importers as BIVAC International, which are the recognised Inspectors of all goods entering Sierra Leone did not immediately resume operations after the restoration of Democracy in March, 1998. The Bank of Sierra Lone requested the ADB to accept stamped Customs Entry Certificates evidencing the arrival of goods in Sierra Leone until BIVAC International resumed operations. The necessary approval to accept stamped original customs Entry Certificates as evidence of arrival of goods in Sierra Leone, was granted on 11th September 1998. The length of time between 3/8/98 and 11/9/98 impeded the disbursement of SAL funds for importation of essential goods.

Recommendations

The weakness in the implementation capacity of the SAL programme was as a result of the cumbersome disbursement procedures put in place, amongst which were the problems relating to the interpretation and restrictiveness of the Negative List. We propose that future facilities should be deposited in a designated account held with a Bank of Sierra Leone's correspondent bank. Funds would be allocated directly to suppliers and a list of import documents to justify the utilisation of the funds, would be made available for inspection by any mission.

It is proposed that future programme financing should be flexible in terms of required supporting documents. It is therefore requested that stamped Customs Entry Certificate evidencing the arrival of goods and/or Pre-shipment Inspection Certificate (Clean Report of Findings) be accepted.

Structural Adjustment Project Disbursement Unit
International Finance Department
Bank of Sierra Leone
October 2000

ANNEX VI

SOURCES OF INFORMATION

Information for the preparation of this report was obtained from project files in OCDW.1 as well as from the Executing Agency (The Bank of Sierra Leone) and other Government officials, particularly in the Ministry of Finance.

ANNEX VII

BORROWERS AND EXECUTING AGENCY'S COMMENTS ON BANK PCR

The draft PCR was discussed with both the Borrower and the Executing Agency. Both were satisfied with the Bank's PCR and offered no written comments.