

INTERNATIONAL MONETARY FUND  
AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

SIERRA LEONE

**Joint Staff Advisory Note**  
**Poverty Reduction Strategy Paper Progress Report**

Prepared by the Staffs of the International Monetary Fund (IMF)  
and the International Development Association (IDA)

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**I. OVERVIEW**

- 1. A report submitted by the authorities in June 2008 provides a review of the implementation of Sierra Leone's Poverty Reduction Strategy (PRS) from June 2005 through December 2007.** The report analyzes key elements of the PRS, including: (i) macroeconomic performance; (ii) good governance, peace, and security; (iii) pro-poor sustainable growth for food security and job creation; (iv) human resource development; and (v) monitoring and evaluation of the PRS. This Joint Staff Advisory Note (JSAN) reviews progress in the PRS implementation on the basis of the June 2008 progress report.
- 2. The staffs believe that the progress report provides an adequate assessment of PRS implementation through 2007.** As detailed in the report, progress was made in the implementation of the PRS: macroeconomic stability was maintained, real growth continued at a strong pace, public financial management was strengthened, and efforts were made to improve social indicators. Priority areas identified by staffs for strengthening the implementation of the PRS include: (i) pursuing a stronger revenue mobilization effort to expand priority poverty-reducing programs; (ii) improving transparency and accountability in the use of public resources; (iii) accelerating the reform of the civil service; (iv) revitalizing key infrastructural services such as power, water, sanitation and road maintenance in a cost-effective manner; and (v) enhancing the capacity to monitor and evaluate progress, particularly in the areas of food security and health outcomes. The report does not have, however, a strong forward-looking component that would bridge the gap to the new PRS.

## II. MACROECONOMIC AND FISCAL MANAGEMENT

3. **The progress report highlights the relative improvement of the economic situation during 2005–07.** It recognizes that with continued donor support Sierra Leone achieved a relatively stable macroeconomic environment with strong economic growth (averaging 7.2 percent), declining albeit high external current and fiscal account balances, and an increased level of foreign reserves (reaching 4.5 months of imports coverage at end-2007). In particular, staffs note the Government's efforts in the second half of 2007 to strengthen expenditure control and increase revenues. However, while annual average inflation was brought down to single digits by end-2006, the surge in world oil and food prices pushed it to double digits in 2007 (11.7 percent). Sierra Leone's improved economic performance helped it to reach, in December 2006, the completion point under the enhanced HIPC initiative and benefit from HIPC and MDRI since then.

4. **The progress report correctly indicates that implementation of poverty reduction programs suffered setbacks due to weak revenue performance and delays in external budget support since late 2006.** The progress report rightly stresses the need to make domestic revenue mobilization a priority and staffs urge the authorities to implement the revenue-enhancing measures under the PRGF-supported program. Delays in external budget support were caused in part by donor concerns about fiscal management, notably delays in publishing audited financial statements. As a result, poverty-reducing expenditures, after increasing to 4.4 percent of GDP in 2006 fell to 3 percent in 2007, against a target of 5 percent. Going forward, staffs highlight the need for mechanisms to protect poverty-reducing expenditure in cases of revenue shortfalls or delays in expected budget support.

5. **The progress report highlights measures that were put in place to improve the effectiveness of monetary policy.** Monetary policy was not, however, active enough to achieve the objective of achieving single digit inflation by 2007. The report presents specific measures that were implemented to improve financial intermediation and operations of the financial sector. It lacks, however, discussions of measures for the strengthening bank supervision, in light of the growing level of non-performing loans in banks' balance sheet (accounting for 31.7 percent of gross loans at end-2007). The staffs encourage the Bank of Sierra Leone to strengthen its monetary framework and conduct a more active monetary policy, particularly in view of the need to limit inflationary pressures from the surging world oil and food prices and the use of MDRI resources.

6. **The staffs concur with the progress report that Sierra Leone continues to face formidable challenges to maintaining macroeconomic stability and achieving sustained pro-poor economic growth.** First, improving domestic revenue mobilization and public financial management remain critical to reduce the still high fiscal balance, mobilizing donor support and raising spending on key public infrastructures and basic social services. Second, soaring oil and food prices will continue to fuel inflation and put pressure on the government to either lower indirect taxes or raise spending on subsidies to vulnerable groups. Third,

domestic debt service absorbs 20 percent of domestic revenue, thus crowding out poverty spending and constraining private sector activity through its pressure on domestic interest rates. Fourth, the export base is heavily dependent on a few mining products thus increasing vulnerability to exogenous shocks. To face these challenges, staffs recommend that the government remain committed to strengthening public financial management while maintaining fiscal discipline to limit debt-creating domestic financing, accelerating the implementation of the structural reform agenda, and stepping up efforts to diversify the export base and enhance job creation.

### III. PRS PILLAR ONE: GOOD GOVERNANCE, PEACE AND SECURITY

7. **The progress report correctly points out the progress made in public financial management (PFM) reforms.** It observes that the government has made significant strides forward in its Common Action Plan for PFM reforms.<sup>1</sup> The key achievement was the publication in 2007 of audited public accounts for the years 2002–04. The accounts for 2005 and 2006 are scheduled for publication this year. The authorities also made continued progress in the implementation of the Integrated Financial Management Information System and the expansion of procurement planning. Staffs note that the capacity to conduct procurements and the transparency of reporting procurement outcomes need to be enhanced and these issues should be covered in the next PRS.

8. **The progress report indicates that budget execution has improved significantly over the years.** The staffs note that 2007 was an especially difficult year given the substantial shortfalls in revenue and budget support that occurred in the first three quarters and commend the authorities for their efforts to maintain program targets through the implementation of a cash-budget management system. This effort, however, revealed weaknesses in cash flow planning and commitment controls that led to the accumulation of domestic payment arrears. As indicated above, staffs also observe that greater efforts could have been made to protect poverty reducing expenditure programs.

9. **The progress report highlights the continued progress in the decentralization of government services.** It observes that all functions were devolved to the councils by the end of 2007 by law, but the implementation of some functions awaits official pronouncements by line ministries. The report also observes that expenditures need to be reoriented, as administrative expenses have dominated technical services. Progress was also made in the number of councils (14 out of 19) meeting the transparency and financial accountability requirements. The staffs observe, however, that stronger efforts need to be made to ensure that statutory transfers to the local councils are made in full and on time.

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<sup>1</sup> The use of the word “common” refers to the fact that the PFM reform program was jointly supported by the four budget donors: AfDB, DfID, EC, and IDA.

10. **The staffs note that building an effective civil service remains a priority that will require continued attention from the government and its partners.** The progress report did not assess progress made in 2007 on civil service reform issues. Roughly, 14,000 out of 16,000 members of the civil service are in the lowest grades. Skilled professionals such as accountants, agronomists, chemists, doctors, geologists and lawyers are in very short supply. Key civil service reform decisions and legal texts remain to be taken. 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. It will be important that the next PRS address these issues based on the recommendations of the management and functional reviews, which were conducted in earlier years for a number of key ministries and aimed at strengthening their capacity for public service delivery.

#### IV. PRS PILLAR TWO: GROWTH, FOOD SECURITY, AND JOB CREATION

11. **Sustained strong growth over the period 2002–07 contributed to a reduction in the rate of poverty.** Poverty headcount is estimated to have fallen by as much as 6 percentage points between 2004 and 2007 due to sustained high growth rate.<sup>2</sup> However, recent food and fuel price hikes may have erased some of these gains. In order to better gauge the evolving situation, the staffs view the timely initiation of the integrated household survey as a key priority.

12. **The progress report details recent regulatory changes aimed at making it easier to do business in Sierra Leone.** The General Law Act (2007) and the Business Registration Act (2007) should reduce the time and money required to start new businesses. However, the staffs observe that the approach to trade policies and their role in fighting poverty may need to be re-energized. Specifically, the low internal tariff rate accorded to ECOWAS countries was suspended in 2007 due to alleged problems in determining the source of origin of imports. This increases the cost of doing business. In addition, limited progress has been made in translating the recommendations of the Diagnostic Trade Integration Study into concrete policies, programs, and projects. The staffs note in particular that the capacity within the Ministry of Trade and Industry to define and pursue its trade policy objectives needs to be strengthened.

13. **The progress report rightly indicates that improving the provision of infrastructure services in 2007 was challenging.** Targets for water supply and sanitation were not met and the Freetown water supply in Freetown was briefly interrupted. Electricity generation by the National Power Authority collapsed in Freetown. In response, the authorities entered into two expensive contracts with independent power providers. Only one of these contracts was procured through competitive bidding in the context of a World Bank-supported Emergency Energy Project and is backed by a budgetary allocation. The staffs note

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<sup>2</sup> According to a World Bank report entitled “Sierra Leone Poverty Diagnostic,” June 2008.

the ongoing renewed efforts made by the authorities to improve access to basic infrastructure, notably electricity, including through support provided by IDA. In the context of the next PRS, the authorities need to ensure that management of the public utilities is strengthened and infrastructure investment policies backed by adequate fiduciary controls and full transparency.

14. **Recorded agricultural production in 2007 remained consistent with an upward trend, even though output fell short of PRSP targets and levels achieved in 2006.** The progress report did not explain the reasons for the shortfall. The staffs believe it will be important for the Ministry of Agriculture, Forestry, and Food Security (MAFFS) to develop the capacity to closely monitor developments in the sector in order to provide timely warnings of future threats to food security. With government's limited capacity, the staffs believe it is critical that the MAFFS focus its energies on the formulation of an overall agricultural strategy and, in coordination with other ministries, the establishment of an enabling environment. The MAFFS is also encouraged to enhance the use of extension services to help Sierra Leonean farmers take advantage of current high world prices for agricultural commodities. Staffs recommend that this policy be complemented by greater efforts to improve the quality of the internal road network and port facilities to reduce the cost of marketing.

15. **The authorities are encouraged to reconsider the approach to job creation and youth employment.** The progress report referred to an impressive number of job creation programs but, as documented in the report, even these programs have not reached more than a few thousand beneficiaries.<sup>3</sup> It is recommended that these programs be evaluated in order to assess their effectiveness. The staffs also encourage the authorities to review the impact of their labor laws on job creation.

## V. PRS PILLAR THREE: HUMAN RESOURCE DEVELOPMENT

16. **The progress report notes the continued strong growth in primary school enrollment.** According to the progress report, total primary school enrollment was recorded at 101 percent in 2007 in excess of the 67 percent target.<sup>4</sup> Even so, many challenges remain. The progress report observes that the primary pupil teacher ratio target of 50:1 was not achieved and no substantial progress was made in reducing the ratio of boys to girls. Access to textbooks is generally very limited. The authorities are also encouraged to address issues raised in the 2006 Service Delivery Perception Survey that found that there was a clear bias in the quality of service in favor of Freetown and the Western Peninsula and many families were obliged to pay fees for books and services despite government policy to provide free primary school tuition and books.

<sup>3</sup> The report was unclear about how many jobs had been created in 2007 as distinct from previous years.

<sup>4</sup> Percentages can exceed one hundred percent when older school children denied the opportunity for education during the war are also enrolled.

17. **The authorities are encouraged to improve their capacity to monitor health sector outcomes, already among the lowest in the world for infant and maternal mortality.** The progress report cited the unavailability of data for 2007 outcomes in a variety of indicators. The exception was the fight against HIV/AIDS where good progress was clearly documented. Even if survey data on outcomes are available only every five years, staffs recommend that progress reports on the PRS implementation assess improvements in policies, efficiency of expenditure programs and new investments in the sector.

## VI. MONITORING AND EVALUATION AND IMPLEMENTATION RISKS

18. **The report documents good progress in the design of a results framework and a reporting structure comprising key sectors and all levels of the government.** It also records progress made in the development of standardized reporting formats. Yet, the staffs concur with the assessment of the progress report that line ministries, local governments, and other implementing units need strengthening to provide the data required by the monitoring and evaluation framework. This notwithstanding, the staffs note the improvement in the quality of the June 2008 progress report compared to the previous report.

19. **The progress report includes a useful analysis of obstacles to the implementation of each PRS pillar.** While the recommendations are very detailed, there were some common themes. These include the need for: (i) increasing domestic revenues; (ii) improving procurement capacity; (iii) building up the technical capacity of the civil service, (iv) enhancing growth prospects in the productive sectors through better infrastructure services; and (v) strengthening the monitoring of projects and programs. As staffs noted above, the recent fuel and food price increases also pose a significant risk to the Government's efforts to ensure macroeconomic stability and could reverse recent gains in poverty reduction.

## VII. CONCLUSIONS

20. **The staffs believe that the progress report provides an adequate assessment of the implementation of the PRS.** The progress report summarizes the progress made over the past year and highlights areas for further improvement. Particularly noteworthy are achievements in the publication of audited public accounts, more supportive business regulations, and primary school enrollment.

21. **To further pursue the PRS objectives, the staffs view the following five critical areas that need to be addressed in the context of the next PRS:**

- Pursue a stronger revenue mobilization effort to expand priority poverty-reducing programs;

- Improve transparency and accountability in the use of public resources and in public procurement contracts and extend the IFMIS to all major ministries, departments and agencies;
- Address the persisting PFM weaknesses drawing on TA recommendations made by the multi donor budget support group and the Fund, notably by putting in place a more strategic and participative medium-term expenditure framework process;
- Accelerate the reform of the civil service to improve its composition and enhance its ability to design and implement the government's policies and programs;
- Revitalize key infrastructural services such as power, water, sanitation, and road maintenance in a cost-effective manner; and
- Enhance the capacity to monitor and evaluate progress, particularly in the areas of food security and health outcomes.

As the progress report recognizes, given the limited administrative capacity, the next PRS needs to be well prioritized with a clear sequencing of the different measures and programs to enhance its effectiveness in progressing towards achieving the MDGs. The new PRSP should present a concerted vision resulting from a broad consultation with all the different stakeholders.<sup>5</sup>

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<sup>5</sup> The authorities plan to conduct nationwide consultations on the new PRSP in July this year and finalize the PRSP in August.