

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

SIERRA LEONE

Annual Progress Report on the Poverty Reduction Strategy Paper

Joint Staff Advisory Note

Prepared by the Staffs of the International Monetary Fund and
The International Development Association

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I. OVERVIEW

1. **The first Annual Progress Report (APR), dated September 2006 reviews the implementation of Sierra Leone's Poverty Reduction Strategy (SL-PRS) from June 2005 through June 2006.** It analyzes the key elements of the SL-PRS, including: (i) macroeconomic performance; (ii) good governance, peace, and security; (iii) pro-poor sustainable growth for food security and job creation; and (iv) human resource development.

2. **The APR discusses actions taken in support of the objectives in the Results Framework Matrix of the SL-PRS that was presented during the 2005 Consultative Group meetings.**¹ The APR provides evidence of adequate PRSP implementation. It also provides evidence of progress against two of the issues raised in the previous Joint Staff Advisory Note (JSAN). The improvements relate to the organizational structure for PRSP monitoring and evaluation and new mechanisms for the protection of poverty-reducing expenditures. The staffs observe that the timing of the preparation of the APR, if maintained in future years, will allow for the inclusion of its findings into the preparation of annual budgets.

II. ENHANCING MACROECONOMIC AND FISCAL MANAGEMENT

3. **The APR highlights the improvement of the economic situation in 2005 and the first half of 2006.** Economic growth remained strong in 2005 and continued to be robust in

¹ This matrix is comprised of PRSP priorities rather than the full PRSP objectives.

2006, reflecting buoyant activities in the agriculture, mining, construction, and service sectors. Despite higher oil prices, end-period inflation declined from 13 percent (year-on-year) in December 2005 to 9 percent in June 2006, owing to improved supply situation for basic commodities, slow growth in money supply, and a relatively stable exchange rate.

4. **Fiscal policy implementation and performance in 2005 were weaker than anticipated, but improved in 2006.** The APR correctly describes the weak fiscal performance in 2005, especially relative to slippages in meeting the targets for revenue collection and government wage bill expenditures. Staffs recognize that the government took corrective measures in the last quarter of 2005, which resulted in higher-than-programmed domestic revenues in the first half of 2006. The overruns on the wage bill continued through end-June 2006 which, along with delays in donor aid, contributed to the shortfall in non-wage spending on poverty reduction. Staffs observe that some of the growth in the wage bill was consistent with the PRS objectives of hiring more teachers and police. Staffs also note that revenue collections in 2005, and the projections for 2006 as a whole, are lower than anticipated by the government in the SL-PRS. The APR does not explain the reasons for the delays in the introduction of the value-added tax originally scheduled for 2007. Staffs urge the authorities to continue to increase the current revenue-to-GDP ratio by implementing non-regressive measures for revenue mobilization to help reduce the dependence on foreign aid without increasing poverty.

5. **The government has doubled pro-poor spending in nominal terms in 2005 under the HIPC Initiative relative to the pre-HIPC level in 2001.**² Poverty-reducing expenditures were increased every year, reaching Le 267.4 billion in 2005 compared to Le 126.5 billion in 2001. This was achieved despite a fall in HIPC Interim Relief from US\$35 million in 2004 to US\$21 million in 2005. The staffs note that the government has integrated the Millennium Development Goals (MDGs) into the SL-PRS and is using the MDGs as benchmarks of development, although monitoring capacity is low.

6. **The authorities may now wish to consider how poverty-reducing expenditures could be made more effective.** On the one hand, some spending could be increased as a share of GDP. On the other hand, more work is required to ensure that such spending really is “pro-poor.” For example, high pupil-teacher ratios in poor, rural areas suggest that spending on education may not be as pro-poor as expected.

7. **The authorities have adopted new mechanisms for the protection of poverty-reducing expenditures.** The government has implemented a fiscal priority framework, which specifies well-identified resources and ensures that these can cover priority expenditures in the event of shortfalls in domestic revenue and external support. This measure, combined with more effective budget execution procedures, has reduced the

² Poverty reducing expenditures were defined in the 2002 HIPC Decision Point document.

variation between planned spending and actual expenditure, particularly for health and education, where spending was in line with the amount budgeted for 2005. During the first half of 2006, however, poverty-related spending was below the program targets and the APR did not explain the reasons for these shortfalls. Preliminary data for the third quarter of 2006 indicate that the planned poverty expenditures for this quarter have been protected.

III. GOOD GOVERNANCE

8. **The government’s commitment to governance reforms and strengthening its capacity to deliver the goals of the SL-PRS has been demonstrated by issuing a communiqué referred to as the Improved Governance and Accountability Pact (IGAP).**

The Pact is a statement of intent on the part of the government to take forward reforms in ten critical governance and accountability areas during 2006–07.³ Important reform measures on governance, transparency, and accountability are addressed in the APR and summarized in Box 1.

9. **Limited progress was made in the anti-corruption efforts.** A National Anti-Corruption Strategy (NACS) was published in February 2005 and an implementation plan was proposed. The intelligence and investigative capacity of the Anti-Corruption Commission (ACC) has been improved by the recruitment of additional staff and intensive training. While the APR notes that many cases have been prosecuted, it is recognized that few of those involving high profile civil servants have been resolved. The staffs urge the authorities to amend the Anti-Corruption Act to make it more effective.

10. **The staffs commend the authorities for the substantial progress made in public financial management (PFM) reforms.** The APR observes that the government has made significant strides forward in its Common Action Plan for PFM reforms.⁴ Some of the key achievements are summarized in second and third bullets of Box 1 below, overleaf. Staffs encourage the government to implement fully the actions it has undertaken in the IGAP and the broader PFM Common Action Plan.

³ The Pact includes a series of undertakings of the government to be supported by the four general budget support development partners (AfDB, DfID, EC, and IDA) to the extent compatible with their statutory mandates and in accordance with their comparative advantages, in the following areas: Anti-corruption; Auditor General and Public Accounts Committee Reports; Procurement Reform; Civil Service Reform; Improving Service Delivery; Extractive Industries Transparency Initiative; Decentralization; Non-State Actors; Anti-Money Laundering; and Elections.

⁴ The use of the word “common” refers to the fact that the PFM reform program was jointly supported by the four budget donors: i.e., AfDB, DfID, EC, and IDA. The word “national” has subsequently been substituted.

Box 1. Sierra Leone: Measures taken to strengthen governance, transparency, and accountability

Following the establishment of the Anti-Corruption Commission (ACC), a three-person committee comprising Special Prosecutors (2) and a State Counsel has been set up to determine when corruption cases should be prosecuted. A Law Reform Task Force has been established to review and amend the Anti-Corruption Act of 2000. In 2005, a total of 50 corruption cases were investigated, and 22 of these were referred to the court, of which 7 convictions were made. The effectiveness of the ACC is hampered, however, because of a conflict of roles between the ACC and the Attorney General's Department.

The government is promoting a bigger role for civil society in monitoring government performance through a new program called 'Enhancing Interaction and Interface between Civil Society and the State (ENCISS). Other organizations such as the National Accountability Group and the Campaign for Good Governance provide reports on a variety of topics related to government performance. A recent example is the 2006 Service Delivery Perceptions Survey.

The government also introduced a number of proactive reforms in public financial management (PFM) meant to reduce the opportunities for corruption:

- The **government Budgeting and Accountability Act** approved in 2005 eliminates discretionary powers and sets out roles and standards that promote transparency and accountability in the execution of the government's budget.
- Tangible gains in **procurement reform** for 2005 and 2006 include the replacement of the central tenders board with decentralized procurement committees and units; the establishment of a regulatory procurement authority; the establishment of an independent review panel; and the initiation of procurement planning in key ministries.
- The **Accountant-General's Department** has been strengthened to meet the fiduciary obligations of the government through recruitment of qualified staff and the installation of upgraded financial management computer software.
- **Internal audit units** have been set up in a number of key ministries. Progress is being made by the **Office of the Auditor-General** in reducing the backlog of audit reports. **Public expenditure tracking surveys** are conducted on an annual basis.
- Efforts to improve **record-keeping** within the Accountant-General's Department were completed in 2005. Among other things, this is expected to facilitate improved capacity to review payment vouchers, as needed, by the Office of the Auditor-General. Additional efforts to improve personnel files are currently underway within the Establishment Secretary's Office (ESO) and key ministries.
- To restrict the trade in "conflict diamonds," Sierra Leone has enacted **anti-money laundering legislation** and participates in the **Kimberly Process**. To further strengthen the administration of the diamond producing areas and reduce the risk of violence, the government has begun the introduction of a cadastral-based system for the administration of mining rights.
- The government declared in October 2006 that it will implement **Extractive Industries Transparency Initiative** (EITI) principles and meet all EITI criteria.

Progress will be measured through the **Public Expenditure and Financial Accountability** (PEFA) framework.

11. **The decentralization of government services is progressing.** As of early 2006, six ministries have devolved some of their functions covering services for agricultural crops, livestock, education, health, water supply, sanitation, gender, youth and sports and transferred these functions to local councils. One of the key principles is that local councils will receive grants from the central government sufficient to finance at least the same coverage and quality of services provided before the responsibilities were devolved. All local councils are developing procurement and accounting capacity under intensive mentoring. Financial statements and tender documents are to be regularly posted on public notice boards.

IV. GROWTH, FOOD SECURITY, AND JOB CREATION

12. **Progress was made in promoting private sector development and international trade through regulatory changes.** The staffs observe, however, that several recent diagnostic studies, including the Diagnostic Trade Integration Study (DTIS) are only now beginning to be translated into concrete policies, programs, and projects. The APR does not discuss the impact of the common external tariff adopted in 2005 in the context of the Economic Community of West African States (ECOWAS), nor does it discuss the recommendations from the recent DTIS. The authorities are encouraged to start implementing the various action plans that have been prepared in previous studies. The staffs note in particular that the capacity within the Ministry of Trade and Industry to define and pursue its trade policy objectives will need to be strengthened.

13. **The strategy for youth development may need to be reconsidered.** The APR documents more than a few efforts by the government, especially the Ministry of Youth and Sports and its partners, to create jobs and training opportunities for youth. As documented in the APR, however, even the best of these programs have not reached more than a few thousand beneficiaries and many have reached far less.⁵ It is also noteworthy that recent editions of “Doing Business” consistently report that Sierra Leone’s labor laws are among the most onerous in the world.⁶ Therefore, given the financial constraints faced by the government, a more effective strategy may be to empower the private sector to create more jobs through minimal but appropriate regulation and the provision of adequate infrastructure. The staffs also encourage the government to strengthen its role in improving the quality of labor supply through its health and education policies.

14. **The government has provided support for agriculture and food security but more needs to be done particularly to improve access to markets through better roads**

⁵ The 2003/04 Integrated Household Survey data suggest that 45 percent of the young men between the ages of 20 and 24 years do not participate in the labor force. This may overstate the employment problem because many youth who were denied an education during the war are currently enrolled in school. The budget speech for 2007 refers to a new initiative that aims to create jobs for 20,000 youths.

⁶ While labor laws affect only the small formal sector labor force, the fact that the formal sector is so small is a direct consequence of inappropriate laws and regulations and a weak judicial sector.

and road maintenance. As noted in the APR, the government has provided a range of services and machinery to farming families, contributed to a livestock restocking program, helped provide fish smoking houses, and provided training programs to build business development skills. Decisions to expand or reduce these programs should be informed by evidence on their efficacy in raising farmer incomes: the staffs observe that the 2003/04 household survey shows that rice farmers are among the poorest of the poor.

15. **The APR asserts that substantial progress has been made in food production in 2005, in excess of most SL-PRS targets.** The staffs judge that the APR production data for agriculture appear to be preliminary estimates. These could be made more credible with citations of supporting surveys.⁷ The authorities are encouraged to develop the means to achieve this.

16. **The 2006 Service Delivery Perception Survey (SDPS) suggests a need for improvements in the delivery of public services to agricultural producers.** Only 12 percent of farm households reported any use of extension services provided by the government. This would be acceptable with coverage from other providers except that 71 percent of all agricultural households reported that they had not been visited even once in the last year.⁸ This suggests the need for better coordination between the government and non-government extension service providers.

17. **Progress was made in the provision of mining services and key reforms were initiated.** According to the APR, the re-start of the rutile and bauxite mines in 2006 has directly created an estimated 1,400 new jobs in the mining areas. A review of mining laws, aimed at making Sierra Leone more internationally competitive is underway. The government has initiated the phased implementation of the cadastre in July 2006. The government of Sierra Leone has also committed itself in the IGAP to ensure full implementation of the EITI (Box 1) and reaffirmed its commitment to the initiative during the October 2006 EITI Conference in Oslo, Norway. This Initiative will enhance transparency in the utilization of Sierra Leone's mineral endowment and promote good governance and reforms aiming at attracting private sector investment in the mineral sector. While the authorities are to be commended for these good initiatives, more work is needed to build capacity at the Ministry of Mineral Resources to provide a competitive legal framework, establish a robust geological database and provide basic administrative, geological, and engineering services.

18. **Mixed results were observed in the provision of infrastructure services.** The APR notes progress in the kilometers of roads that were constructed and/or maintained in 2005

⁷ It is most unusual for actual growth rates to be expressed in increments of 5 and 10 percent as they are in Table 17 of the APR. This suggests the numbers are in fact estimates.

⁸ This result is consistent with the 2005 Institutional Reform and Capacity Building Project (IRCBP) baseline service delivery survey that found 77 percent of the households had no contact with an agricultural officer.

relative to 2004. The staffs observe that the share of feeder roads in good condition increased to 36 percent in 2005 from 30 percent in 2004, close to the SL-PRS target of 40 percent. In addition, 781 kilometers of trunk roads were constructed by mid-2006, up from 581 kilometers in 2004.⁹ Although the APR notes that the national power generating capacity has increased, the staffs observe that (i) the majority of the population has no access to public power and (ii) the actual delivery of power fell due to poor maintenance and inadequate tariffs relative to fuel costs. The APR did not discuss other infrastructural services. According to the survey of the 2005 Institutional Reform and Capacity Building Project, only 61 percent of the population lived within 15 minutes of a safe drinking water source. This is consistent with the World Bank estimate that only 57 percent have access to potable water, compared to an average of 75 percent for all low income countries. The staffs observe that the preparation of the port sector reforms is advancing, including private provision of port operations.

V. HUMAN RESOURCE DEVELOPMENT

19. **The strong growth in primary school enrollment seen in previous years was maintained.**¹⁰ According to the APR, total primary school enrollment increased in the 2004/05 school year to 1,280,853 from 1,134,815.¹¹ As a result, the Ministry of Education, Science and Technology (MEST) estimated that the gross enrollment rate increased to 160 percent from 146 percent in 2003/04.¹² The APR also records that, in 2005, the government built 200 primary schools, 30 junior secondary schools and 30 technical-vocational institutes. National Primary School Examination (NPSE) passes increased to 55,000 in 2004/05 from 43,400 in 2003/04. However, the APR candidly observes that more qualified teachers are needed because the pupil/teacher ratio has increased to 67:1 in 2005 and many teachers are not qualified. Classroom crowding was also noted as a problem. No substantial progress was made in reducing the ratio of boys to girls (1:1.2).¹³ The SDPS found there was a clear bias in the quality of service in favor of Freetown and the Western Peninsula. Moreover, while it is government policy to provide free primary school tuition and books, there were some areas where survey respondents reported paying for fees or books. Access to textbooks is generally quite limited.

⁹ No PRS target was set for 2006. The target for 2007 is 996 km.

¹⁰ No data were available for the 2005/06 school year which was still in session as this report was being written.

¹¹ World Bank 2006, Country Status Report for Education.

¹² *Ibid.* Estimates from the 2003/04 household survey provide a lower estimate of 125 percent for boys and 121 percent for girls. The high gross enrollment ratio for primary schools is not an efficiency issue, rather it is due to the older children who have returned to school after the war.

¹³ The 2006 World Bank Country Status Report notes that the gap in pass rates between boys and girls worsened in 2004/05 relative to 2000/01.

20. **The government provided a variety of health services but much more will be needed in order to bring health sector indicators up to acceptable standards.** The APR indicates that substantial progress was made in reducing mortality rates between 2004 and 2005, although the outcomes for 2005 are labeled as estimates. The staffs suggest, however, that the citation of available survey data would have made the report more credible.¹⁴

21. **Progress has been made in addressing HIV/AIDS and other sexually transmitted diseases.** A national HIV/AIDS policy has been put into place in 2005 and, as of mid-2006, 15 ministries were implementing the policy.¹⁵ By mid-2006, over 700 staff were trained in preventative measures, 600 people living with HIV/AIDS received anti-retro-viral medicines (840 by September 2006) and 900,000 condoms were distributed nationwide.

22. **A determined effort is required to improve health outcomes.** A number of challenging issues still hinder improvements in the health sector. The SDPS found that only 44 percent of those surveyed believed the quality of service was improving with rural respondents less satisfied than those in urban areas. The SDPS observed that 87 percent of the respondents had no knowledge of the essential drugs and other resources that were supposed to be delivered to their health units.¹⁶ The survey also found that many vulnerable groups (children, the elderly, pregnant and nursing women) were being asked to pay for services that are meant to be free to them. Many mission hospitals and NGOs, who served during and just after the war, have recently reduced their activities as a result of increased security. The free drug policy introduced by the government in some facilities and by some large international NGOs has put stress on private providers. These challenges are exacerbated by weak national infrastructure and inadequate staffing within the health system. In 2004, there were 0.45 medical personnel per 1,000 people, well below the World Health Organization standard of 2.5 per 1,000.¹⁷

VI. BUILDING IMPLEMENTATION CAPACITY

23. **The staffs judge that building an effective civil service is a priority that will require continued attention from the government and its partners.** The APR states that weak institutional capacity is a major constraint on SL-PRS implementation. A recent study conducted for the Ministry of Finance found that the majority of the civil service (roughly 14,000 out of 16,000) was in the lowest grades, constituting a workforce of clerks and

¹⁴ For example, while the Under-5 mortality rate is quoted as 202/1000, the recent UNICEF MICS survey conducted in 2005 estimates this at 286/1000.

¹⁵ By end-September, this had increased to 17 ministries (World Bank, 2006, HIV/AIDS Response Project, October Implementation Status Report).

¹⁶ Public Expenditure Tracking Surveys conducted in earlier years had indicated there were leakages between the procurement of drugs and their receipt by health facilities.

¹⁷ Médecins Sans Frontières: Financial access to healthcare in post-war Sierra Leone, 2006.

messengers.¹⁸ Skilled professionals such as accountants, agronomists, chemists, doctors, geologists, and lawyers are in very short supply. The APR notes that a number of key decisions have not yet been made by the government. These include decisions on policies for remuneration, training policy, and the draft civil service law. The staffs observe that there is also a need to assess skill gaps and devise recruitment policies to fill them.¹⁹ The staffs also encourage the authorities to implement the recommendations of the management and functional reviews, which were conducted for a number of key ministries and aimed at strengthening their capacity for public service delivery.

V. MONITORING AND EVALUATION

24. **The staffs judge that the Monitoring and Evaluation framework for the SL-PRS needs strengthening.** The APR documents good progress in the design of a results framework and a reporting structure comprising all key sectors and all levels of the government. It also records progress made in reporting modes and the development of standardized reporting formats in particular. The APR observes, and the staffs concur, that line ministries, local governments, and other implementing units are generally lacking the capacity to provide the primary data required by the monitoring and evaluation framework. This is very evident in the quality of reporting in the APR itself. In this context, the staffs observe that the authorities could also make better use of existing reports and surveys, such as the 2003/04 household survey, the 2005 baseline survey conducted by the IRCBP, the 2006 Service Delivery Perceptions Survey, and the upcoming Core Welfare Indicators Questionnaire. In order to determine what impact the SL-PRS will have had on poverty relative to the 2003/04 survey, the staffs view the timely completion of the 2008 integrated household survey as a key priority.

VI. CONCLUSIONS

25. **The staffs believe that the APR provides an adequate assessment of SL-PRS implementation through June 2006.** The APR summarizes progress made over the past year and highlights areas for further improvement. Particularly noteworthy are achievements in the protection of poverty reducing expenditures, PFM reforms, the decentralization of public services, and primary school enrollment. Key areas in need of improvement cited by the APR include weak institutional capacity, and weak capacity for monitoring progress towards achieving the goals of the SL-PRS.

¹⁸ Excludes armed forces, police and teachers. Review of Civil Service Minimum Wage and Senior Executive Service Options, Ministry of Finance, April 2006.

¹⁹ Hiring more professional staff would have implications for the wage bill unless some low skill workers were released. The potential poverty impact of any retrenchment in lower grade staff would need to be studied.

26. **To pursue the SL-PRS objectives better, the staffs view the following four areas as critical:** (i) the government needs to pursue a larger revenue mobilization effort to expand priority poverty-reducing programs; (ii) the reform of the civil service needs to be accelerated to improve its composition and enhance its ability to design and implement the government's policies and programs; (iii) key infrastructural services such as power, water, sanitation, and road maintenance must be revitalized; and (iv) the capacity to monitor and evaluate progress must be enhanced by all entities that use public resources. To reduce the gap between popular expectations and what is feasible, the population will need to be better informed of the nature of the SL-PRS objectives, what has been achieved and the impact of SL-PRS achievements. The authorities also are encouraged to integrate their external debt management strategies into future PRSPs in order to prevent excessive debt accumulation in the post-debt-relief era.

27. **The staffs encourage the authorities to ensure that the next Annual Progress Report will make full use of existing resources when reporting on results achieved and actions taken.** This should include more participation from the SL-PRS Pillar Working Groups and better use of existing reports and surveys. The authorities are encouraged to report fully on all priority SL-PRS objectives, with equal attention given to progress realized and progress constrained.