Strengthening Public Financial Management in Sierra Leone

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Sierra Leone Institutional Reform and Capacity Building Project
Topics

- TSS (2002-2004) and CAS (2005-2009) support governance reform in Sierra Leone through two entry points: Decentralization and PFM reform
- Lessons and challenges to operationalize good principles in PFM Capacity Development
Civil War 1991-2002

- Post-independence deterioration in governance
- Military government dissolved local councils in 1972. Centralization of power, resources and corruption in Freetown
- Rural population deprived of economic opportunities, education, political participation
- Marginalization of youth from decision-making
- Half of population (2 m) displaced, 20,000 died
Extreme Poverty

- Bottom in UN HDI ranking (Under-5 mortality: 284/1000; Life expectancy 37; Adult literacy: 36%).
- 70% population below national poverty line (Le2,100, just under $1): 15% in Freetown, 79% rest of country
Failure of PFM to Support Service Delivery

- PETS 2001: only 55% school-subsidy grants accounted for by schools. Grants payment was later outsourced to KPMG (10% commission). PETS 2002 showed 97% accounted for.

- PETS 2002: less than 10% of essential drugs could be accounted for by District Medical Officers; less than 5% of essential drugs were accounted for by periphery health units.
Social Assessment 2004

Findings:

- Widespread practices of social exclusion
- Youth marginalization exacerbated by 11-year civil war
- Communities divided between leading lineages and the rest
- Weak institutional structures from grassroots to national level

Need: reestablish mutual trust through inclusive and accountable governance
CAS Supports Transformational Governance Reform

- “State maintenance” reform is not enough: restore core functions of government for effective economic and fiscal management
- State transformation is required to address root causes of conflict
  - improve government legitimacy through effective and transparent use of public resources
  - rebuild social capital (cohesion, trust, inclusion, collective action, networks/groups) in communities.
- CAS supports two entry points of transformational governance reform
  - Establish inclusive, capable and accountable local governance
  - Improve strategic orientation, transparency and accountability of PFM
Help GoSL Shape and Implement Vision of Decentralized Governance

Local Government Act 2004
- Devolution of expenditure responsibilities (primary edu, primary health, agric extension, feeder roads maintenance, etc) and revenue authorities to local councils during 2004-2008
- Local councils autonomy in HRM and FM under guidelines
- Inter-governmental transfers based on transparent formulae and principle of equity
- Democratic elections of local councils
- Transparency and accountability in council operation

Pre-requisites for Effective Local Governance
- Effective local autonomy and authority
- Sufficient resources for localities
- Effective local institutions of collective choice
- Effective, open and accountable local political process
Vicious Cycle of Deteriorating Local Governance

LGs: little autonomy or authority, capacity low, corrupt

Central Government and donors unwilling to transfer Resources to LGs

LGs no real authority or resources, no pressure from Citizens to improve performance.

Citizens see LGs as irrelevant and do not participate in LGs decision process
Virtuous Cycle of Improving Local Governance

Central Government and donors willing to transfer resources to LGs with good track record.

Weak LGs given opportunity to learn-by-doing, establish track record and develop capacity.

LGs exercise authority and accumulate capacity. LGs adopt inclusive accountable practices.

Citizens perceive relevance of LGs and engage in collective action (express demand for public service, participate in co-production, hold LGs accountable, pay taxes).
CAS Helps GoSL Establish Effective Local Governance

- Virtuous cycle or vicious cycle? We are part of it.
- Support fiscal decentralization to empower LGs with power and resources (IRCBP)
- Build LGs capacity in inclusive development planning, accountable financial management and effective service delivery (IRCBP)
- Empower communities to effectively express demand for public services and hold LGs accountable (IRCBP, CD SSC, DevComm)
- Promote inclusive decision making processes within communities, empower communities to undertake collective action and address own development challenges (NSAP, CD SSC)
IRCBP Contribution Towards Inclusive, Effective and Accountable Local Governance

By 2008, out of 19 elected local councils
- All 19 LCs should be able to make development plans that respond to local priorities through a participatory process.
- At least 14 LCs should be able to make budget consistent with Section 67 of Local Government Act 2004.
- At least 14 should be able to meet the transparency and the financial management accountability requirement as per Local Government Act 2004 (Section 107, 81, 105)
- At least 14 LCs should be able to complete the projects submitted in previous year's work plan
- All 19 LCs should be able to maintain coverage and quality of services devolved to them at the levels of the year before devolution.
**GoSL Decentralization Program Components**

<table>
<thead>
<tr>
<th>Project Components</th>
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<tbody>
<tr>
<td>Strengthen GoSL capacity to design/implement decentralization, incl. fiscal decentralization</td>
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<td>Invest in local government offices, equipment, communications</td>
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<td>Strengthen LG capacity in participatory planning, revenue mobilization, financial management, project management, M&amp;E</td>
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<tr>
<td>M&amp;E of decentralization</td>
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*Inclusive, effective, accountable local governance*

*June ‘04*
Start the Transformation Process with Local Council Rapid Results Initiatives

- Central government challenged and supported each LC to identify, design, and implement one Rapid Result Initiative that is
  - Urgent and compelling?
  - Visible – people will notice the difference?
  - Can be translated into real impact in next 100 days?
- MLG CD Decentralization Secretariat provided coaches
- MoF provided financing through Local Government Development Grant
Results

- LCs RRIIs tackled diverse development issues: water, sanitation, feeder roads, bridges, traffic, rice production, post-harvest loss. Examples of results:
  - Travel time between Sewafe and Peya of Nimiyama Chiefdom of Kono District reduced from 1hr to 15 minutes and transportation cost reduced from Le 5,000 ($1.75) to Le 2,000 (70 cents).
  - Increase the availability of high-yield quick-harvest Inner Valley Swamp Rice seeds in Pujehun District by 4,000 bushels within 90 days.
  - Ensure the availability of safe and portable drinking water in the mains and laterals and 25 public taps in the Moyamba township within 90 days.
  - Total volume of Garbage in two lorry parks and two markets in Kenema Township reduced by 90% within 95 days.

- LCs: pride, confidence, want to do more
- Citizens: increasing awareness and appreciation of LGs
- Donors: pleasant surprise, considering financing future LCs RRIIs
RRIs Contribute to Virtuous Cycle of Improving Local Governance

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## Project Components

**Inclusive, effective, accountable local governance**

*June '04*

RRIs force integration among work streams and adds urgency.

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**Goal of Moyamba RRI Team**

Ensure access to safe drinking water in Moyamba Township in 100 days.

**Inclusive, effective, accountable local governance**
RRIs ➔ Inclusive, effective and accountable local governance?

- RRIs areas chosen after consultation among councilors and with communities
- Measurable goals established
- Team work: strategic leader, team leader, members
- Implementation discipline: milestones, responsibilities assigned to individuals, regular monitoring
- Community participation
- Communications with communities
Financing of RRIs Tested Inter-Governmental Transfer System

- Local Government Development Grant, as part of inter-government transfer system, provides block grants to LGs for discretionary (not necessarily investment) projects
- LGDG allocation formula based on equity principle: infrastructure needs, other financing available
- Minimum conditions for access: transparency and accountability requirements of LG Act 2004
- All LCs have bank accounts now, although some far from banks
- Poor communications infrastructure posing problems
- LGDG as a credible GoSL transfer system for other financiers to use in future
LGDG Eligibility Gives Urgency to LG FM Capacity Building

- MoF PFM Reform Unit and Local Government Finance Department provide training, hands-on support to new FM staff in LGs: basic bookkeeping and accounting, budgeting, procurement, revenue mobilization, computer literacy
- Uniform Chart of Accounts applied to all levels of government
Laying Foundation for a Results-based LG Management System

- LCs: multiple RRIs in the context of newly prepared Local Council Development Plans.
- RRA as a management tool to strengthen performance accountability between local politicians (Committees as Strategic Leader) and administrative/technical staff (line functionaries as Team Leader) upon devolution of responsibilities.
Lessons for LG FM Capacity Development

- Encourage and reinforce LGs results orientation
- Capacity building most effective if incentive exists and through learning-by-doing
- Invest in building up central government capacity to support LGs (fiscal decentralization and LG FM strengthening, by MoF LGFD and PFMU)
- Good M&E crucial: continuous feedback loop
- Start small and scale up success
(2) PFM Reform

- Improved strategic orientation of budget
- Improved transparency of overall government resource envelope and allocation
- Improved accountability of spending units

CAS instruments: IRCBP builds capacity, while budget support instruments help reinforce agreed results and milestones.

We expect DfID ENCISS Project to help strengthen the PFM monitoring and advocacy capacity of civil society groups.
Initial Assessment Aug 2003

- PFM Reform Program
- Draft Budget and Accounting Act
- TOR and report of the FMIS Consultant (DfID)
- TOR and report of Chart of Account Consultant (DfID)
- Participation in a multi-donor workshop on PFM status
- Consulted GoSL on PFM findings and recommendations
- Drafted a ToR to initiate the agreed activities of this component of the IRCB project Review
- Comments on the draft Local Government Bill
- Advice on the establishment of financial management capacity for local governments
- Advice on the institutional arrangements and functions of the Local Government Finance Committee and its Secretariat.
Findings

- budgeting system does not presenting a real and comprehensive view on planning;
- system of internal control and audit is ineffective in line ministries;
- serious human resource constraints hamper effective financial management;
- asset, liability and revenue management does not yet address all related risks;
- accounting system has not yet progressed to produce reliable financial statements or meaningful figures for the purpose of budgetary control;
- financial management software in use lack critical functionality, controls, audit trails, system documentation and is not accessible for departments;
- service delivery suffers in the absence of monitoring of results, poor information and a weak control environment in line ministries;
- external auditing is in arrears and not addressing high risk areas, and
- Parliamentary oversight is not yet effective.
IRCBP PFM Component Focus

- Establishment of a PFM Implementation Unit
- Correcting the regulatory framework and development and dissemination of a vision for financial management
- The design of new financial management processes & systems
- Financial management capacity building in all line ministries and local government
- The establishment of interim financial management arrangements for new local governments
- Implementation of procurement reform
- The implementation of a new Integrated Financial Management Information System ("IFMIS")

Other development partners assisting in other areas.
Second Wave – Feb 2004

- Second wave – February 2004
  - Workshop on “Financial Management for Improved Service Delivery”
  - About 50 key stakeholders and DP’s
  - Overview of PFM reforms in the context of the need to improve service delivery and accountability
  - PEFA PFM Performance Measurement Framework
  - Assessment by group of benchmarks and enablers
  - Identification of high-level solution
## PFM Assessment

<table>
<thead>
<tr>
<th>Sierra Leone PFM Action Plan</th>
<th>Assessment as of Feb 2004</th>
<th>Assessment</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PFM Standard Assessment Element</strong></td>
<td></td>
<td>Legal / Regulatory Framework</td>
<td>Process / System Design</td>
</tr>
<tr>
<td><strong>Priority A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget integrates donor funded projects</td>
<td>Donor funds are estimated in the budget but not included in the fiscal reports.</td>
<td>🙄</td>
<td>😞</td>
</tr>
<tr>
<td>Revenues adequately forecast, timely and completely collected, remitted and monitored</td>
<td>Revenue forecast is poor, and management of internally generated revenue of MDAs is weak.</td>
<td>😞</td>
<td>😞</td>
</tr>
<tr>
<td>Effective internal control systems</td>
<td>Internal control system is partial. IAD function is limited to pre-audit. No party other than AG has access to FMAS.</td>
<td>☑</td>
<td>☑</td>
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</table>
## PFM Action Plan

<table>
<thead>
<tr>
<th>Legal and regulatory</th>
<th>Budget, accounting and reporting design and standards</th>
<th>IFMIS (including Payroll) Process, information, technology</th>
<th>Training</th>
<th>Incentives and sanctions</th>
<th>Sierra Leone success indicators in 2008</th>
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<tbody>
<tr>
<td>Bring donor funded projects on budget, but don’t vote it. Allow use of funds subject to agreement with donor. Provide a roll-over mechanism in the budget.</td>
<td>Provide for in MTEF and budget formats. Record in Consolidated Fund. Report in annual financial statements in accordance with IPSAS.</td>
<td>Provide for separate bank accounts for these projects; account for in it in the normal general ledger, but as separate funds.</td>
<td>Develop guidelines and training material</td>
<td>Timely disbursement of donor funds. Financial misconduct if funds are received and used outside mechanism as created.</td>
<td>Budget reflects revenue and expenditure funded by donors.</td>
</tr>
<tr>
<td>Ensure GBAA and regulations address. New sources to be investigated and legal basis established.</td>
<td>Require in-year reporting and monitoring against budget, integrate forecast into cash flow management and revised estimates.</td>
<td>Strong reconciliations between NRA, Ministries, Consolidated Fund and bank accounts.</td>
<td>Develop guidelines, training material and research capability.</td>
<td>Ministries allocated additional funds in next budget if targets are achieved. Performance bonus system for NRA. Vote net funding requirement of ministries</td>
<td>Actual annual revenue from own sources within 5% from final budget.</td>
</tr>
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# PFM Work Streams

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<tr>
<th>IRCB PFM Work Streams</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td>Establish PFM Implementation Unit in Ministry of Finance</td>
<td>Indicators</td>
<td>PFM Unit Operational</td>
</tr>
<tr>
<td>Implement quick fixes - payments, payroll and reporting</td>
<td>Indicators</td>
<td>2003 Financial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>statements submitted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>for audit</td>
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<tr>
<td>Confirm PFM vision and develop GBA legal and regulatory</td>
<td>Indicators</td>
<td>GBAA submitted to</td>
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<tr>
<td></td>
<td></td>
<td>Parliament</td>
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<tr>
<td>Acquire new IFMIS, set-up for current system in Ministry</td>
<td>Indicators</td>
<td>MoF on new system</td>
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<td></td>
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<td>in 2005</td>
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PFM Reform Lessons

- SL assessed and identified priorities and actions
- SL led with a PFM Implementation Unit
- PFM Implementation Unit – qualified staffed
- Harmonized approach by donors
  - Preparatory work - FMS assessment, CoA, SOUR
  - Local donor-funded PFM Specialist to support
- Quick procurement of IFMIS - limited ICB
- Quick wins - Act, IFMIS set-up and training of users, Local Councils FM arrangements
- Common Action Plan and Vision
Recent Adjustment and Remaining Challenges?

- Strong leadership at operational level but MoF stewardship role still weak
- Strong efforts by donors to harmonize around PEFA Indicators and Common Action Plan, but MoF leadership role weak
- PFMU functions more mainstreamed into Budget Bureau and National Public Procurement Authority, but relationship with Accountant General’s Department pending resolution
- Salaries of consultants (PFMU) at market rate, causing resentment of civil servants IFMIS users and super-users
- Very low skill base in civil service - need realistic expectations
- Lack of institutionalized training capacity for public sector FM staff