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ABBREVIATION AND ACRONYMS

AAP	Assessment and Action Plan
ACC	Anti-Corruption Commission
AfDB	African Development Bank
AGD	Accountant General Department
AGD	Accountant-General's Department
BCC	Budget Call Circular
BCG	Vaccination coverage for tuberculosis
BFP	Budget Framework Paper
BHP	Bumbuna Hydroelectric Project
BSL	Bank of Sierra Leone
CAS	Country Assistance Strategy
CET	Common External Tariff
CHO	Community Health Officer
CPIA	Country Policy and Institutional Assessment
CRF	Consolidated Revenue Fund
CWIQ	Core Welfare Indicators Questionnaire
DACO	Development Aid Coordination Office
DBOC	District Budget Oversight Committee
DEPAC	Development Partnership Committee
DfID	Department for International Development (United Kingdom)
DOW	Department of Works
DPT3	Vaccinations for childhood diphtheria, pertussis, and tetanus
DSDP	Decentralized Service Delivery Project
EAD	Economic Affairs Department
EC	European Commission
ECOWAS	Economic Community of West African States
EIA	Environmental Impact Assessment
ENCISS	Enhancing Interaction and Interface between Civil Society and the State
ESO	Establishment Secretary's Office
FIAS	Foreign Investment Advisory Service
FMR	Financial Management Regulations
FOI	Freedom of Information
FSAP	Financial Sector Assessment Program
GBAA	Government Budgeting and Accountability Act (2005)
GDO	Gold and Diamond Office
GDP	Gross Domestic Product
GRGG/C	Governance Reform and Growth Grant/Credit
GST	Goods and Services Tax
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HR	Human Resources

HRMO	Human Resource Management Office
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IMC	Inter-Ministerial Committee
IMF	International Monetary Fund
IPFMRP	Integrated PFM Reform Program
IRCB	Institutional Reform and Capacity Building
IRMF	Independent Road Maintenance Fund
ITN	Insecticide Treated Bednets
LC	Local Council
LGA	Local Government Act (2004)
LGDGP	Local Government Development Grant Program
LGFC	Local Government Finance Committee
LGSC	Local Government Service Commission
LPO	Local Purchase Orders
LTA	Local Technical Assistants
M&E	Monitoring and Evaluation
MAFFS	Ministry of Agriculture, Forestry and Food Security
MAFR	Management and Functional Reviews
MCH	Maternal and Child Health
MDAs	Ministries, Departments and Agencies
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MEFF	Macroeconomic and Fiscal Framework
MEST	Ministry of Education, Science and Technology
MICS3	Third Multiple Indicators Cluster Survey
MMR	Ministry of Mineral Resources
MODEP	Ministry of Development and Economic Development (through 2007)
MOF	Ministry of Finance (through 2007)
MOFED	Ministry of Finance and Economic Development
MOHS	Ministry of Health and Sanitation
MOTI	Ministry of Trade and Industry
MOW	Ministry of Works, Housing and Infrastructure
MPC	Monetary Policy Committee
MTEF	Medium-Term Expenditure Framework
MWTC	Ministry of Works and Technical Maintenance
NACS	National Anti-Corruption Strategy
NaCSA	National Commission for Social Action
NASSIT	National Social Security Insurance Trust
NCP	National Commission for Privatization
NCRRR	National Commission for Reconstruction, Resettlement and Rehabilitation
NCSA	National Commission for Social Action
NDFC	Net Domestic Financing Committee
NGO	Non-Governmental Organization
NHP	National Health Policy
NPA	National Power Authority
NPPA	National Public Procurement Authority
NPV	Net Present Value
NRA	National Revenue Authority
NTSIP	National Transport Strategy and Investment Plan

OAG	Office of the Auditor General
OECD	Organization for Economic Co-operation and Development
PAC	Public Accounts Committee
PAF	Progress Assessment Framework
PBF	Performance Based Financing
PBF	Performance Based Financing
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PHC	Primary Health Care
PHU	Peripheral Health Unit
PIP	Public Investment Plan
PPP	Public-Private Partnerships
PPPS	Procedures to Protect Priority Spending
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSC	Public Service Commission
PSC	Public Service Commission
RCH	Reproductive and Child Health
RMMS	Road Maintenance Management System
RRR	reconstruction, resettlement and rehabilitation
SDR	Special Drawing Rights
SECHN	State Enrolled Community Health Nurses
SLRA	Sierra Leone Road Authority
SSA	Sub-Saharan Africa
SSL	Statistics Sierra Leone
SSNIT	Security and National Insurance Trust
SWAP	Sector Wide Approach
TA	Technical Assistance
TIN	Taxpayer Identification Number
TMOU	Technical Memorandum of Understanding
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
WHO	World Health Organization

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EXECUTIVE SUMMARY

INTRODUCTION

1. **When Sierra Leone emerged from its long civil war at the beginning of 2002, it had many pressing needs for recovery and reconstruction.** As a consequence, Sierra Leone was one of the largest beneficiaries of foreign aid as a share of GDP and aid per capita. Since then, as peace has been consolidated, the level of external assistance has gradually declined from 15.5 percent of GDP in 2002 to 5.2 percent of GDP in 2008 as donors phased out their post-conflict allocations and GDP expanded rapidly.

2. **This Public Expenditure Review (PER) records improvements in many aspects of economic and fiscal management as well as service delivery.** These achievements will serve as a good foundation to build on for the future. With good progress towards economic rehabilitation, the Government now seeks external assistance to support its development priorities set out in the second Poverty Reduction Strategy Paper for 2008-12 (PRSP-2), with ambitious objectives with regard to roads, energy, agriculture, health, and education.¹

3. **The main message of the PER is that the Government's investment plans should be accompanied by equally ambitious improvements in sector policies, budgetary planning and execution procedures, public service reform and human resource management.** Priorities include continued good macroeconomic and fiscal performance, a more effective public service, and further advances in public financial management including earlier involvement of the political leadership in budgetary decisions in the budget cycle, improvements in the public investment management system, reduced deviations in budget execution, continued procurement reform, better contract management, and deepened accountability mechanisms. These issues are reviewed and discussed below. Because of their prominence in the PRSP-2, the health and roads sectors are reviewed as well.

MACROECONOMIC PERFORMANCE AND PROSPECTS

4. **The authorities successfully adjusted their fiscal stance in response to the reduction in net external assistance resulting from the gradual phase-out of post-conflict premiums.** This was achieved mainly by holding primary recurrent spending constant in real per capita terms. As a consequence, the share of spending financed from revenues increased from 48 percent in 2002 to 72 percent in 2008.² More needs to be done, however, as the revenue effort of 11 percent of GDP is among the lowest in Sub-Saharan Africa. (Box 1 provides a summary of on-going revenue reforms.) The fiscal deficit³ had been falling, from 8.3 percent of GDP in 2002 to 2 percent of GDP in 2007. The adjustment process was interrupted in 2008 due to higher spending requirements induced by the significant increase in the global prices of food and fuel and the decision to procure fuel for emergency power generation in Freetown. The resulting deficit was the equivalent of 4.8 percent of GDP.

¹ Although the PRSP-2 covers the period 2008-12, it was not finalized and presented to donors until June 2009.

² Excludes development spending financed by external aid.

³ After grants.

5. **Fiscal adjustment combined with substantial debt relief obtained at the end of 2006 has contributed to a significant reduction in the stock of public debt relative to GDP.** The stock of domestic debt declined from 52 percent of GDP in 2002 to 24 percent in 2008. The stock of external debt fell from 165 percent of GDP in 2002 to 110 percent of GDP in 2006. HIPC and MDRI relief reduced this to 31 percent of GDP in 2007 and 2008.

Box 1: Ongoing Revenue Reforms

Sierra Leone's revenue effort, at just over 11 percent of GDP, is among the lowest in the world. To correct this, a number of tax policy reforms are in the pipeline at the National Revenue Authority including the introduction of a value-added tax (Goods and Services Tax) that began in 2010. Off-budget revenues collected by some ministries are to be brought into the consolidated revenue fund. An effort is also being made to make taxation less of a burden to firms that would otherwise remain outside the formal economy. Other policy reforms include the introduction of self-assessment for some categories of tax payers, the development of a Small Taxpayer Regime, customs law reform, and a study on the reform of tax incentives. MOFED intends to initiate the implementation of the IFMIS revenue module and is considering strengthening its capacity to formulate tax policy (see also Chapter 3, Part B.2.).

Administrative changes at NRA include the creation of a Large Taxpayer Unit in 2008, the introduction of taxpayer identification numbers in 2009, customs administration, improving taxpayer education and outreach, and building tax administration capacity in general. These efforts are being supported by a number of donors including the Commonwealth, DfID, FIAS, and the World Bank.

6. **Fiscal policies backed by prudent monetary policy have been supportive of strong real growth and moderate price stability.** The post-conflict bounce-back was initially quite strong with a real GDP growth rate of 27 percent in 2002 followed by 9.5 percent in 2003 and just over 7 percent for 2004-06. Real growth slowed to 6.4 percent in 2007 as fuel prices began to increase. The global fuel and food crises induced a further deceleration to 5.5 percent in 2008. Consumer prices in 2002 fell by almost 4 percent as the cessation of hostilities allowed more goods to be produced and imported. Since then, the average inflation rate between 2003 and 2007 was 11 percent. Inflation increased to an average of 15 percent in 2008 due to higher global commodity prices.

7. **Sierra Leone did not fare well during the initial phase of the global recession.**⁴ The recessionary impact was transmitted mainly through reduced demand for exports, reduced export prices, a reduction in remittances, and a consequent sharp depreciation of the local currency from 3,048 Le/US\$ in January 2009 to almost 3,900 Le/US\$ by the end of 2009. Real GDP is estimated to have grown by 4 percent in 2009 while the average inflation rate fell to 10 percent from almost 15 percent in 2008. Revenues are estimated to be 11 percent of GDP and the fiscal deficit 4.4 percent of GDP.

8. **Going forward, the Government seeks to restore a high rate of real growth and poverty reduction through increased public and private investment.** In order to reach the corresponding requirements for domestic and external savings, the authorities will need to address three key macroeconomic challenges: how to maintain ambitious goals after the adverse

⁴ Estimates for 2009 outcomes come from the most recent data available as of December 2009.

impact of the global recession, how to manage aid volatility and predictability, and how to regulate contingent liabilities.⁵ These issues are taken up in Chapter 1.

BUDGETARY PLANNING AND EXECUTION

9. **Some aspects of expenditure allocation trends, such as the ongoing reduction in defense spending, are shaped by Sierra Leone's post-conflict success.** Increased investments in 2010-12 for infrastructure and other services supporting private sector growth are welcome. In this regard, the share of public investment in total spending included in the 2010-12 budget framework is expected to increase by 14 percentage points, from an average of 26 percent of total expenditures for the period 2005-09, to an average of 40 percent of the total between 2010 and 2012. To achieve this, the authorities will need to focus on complementary policies aimed at aid mobilization and capacity building for project implementation. It is worrisome, however, to see declining shares for education and health when progress towards the MDGs is mixed and human development indicators are so low (Sierra Leone was ranked 180th out of 182 countries in the 2008/09 UN Human Development Index).

10. **Planned expenditures are rarely implemented fully and deviations from budgetary allocations are often significant.** Deviations from total spending targets have been minimal but compositional deviations for specific budget heads are a recurring issue. Some deviations, notably for miscellaneous budget head 501, have been large enough to divert substantial resources away from other budget heads. Expenditures on poverty reducing programs, particularly in the health sector, are often well below budgeted amounts. Transfers to local councils have also generally been well below targeted levels, reducing service delivery for all devolved functions. These deviations are only partially explained by overall resource availability. Closer adherence to the procedural requirements set out in the Government Budget and Accountability Act (2005) and the Financial Management Regulations (2007) would help to reduce the level and frequency of the deviations.

PUBLIC FINANCIAL MANAGEMENT

11. **The authorities have introduced many reforms in support of better governance and public service delivery in the time since the last Public Expenditure Review in 2003-04.** A broad and sustained program of public financial management (PFM) reforms, detailed in Box 2 below, has played a central role. By mid-2007, the adoption and implementation of these reforms placed Sierra Leone's fiduciary arrangements almost on par with the regional average.⁶ This is a commendable achievement and contrasts strongly with the strong erosion in capacity in the years leading up to, and during, the recent civil war.

⁵ An additional challenge, as well as opportunity, could emerge if substantial reserves of extractable petroleum are found: world petroleum prices are extremely volatile and unpredictable while the availability of new resource can induce political instability.

⁶ Sierra Leone obtained a total score on 28 PEFA indicators of 52 compared to the regional average of 60. This score is arrived at by giving 4 points for an A, 3.5 for a B+, 3 for a B, etc down to 1 for a D. The maximum score on 28 indicators is 112. See the Sierra Leone External PEFA Assessment, Final Report, December, 2007. The regional average is calculated from the most recent PEFA scores from 17 countries.

Box 2: Key Reforms in Public Financial Management, 2004-08

- Local Governments, with local Government elections, were re-established through the adoption and implementation of the 2004 Local Government Act (LGA).
- The Public Procurement Act of 2004 replaced a wasteful, centralized procurement regime with a decentralized procurement system based on the principles of competition, transparency, and accountability.
- A weak legal foundation for fiduciary standards was strengthened by the Government Budgeting and Accountability Act (GBAA) in 2005 and by the adoption of new Financial Management Regulations (FMR) in 2007.
- The Accountant General's Department was strengthened by the appointment of a qualified Accountant-General and eight professional accountants after years of low capacity.
- The Annual Public Accounts and their audits have been brought up to date, after years of delays, and the quarterly publication of unaudited accounts has become a normal, routine procedure.
- The old, centralized software for financial management was replaced with a new, decentralized system (IFMIS) that should both empower Ministries, Departments, and Agencies (MDAs) and increase their accountability. The IFMIS was rolled out to eight MDAs.
- Local Government legislation was enacted in 2004 and Financial Administration Regulations were issued in 2005, temporary manual financial management systems were put into place, and training was provided.
- The capacity for external audit has been strengthened by enhanced terms and conditions of service for the Office of the Auditor-General and by new recruitment and training.

12. **Some challenges remain.** Among these are the need for a revised budget process with more opportunities for review by the political leadership, better budget execution, continued procurement reform, and further strengthening of accountability mechanisms.

13. **There are few opportunities for Cabinet officials and Parliamentarians to review policy options at a strategic level** before MDA budget proposals are completed. In recent years, initial budget proposals have been submitted towards the end of July or early August. Hearings are then conducted, and proposals are revised and completed by end-August. This does not leave enough time for policy makers to thoughtfully review options and provide guidance, nor does it leave much time for officials to certify that any guidance received from the hearings has been incorporated accurately into the revised budget proposals. The authorities may want to consider a revised budget process that would address this issue.

14. **Perhaps the most pressing issue with regard to the PFM legal framework is its implementation.** Not all procedural requirements are being met, particularly with regard to budget execution. One example is the management of budget head 501. This budget head, meant for miscellaneous contingencies, is routinely and substantially over-spent to the detriment of other priorities. In addition, several large extra-budgetary commitments were made in late 2007 and 2008. One of these was a large power sector contract that was incorrectly procured in late 2007. This contract was a major contingent liability of the Government in 2008 and became an actual, but somewhat reduced, liability with substantial payments due in 2009 and 2010.

15. **Good progress has been made in procurement reform but more work needs to be done.** Between April 2003 and January 2004, only 10 percent of the contract awards were made on the basis of an open tender process.⁷ By 2008, and following the establishment of the Public Procurement Act (2004), the share had doubled to 20 percent for 23 of the largest MDAs with procurement plans. Not all procurement must be conducted competitively, but the law does

⁷ Sierra Leone: Issues Paper on Public Procurement, dated May 2004.

require all transactions with estimated values above the small purchase threshold to be conducted through open competition. In this context, good progress has been made but more is needed: 69 percent of the transactions above the small purchase threshold were conducted competitively in 2008 compared to 29 percent in 2006. The law requires 100 percent.

16. **While the new National Public Procurement Authority (NPPA) has trained many mid-level and senior Government staff to serve as procurement officers, it is becoming clear that this is not sufficient to produce good results** because many of these officers are often transferred to other jobs. The NPPA is examining various solutions including the creation of an independent cadre of procurement officers. In addition, under the Public Procurement Act, the Procurement Committees within each ministry or agency are mandated to "review and approve evaluation reports and contract award recommendations." In spite of this, some ministries have reportedly attempted to overrule the recommendations of their Procurement Committees. More work also needs to be done to improve the quality of procurement planning and increase the transparency and accountability associated with the procurement process through more publication of requests for bids and contract awards.

17. **Considerable progress has been made towards increased accountability through the publication of the Reports of the Auditor-General for 2006 and 2007 in 2009.** Going forward, accountability to the citizens could be deepened further. Parliament could play a useful role in this regard by conducting regular open Public Accounts Committee meetings (two such meetings were conducted in 2009). Enacting a Freedom of Information law, backed by an expansion of the Records Management Improvement Project, is also recommended.

18. **The decentralization program has started well but additional reform is necessary.** The transition process was implemented with minimal disruption with a fairly equitable and transparent system of transfers and some improvements in public service delivery.⁸ The most serious challenges to successful devolution are inadequate human resources and an inability to manage central ministry staff seconded to the local Governments. This is followed by inadequate and unpredictable transfers from the central Government: the quality of budgetary execution would likely improve with improvements in the level and timeliness of central Government transfers and better linking transfers to needs rather than prevailing service delivery levels. Some local council spending remains under central Government control, notably some elements of primary education, and little donor funding is managed directly by the councils. The legal framework for public financial management is generally acceptable; however, until the regulations are officially adopted, there is no legal basis to prosecute any misconduct. Several inconsistencies between the Local Government Act and various sector-specific laws also need to be resolved.

PUBLIC INVESTMENT MANAGEMENT

19. **To better support PRSP-2 objectives, public investment decisions need to be made in a more systematic manner, driven by long-term national priorities.** Thus far, most

⁸ Decentralization, Democracy, and Development: Recent Experience from Sierra Leone, World Bank, 2009.

investment projects have been largely donor driven and most were selected in response to urgent post-conflict reconstruction needs.

20. **The laws and regulations governing public investment are reasonable but they focus on details at the expense of strategy, cost-effectiveness, and accountability.** At present, there is little required from ministries and other Government institutions, or from donors, with regard to monitorable outcome and progress indicators, or maintenance requirements after a project is completed. Moreover, only a small portion of project proposals are carefully appraised by Government officials. As a consequence, the Government has occasionally been unable to attract funding from interested donors due to a lack of fully worked out project documentation. Since most of the development budget is financed externally, Government officials often rely on the appraisals done by donor agencies without developing Government capacity for project appraisal.

21. **The authorities may want to remedy this situation** by: (a) setting out strategic priorities with monitorable progress indicators for each MDA; (b) introducing a three or five year rolling Public Investment Plan (PIP) to include desired, planned, and ongoing projects; and (c) establishing project selection criteria to be used in the appraisal process when deciding whether to accept or reject a project into the PIP. The appraisal process should be rigorous for large or complicated projects, and simpler for small projects. A clearly defined and measurable goal, along with monitorable progress indicators, should be among the selection criteria. The budget would include only those projects that have: (i) been selected into the PIP; (ii) have attracted adequate financing; (iii) have affordable recurrent cost implications for operations and maintenance; and (iv) have affordable counterpart financing requirements.

22. **The authorities may also want to consider the establishment of a dedicated agency or MOFED unit to conduct the appraisal process and advise the Cabinet and Parliament as part of the Medium-Term Expenditure Framework planning process.**⁹ Such an agency might also usefully assist local councils with their local investment plans. If adopted in Sierra Leone, the division of labor would allow MOFED staff to focus on facilitating and monitoring project implementation. In this regard, project delays and cost over-runs, frequently encountered, could be reduced through improvements to administrative procedures, especially with regard to clear monitoring and evaluation mechanisms, procurement, and stronger institutional capacity throughout the MDAs.

PUBLIC SERVICE REFORM

23. **Effective PRSP implementation will require a skilled public service.** At present, however, most ministries suffer shortages of middle level and senior staff, especially those with technical skills. The vast majority of public service employees are in the lower grades. Moreover, many skilled staff are near or past their retirement age.

24. **To create an effective public service, there is an urgent need to increase the number of technically skilled workers in the middle level grades.** Project Implementation Units, local

⁹ Qualified consultants answerable to the dedicated agency or office could be hired as necessary if the necessary appraisal skills are not immediately available.

technical assistants, and consultants are not sustainable solutions. The sustainable recruitment of skilled staff will require pay reform and better opportunities for career growth. To make the fiscal space for these changes, increased taxation, systematic retirement, or retrenchment may need to be explored, in addition to the current hiring freeze on low grade positions (excluding essential staff such as trained nurses). Chapter 5 includes an illustrative scenario of how several reform options could be sequenced and implemented in an affordable and timely manner.

25. The President has improved accountability by requiring performance contracts for each Minister but more work is needed to achieve broad and effective accountability within the public service. It would be useful to make public the contents of the ministerial performance contracts established with the President, along with the results of the quarterly progress assessments of those contracts. The next step could be the use of performance and merit based promotions for most civil servants. In addition, the successful devolution of public service delivery will require improvements in capacity, incentives, managerial authority at the local level, and accountability to local leadership. The overall public service reform program could be facilitated by the establishment of a coalition of political and civic leaders in support of an over-arching medium-term policy framework and by clarifying institutional roles.

HEALTH SECTOR

26. Sierra Leone has long had some of the worst health indicators in the world. Infant, child, and maternal mortality rates remain significantly high (see Table 1 below) relative to other low income countries.¹⁰ Infant, child and maternal mortality remain significantly high. Most premature deaths in Sierra Leone have been associated with communicable diseases. According to WHO data for 2004, 83 percent of all premature deaths were attributable to communicable diseases. Chief among these are pneumonia, diarrhea, and malaria. Rural populations, and females within the rural population, have the highest incidence of these diseases.

Table 1: Selected Health Indicators, 1990-2008

	WHO (1990)	MICS2 (2000)	MICS3 (2005)	WHO (2007)	Preliminary DHS (2008)	Average Low Income WHO (2005-07)
Life expectancy at birth	39 years	n/a	n/a	41 years	47 years	57 years
Infant mortality rate						
0 - 4 years prior to survey	..	..	..	..	89/1,000	..
5 - 9 years	..	..	..	..	132/1,000	..
10-14 years	169/1,000	170/1,000	158/1,000	155/1,000	120/1,000	80/1,000
Under five mortality rate						
0 - 4 years prior to survey	..	..	..	..	140/1,000	..
5 - 9 years	..	..	..	..	195/1,000	..
10-14 years	290/1,000	286/1,000	267/1,000	262/1,000	190/1,000	126 /1000
Maternal mortality rate	n/a	1,800	n/a	2,100/100,000	857/100,000	650/100,000
Stunting %	..	34	40	..	36.4	..

Sources: MICS (2000), MICS (2005), DHS (2008), and World Health Statistics, WHO (2009).

27. The recent expansion in health facilities has outstripped the Government's capacity to support their operational requirements in terms of supplies, skilled staffing, and

¹⁰ Data may not be comparable over time when different sources are used due to differences in sample designs and methodologies.

infrastructure. These issues are traceable to a poorly designed system of health sector financing that leads to low and erratic domestic resource availability (especially with regard to primary health care), leakages, and off-budget spending (including for staffing). Overall sector financing has been falling in per-capita terms as Government contributions have been contracting faster than donor contributions have been increasing. Moreover, high out-of-pocket costs and poor quality services have reduced household demand for Government provided health care, with the result that many facilities are under-utilized. The impact on health outcomes has been mixed. As noted above, child and maternal mortality rates remain among the worst in the world.

28. **Addressing these problems will require comprehensive reform in health sector financing.** Options include moving towards free health care by replacing fees with higher budgetary allocations, replacing revolving funds with transparent budgetary transfers to facilities (thus empowering Community Health Boards and Hospital Boards), improving staffing through recruitments coupled with civil service reform efforts, and further encouraging the involvement of the private sector and NGOs in the management of health facilities. In fact, in November 2009, the Government of Sierra Leone announced that it would launch a free health care initiative by abolishing user fees for pregnant women, lactating mothers and children under five with an intended start date of April 27, 2010.

29. **Given the analysis in the PER, one option would be to adopt a phased approach** once the free health care initiative is launched. The first phase (years 1-3) could introduce free Primary Health Care (with emphasis on prevention) for all who seek it. This could be financed by increased donor assistance channeled through the budget. To help meet the increased demand that will result from the introduction of free health care, the Government would need to begin hiring more trained health care workers, including workers from overseas if necessary, as quickly as possible if the existing staff are not to be overwhelmed. In order to motivate good results, the Government should also consider some form of Performance Based Financing that rewards good progress towards agreed monitorable targets (this may require coordination with public service reform efforts to introduce merit based promotions).

30. At the same time, recognizing that fees for other essential services remain too expensive, the Government could commit to introducing a comprehensive insurance scheme that covers essential curative services, with a subsidy element for the poor and discounts for easily verifiable good health behaviors. This could be designed in years 1-3 and introduced in years 4-6. To finance this extra cost, and allow a gradual phase-out of high donor assistance, the tax base would be improved over years 1-3 (including the possible introduction of a health care tax) and some expenditure reallocations could be made in favor of the health sector. Low priority and elective services could continue to attract fees for services and could be financed from private insurance schemes.

31. **A successful free health care initiative will require a coordinated approach between the Ministry of Health and Sanitation, the Public Service Commission, the Human Resource Management Office, the Ministry of Finance, the Local Councils, and the donor community.** The approach described above cannot be implemented by any single Ministry or agency: the needed reforms in recruitment, pay reform, and sector financing are too inter-

dependent. This, however, does present the Government and the donors with an opportunity: the free health care initiative could usefully drive forward the process of public service reform.

ROAD SECTOR

32. **In its PRSP-2, the Government has set out ambitious goals for improvements in road quality to be achieved by 2014. Sierra Leone has a much lower density of roads as compared to the Sub-Saharan Africa (SSA) average and the quality of most roads is generally poor.** Sierra Leone's paved road length of 2.0 km per thousand people is just over one half the SSA average of 3.6 kilometers per thousand persons. Only half of the network can be said to be in fair to good condition, and only 12 percent of the roads are paved. As a consequence, transport costs are higher than necessary. While an immediate expansion in road density may be out of reach, the Government is seeking substantial improvements in road quality during the implementation of PRSP-2. Road rehabilitation and maintenance are critical for the facilitation of economic activity and investment in Sierra Leone and it is commendable that the Government intends to pursue them aggressively.

33. **These goals, however, need to be set in the light of existing road traffic, public resource constraints, affordability of long-term requirements, and the implementation capacity of the Sierra Leone Road Authority (SLRA).** In this respect, the report presents a series of recommendations to better prioritize the targeted road quality improvement goals and enhance the sector agency's effectiveness through institutional and policy reform actions. It presents a scenario for optimal road network improvements based on the Road Network Evaluation Tools model that suggests that the required expenditures are roughly one third of the expenditures targeted by the authorities. It also identifies opportunities to reduce the administrative expense of the SLRA which, at 29 percent of revenues, largely exceeds the share needed by comparable and well administered road authorities elsewhere (5 percent). Implementation capacity, procurement, and contract management all need to be strengthened to improve on the current low utilization of donor funds. Efforts to improve the capacity of domestic contractors and enacting legislation for public-private-partnerships would also be needed to increase the ability to achieve ambitious road quality improvement goals.

34. **Sector roles and responsibilities would also need to be clarified to enhance accountability and oversight of existing sector agencies while Local Councils would need to be empowered to manage their local roads.** The majority of public expenditures for road work has been administered by the SLRA, although the National Commission for Social Action and the Ministry of Agriculture, Forestry, and Food Security also have small roles in feeder road maintenance. Road sector policy and administration could be improved by clarifying roles and responsibilities for sector leadership. At present, the legal framework simultaneously gives the Ministry of Works the responsibility for the road sector while the National Commission for Privatization has responsibility for the Sierra Leone Road Authority. The net result is that neither Ministry of Works nor the National Commission for Privatization have been effectively in charge of the sector. Instead, the SLRA has been driving the annual road sector plans, budgets, expenditures and the road fund, with little or no effective oversight. In response, the authorities may want to consider clarifying the lines of authority in a way that assigns policy

making and regulation to line ministries while protecting the financial viability of sector public enterprises or entities that may eventually be commercialized or privatized.

35. The planned devolution of responsibility for feeder roads maintenance has not been implemented. Unlike several other devolved responsibilities, there has been no budget allocated to local councils for the maintenance of feeder roads. Furthermore, there is a general absence of information on the location and extent of feeder roads from the SLRA, and no agreement on a time table for the transfer of feeder road responsibilities. The councils are thus finding it hard to commence planning and building capacity for their future responsibilities. The authorities may therefore wish to establish an agreed timetable for an inventory of feeder road and transfer of responsibility regardless of road condition.

36. Accountability would also need to be improved by enhancing the transparency and comprehensiveness of the information available to the public concerning road sector plans, expenditures, and outcomes. The publicly available data on the length and quality of the road network is out of date and inconsistent across sources. A comprehensive stock-taking exercise is affordable and urgently needed. Data on the level and composition of spending on the road sector are poor in quality and limited in detail. In addition, none of the implementing MDAs in the road sector produce annual budgets or budget estimates for public use.

SUMMARY OF KEY RECOMMENDATIONS

The recommendations below are a subset of a much larger set of policy reform options that are discussed throughout the text of the Public Expenditure Review. The recommendations are grouped by chapter to allow the reader to explore more deeply those items that are of interest.

	Within One to Two Years	Within Three to Five Years
Chapter 1: Macroeconomic Management	<ul style="list-style-type: none"> • Eliminate discretionary tax exemptions. • Strengthen the legal framework governing public debt management including the accumulation and management of contingent liabilities. 	<ul style="list-style-type: none"> • Improve the revenue effort in order to fully fund recurrent expenditures and reduce dependency upon unpredictable foreign aid. • Work with donors to improve the predictability of aid disbursements, particularly for budget support.
Chapter 2: Level and Composition of Spending	<ul style="list-style-type: none"> • Reduce the overspending of budget head 501 through adherence to GBAA 25(4) and 25(5). 	<ul style="list-style-type: none"> • Increase the resources allocated to health care. • Maintain an annually updated asset registry and find ways for each MDA to allocate more to the maintenance of Government buildings, vehicles, computers, and other essential equipment. • Apply the GBAA and FMR more rigorously to reduce deviations from budgetary allocations, particularly for basic public services.

	Within One to Two Years	Within Three to Five Years
		<ul style="list-style-type: none"> • Reform the grants system for Local Councils in a way that brings more predictability, adequate resources, and greater autonomy in local budgetary decisions.
Chapter 3: Public Financial Management	<ul style="list-style-type: none"> • Increase annually the share of goods and services procured through competitive procedures and ensure that all tenders and awards are consistently published in the local newspapers. • Consider circulating the Budget Framework Paper to the Cabinet <i>before</i> the Budget Call Circular is issued in order to allow the Cabinet to make more informed decisions before endorsing the overall framework. • Make it easier for Cabinet officials and Parliamentarians to effectively review broad policy options at a strategic level before MDA budget proposals are completed. This can be done by starting budgetary hearings, including manpower planning, sooner and by reviewing MDA spending proposals in the context of progress made towards MDA strategic goals in the last year as well as any planned changes in policy or goals. • Adopt and implement a Freedom of Information Act backed by capacity building for records management. 	<ul style="list-style-type: none"> • To improve cash management, establish a cash management unit and development a cash forecasting model backed by a contract management package. • Create a cadre of trained procurement professionals with human resource management decisions made in consultation with the NPPA.
Chapter 4: Public Investment Framework	<ul style="list-style-type: none"> • Amend the GBAA and FMR to require that (i) strategic priorities are set out with monitorable progress indicators for each MDA; (ii) a three or five year rolling Public Investment Plan (PIP) is established to include desired, planned, and ongoing projects; and (iii) project selection criteria are established to be used in the appraisal process when deciding whether to accept or reject a project into the PIP. Clearly defined and measurable goals, along with monitorable progress indicators, should be among the 	<ul style="list-style-type: none"> • Introduce better procedures for project identification, selection, implementation (with special emphasis on procurement and contract management), monitoring, and evaluation. • Build more capacity for project management and implementation.

	Within One to Two Years	Within Three to Five Years
	<p>selection criteria.</p> <ul style="list-style-type: none"> • Amend the GBAA and FMR to require that the budget would include only those projects that have: (i) been selected into the PIP; (ii) have attracted adequate financing; (iii) have affordable recurrent cost implications for operations and maintenance; and (iv) have affordable counterpart financing requirements. • Submission to Parliament of a bill to regulate the formation of public-private partnerships to encourage investment while minimizing risks to Government. 	
Chapter 5: Public Service Reform	<ul style="list-style-type: none"> • Establish a coalition of leaders to drive public service reform forward. • Clarify institutional roles. • Ministerial performance contracts could be published as annexes to the annual Budget Speech and annual progress reports could be discussed on radio talk shows. 	<ul style="list-style-type: none"> • Substantially increase the ratio of skilled to unskilled staff throughout the public service. Pay and grading reform will help facilitate recruitment and retention. To make the fiscal space for these changes, increased taxation, systematic retirement, or retrenchment may need to be explored, in addition to the current hiring freeze on low grade positions. • To improve Local Council effectiveness and accountability for results, transfer responsibility for HR decisions over devolved ministry staff to the Local Councils. • To motivate good staff performance, introduce merit based promotions for most public service employees.
Chapter 6: Health Care Reform	<ul style="list-style-type: none"> • Introduce free Primary Health Care (with emphasis on prevention) for all who seek it, financed by increased donor assistance channeled through the budget. • Hire more trained health care workers to help with increased demand resulting from the introduction of free health care. If necessary seek workers from overseas. • Begin designing some form of Performance Based Financing that rewards good progress towards 	<ul style="list-style-type: none"> • Introduce a comprehensive insurance scheme that covers essential curative services, with a subsidy element for the poor and consider including discounts for easily verifiable good health behaviors. • To finance the increased costs, and allow a gradual phase-out of high donor assistance, strengthen the tax base (possibly through a special health care tax) and make some expenditure reallocations in favor of the health sector.

	Within One to Two Years	Within Three to Five Years
	<p>agreed monitorable targets. This may require a coordination with public service reform efforts to introduce merit based promotions.</p> <ul style="list-style-type: none"> • Begin designing a comprehensive insurance scheme that covers essential curative services, with a subsidy element for the poor. Consider including insurance discounts for easily verifiable good health behaviors. 	
Chapter 7: Road Sector Reform	<ul style="list-style-type: none"> • Clarify roles and responsibilities for sector leadership in a way that assigns policy making and regulation to the appropriate line ministry while protecting the financial viability of those parastatals (or portions of them) that may eventually be commercialized or privatized. • Complete a comprehensive stock-taking of the road network length and conditions and make arrangements for annual updates thereafter. • Agree on a timely date for the transfer of responsibility for feeder road maintenance to the Local Councils, regardless of the state of the roads. • Begin publishing annual budgets for the SLRA, including physical targets, in the road sector along with actual spending and physical outcomes from each preceding year. 	<ul style="list-style-type: none"> • Set out to achieve ambitious road sector targets through more efficient use of resources rather than increased budget allocations. • Reallocate some resources within SLRA away from administration towards maintenance. • Strengthen the capacity for procurement and contract management within SLRA. • Help improve the capacity of local contractors to undertake larger projects and with higher quality standards.

1. MACROECONOMIC PERFORMANCE AND PROSPECTS

The authorities have successfully adjusted their fiscal stance in response to a gradual reduction in net external assistance. Government savings have increased, revenues cover a greater share of expenditures, and the deficit has been falling as a share of GDP. Fiscal adjustment and debt relief have contributed to a significant reduction in the stock of Government debt relative to GDP. Real growth has remained high throughout the adjustment period but has declined recently due to the global slowdown and increased volatility. Going forward, the Government seeks to restore a high rate of real growth and poverty reduction through increased public investment. Several challenges will need to be addressed in order to reach the corresponding requirements for domestic and external savings. These include the global recession, the unpredictability of aid, and the management of contingent liabilities. Options for dealing with each issue are proposed.

A. INTRODUCTION

1.1 This chapter provides an analysis of the macroeconomic constraints and opportunities that shape fiscal outcomes and influence the implementation of the second PRSP which calls for high, investment driven real economic growth. Special attention is therefore paid to investment and sources of financing for investment. Risks to increased investment, and options for dealing with them, are discussed throughout. These include: the impact of the global recession, aid unpredictability and volatility, and contingent liabilities.

1.2 The rest of the chapter is arranged as follows. Section B describes recent economic developments with an emphasis on how the Government has adjusted successfully to the phase-out of post-conflict assistance and how it has responded to increasing volatility on global markets from 2007 onward. Section C describes the medium-term macroeconomic framework within which the Government intends to accelerate growth.

B. RECENT ECONOMIC DEVELOPMENTS, 2002-08

1.3 Real GDP growth has been high but has declined recently due to increased global volatility. As with many post-conflict countries, there was an initial burst of very high growth as hostilities ended: 18 percent in 2001, 27 percent in 2002, and almost 10 percent in 2003. Real growth then proceeded at an average annual rate of 7.3 percent for the period 2004-2006 (see Figure 1.1). This compares very favorably to the long-run population growth rate of approximately 2 percent per annum. Real growth slowed to 6.4 percent and 5.5 percent in 2007 and 2008 respectively as global commodity prices, particularly for fuel and food, swung sharply upward. Growth was further inhibited in 2008 by the collapse of two key mining operations.¹¹

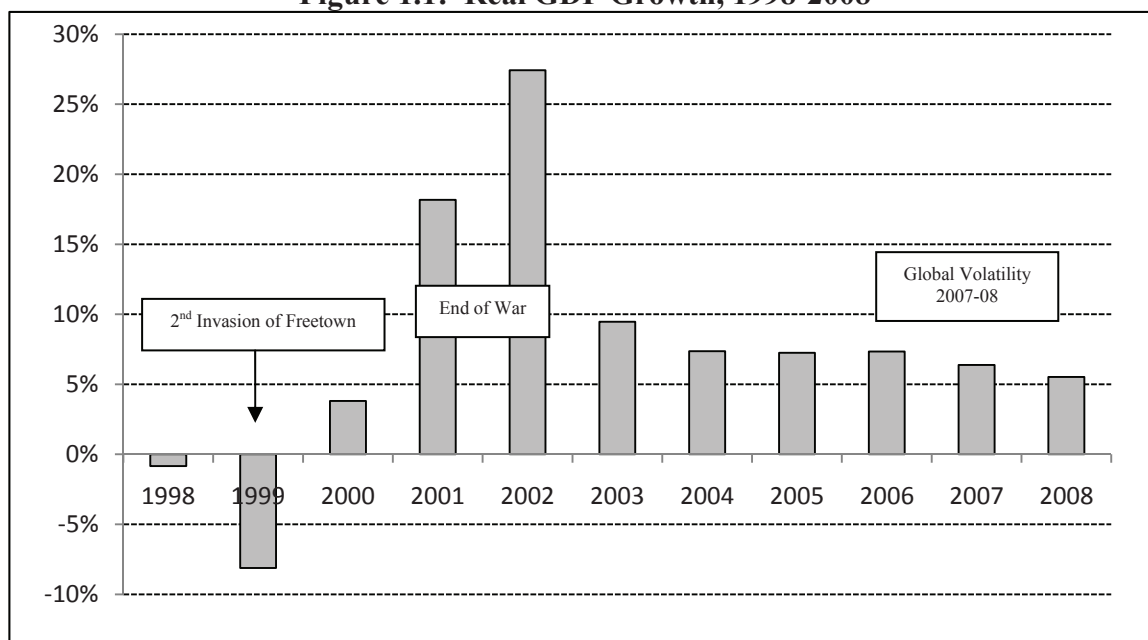
1.4 The incidence of poverty is high but declining. The poverty headcount fell from 66 percent in 2003/04 to 57 percent in 2007, the last year for which an estimate was made.¹² An

¹¹ These were Koidu Holdings and the second dredge owned by Sierra Rutile.

¹² World Bank, 2008. Sierra Leone Poverty Diagnostic. Based on a standard consumption basket.

alternative calculation, based on data for asset holdings taken from the 2003/04 household survey and from the 2007 Core Welfare Indicators Questionnaire (CWIQ), suggests that the poverty headcount rate may have decreased by only 5.9 percent from 67.5 percent in 2003 to 61.6 percent in 2007.

Figure 1.1: Real GDP Growth, 1998-2008



1.5 Consumer price inflation was increased due to the pass-through effects of steady increases in imported oil prices in 2007 and 2008, combined with the spike in the world price of rice in 2008. The end-of-period inflation rates in 2007 and 2008 were 13.8 percent and 12.2 percent, up from 8.3 percent in 2006. The Government mitigated some of these price increases in 2008 by reducing import tariffs on rice, flour, and petroleum products. The exchange rate remained fairly stable through 2008 with an average rate at just under 3,000 Leones per US dollar. The three month Treasury bill rate fell significantly to 9 percent in 2008 from 21 percent in 2007 (end of year basis).

1.6 Sierra Leone broadened its export base from an almost exclusive concentration on diamonds in recent years to include rutile, bauxite, and a growing volume of cash crops. Export growth was positive for all products in 2007 but fell in 2008 due to technical problems with the kimberlite diamond and rutile mining operations. As a result of declining mining exports and increasing oil and food imports costs, the external current account deficit (including official transfers) increased to 10.6 percent of GDP in 2008 from 3.4 percent of GDP in 2007. Official reserves in 2008 fell to US\$209 million or 4.5 months of import coverage, from US\$215 million in 2007.

1.7 External support for Sierra Leone remains high but has fallen substantially over the last seven years. This reduction is the consequence of donor aid policies that tend to phase out post-conflict assistance over time. The World Bank, for example, provided a post-conflict

premium that was phased-out over a seven year period.¹³ Immediately after the war, in 2002, Sierra Leone received 15.5 percent of GDP in net external fiscal financing¹⁴ that covered 54 percent of total Government spending¹⁵ (see Table 1.1). By contrast, in that same year, only four out of 49 other low income countries received similarly high GDP shares of external financing.¹⁶ By 2008, net external fiscal financing had fallen to 7 percent of GDP, enough to cover only 34 percent of total Government expenditures.

Table 1.1: Fiscal Outcomes, in Percent of GDP, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Revenue & Grants	20.4	20.1	20.8	21.4	20.0	15.6	15.9
A. Revenue	12.2	12.4	12.1	11.6	11.8	10.8	11.4
B. Grants	8.2	7.7	8.8	9.8	8.2	4.8	4.5
1. Current Grants a/	6.0	6.6	7.0	7.0	5.3	3.4	2.5
2. Projects	2.2	1.1	1.8	2.8	2.9	1.4	2.1
Total Spending	28.6	26.8	24.2	24.1	22.7	17.7	20.7
A. Recurrent	24.2	21.9	19.7	18.3	17.6	14.1	14.6
1. Consumption	17.1	16.4	14.0	13.8	13.8	11.8	12.5
a. Wages	7.3	6.9	6.0	6.4	6.4	6.0	5.7
b. Goods and Services b/	9.9	9.6	8.0	7.3	7.3	5.9	6.8
2. Transfers to Private Sector	1.7	0.5	0.4	0.1	0.0	0.0	0.0
3. Interest Due	5.3	5.0	5.4	4.5	3.8	2.3	2.1
B. Development Budget	4.4	4.8	4.5	5.7	5.1	3.5	6.2
C. Net Lending	0.1	0.0	0.0	0.1	0.0	0.1	0.0
Overall balance	-8.3	-6.7	-3.4	-2.7	-2.7	-2.0	-4.8
Financing	8.3	6.7	3.4	2.7	2.7	2.0	4.8
A. Net External Borrowing	7.3	2.9	3.7	1.7	0.7	0.4	2.5
B. Net Domestic Borrowing	1.0	3.8	-0.3	0.9	2.1	1.6	2.4
Memorandum Items:							
Fiscal savings	-5.0	-4.1	-1.9	-2.1	-2.0	-1.0	-1.1
Primary fiscal balance	-6.2	-5.9	-3.1	-3.1	-3.1	-1.9	-2.4
Net external financing a/	15.5	10.6	12.5	11.6	8.9	5.2	7.0
Net external financing (% spending) a/	54.3	39.5	51.6	48.0	39.2	29.5	33.8
Revenue as share of spending (%) c/	48.0	53.2	58.6	60.5	63.0	72.1	71.7
Development (% primary spending)	18.8	22.2	24.1	29.0	27.0	22.7	33.0

a. Includes HIPC debt service relief. Excludes financing for MDRI debt reduction operations in 2006 and 2007.

b. Mainly goods and services but also includes transfers to educational institutions, local councils, the Road Fund, and elections. Includes subsidies to public enterprises. Includes contingency spending from MDRI resources.

c. Omits project spending financed by external project support.

d. As defined in the HIPC Decision Point document of 2002.

Sources: Ministry of Finance and Economic Development and World Bank staff calculations.

1.8 The authorities have successfully adjusted their fiscal stance in response to the reduction in net external assistance. Fiscal savings increased from -5.0 percent of GDP in 2002 to -1.1 percent of GDP in 2008. The primary domestic fiscal balance similarly improved

¹³ IDA (2007). Operational Approaches and Financing in Fragile States. The phase-out period was limited to seven years under the IDA14 funding cycle.

¹⁴ Defined as grants plus net borrowing after debt relief.

¹⁵ Net external financing is defined here as grants plus loan drawings less amortization due after debt relief and forgiveness.

¹⁶ These were Chad, Mozambique, Sao Tome et Principe, and Zambia.

from -6.2 percent GDP to -2.4 percent GDP. The overall fiscal balance improved from -8.3 percent of GDP in 2002 to -2.0 percent of GDP in 2007. This trend was not continued into 2008, however, due to faster growth in recurrent spending, resulting from a temporary subsidy to the power sector as well as higher international food and fuel prices. This led to a deficit of 4.8 percent of GDP.

1.9 Fiscal adjustment was achieved mainly through restrained growth in spending. The revenue effort has been very low by international standards and has displayed some erosion over time. Revenues were 11.4 percent of GDP in 2008 compared to 12.2 percent of GDP in 2002.¹⁷ Yet, there has been a healthy increase in the ratio of revenues to spending. This was accomplished through a gradual reduction in the GDP shares for recurrent consumption and interest due.

1.10 Government consumption fell to 12.5 percent of GDP in 2008 from 17.1 percent in 2002. Consumption is defined as wages plus the procurement of goods and services, and excludes transfers to the private sector. The wage bill was gradually brought down to 5.7 percent of GDP by 2008 from 7.3 percent of GDP in 2002. This result is consistent with targets agreed with the IMF under the first and second PRGF programs. This outcome was achieved by holding the average growth in the workforce to 3 percent per annum, just above the population growth rate but well below real GDP growth. The purchasing power of the average wage rate increased only slightly over the period with wages rising by an average of 12.5 percent per annum over the period compared to the period average inflation rate of 11.7 percent. Table 1.2 suggests, however, that the growth rate of employment, and of real wages, has been uneven over time.

Table 1.2: The Wage Bill, 2002-08

	2002	2003a/	2004a/	2005a/	2006	2007	2008
Wages as a percent of GDP	7.3	6.9	6.0	6.4	6.4	6.0	5.7
Number of Employees a/	61,871	57,871	61,514	61,857	65,885	69,130	70,633
Employee Growth (%)	..	-6.5	6.3	0.6	6.5	4.9	2.2
Average Monthly Wage b/	195,237	231,062	249,042	309,750	347,421	356,696	393,568
Wage Inflation	25.0	18.3	7.8	24.4	12.2	2.7	10.3
CPI Inflation (period avg.)	-3.7	7.5	14.2	12.1	9.5	11.7	14.8
Wage Inflation less CPI Infl.	28.6	10.8	-6.4	12.3	2.6	-9.0	-4.5

a. The number of armed forces employees is extrapolated for the years 2003 through 2005.

b. Calculated as total payroll cost divided by total public service employees.

Sources: Recurrent and Development Budget Estimates, Ministry of Finance and Economic Development and staff estimates.

1.11 Expenditures on goods and services declined to 6.8 percent of GDP by 2008 from 9.9 percent of GDP in 2002. Agreed IMF targets again served as useful constraints. In this case, the impact was indirect: the only way to reconcile agreed targets for revenues with agreed targets for the primary balance is to adjust spending. The pressure to do so became stronger when external budget support and/or revenues fell short of original projections. Box 1.1 suggests that this did not adversely affect the fiscal space for poverty reduction but may have made an expansion of public services and improvement of quality more difficult.

¹⁷ A short-term revenue improvement program was designed to produce a series of quick-win revenue collection gains. In phase 1, April - August 2007, 14 initiatives resulted in Le16.4 billion additional revenue, including Le 10.6 billion from sales tax audits.

Box 1.1: Does a Falling GDP Share Imply Less Real Spending Per Capita?

What is the implication of a fall in Government consumption by 4.6 percentage points of GDP between 2002 and 2008? In the case of Sierra Leone, if the consumption share had been held constant, then real spending would have increased at the same pace as real GDP, roughly 7.3 percent per annum. Instead, real public consumption grew at an average rate of 4 percent per annum through 2008. This is roughly twice the rate of increase in the population. Thus, the real fiscal space per capita expanded over the period 2002 through 2007. This does not mean that all years experience an expansion: real consumption contracted in 2004 by 5 percent and again in 2007 by 15.2 percent. Fortunately each of those years was followed by strong rebounds of 6.3 percent and 15.5 percent, respectively. In addition, the calculation is biased upwards by the provision of emergency power, a public service but one limited to Freetown. When emergency power is excluded, the average real growth rate is 2 percent. This implies that the fiscal space per capita neither expanded nor contracted.

1.12 Spending from the Development Budget did not suffer as a consequence of fiscal adjustment, mainly because it benefits from a high share of external project financing (see Chapter 4 for more on this and related subjects). Development spending fluctuated around an average of 4.9 percent of GDP, with a low of 3.5 percent of GDP in 2007 and a high of 6.2 percent of GDP in 2008. The development budget has taken an increasing share of total primary spending, growing from 19 percent in 2002 to 33 percent in 2008 (see Table 1.1).

Table 1.3: Debt Stocks, 2002-08

	2002	2003	2004	2005	2006	2007	2008
<u>As Shares of GDP</u>							
Total Stock of Debt	216.8	227.1	202.8	175.9	139.0	57.8	55.3
A. Stock of External Debt	164.5	180.3	165.4	143.6	110.4	31.7	31.8
B. Domestic Debt	52.3	46.8	37.4	32.2	28.5	26.1	23.5
1. Arrears	3.5	2.8	2.4	1.6	2.1	2.6	1.6
2. Total excluding arrears	48.8	43.9	35.0	30.7	26.4	23.5	22.0
a. Non-interest bearing securities	27.0	22.8	17.9	14.8	11.4	8.6	6.5
b. Interest bearing securities	21.7	21.1	17.1	15.9	15.0	14.9	15.4
<u>In US\$ Millions</u>							
A. Stock of External Debt	1,475	1,638	1,712	1,754	1,565	529	608

Sources: Ministry of Finance and Economic Development, Bank of Sierra Leone, and staff calculations.

1.13 The stock of debt has been dramatically reduced over time. The initial reduction was achieved through fiscal adjustment. The stock of domestic debt, including arrears and non-interest bearing securities, fell to 24 percent of GDP by 2008 from 52 percent of GDP in 2002 (see Table 1.3). The GDP share of external debt fell to 110 percent of GDP by 2006 from 165 percent of GDP in 2002. The stock of external debt was further reduced as a result of the HIPC initiative and the MDRI at the end of 2006. When HIPC beneficiaries meet agreed targets for the implementation of their poverty reduction strategies, as Sierra Leone did, they are granted permanent debt relief not only for some bilateral obligations but also for most multilateral obligations. This allowed the stock of external debt to fall to 32 percent of GDP, or US\$608 million, by the end of 2008.

1.14 As a result of the reduction in the debt stock, interest payments due fell to 2.1 percent of GDP in 2008 from 5.3 percent of GDP in 2002 (see Table 1.4). External interest payments dropped from an average of 2 percent of GDP between 2003 and 2006 to only two to three tenths of a percent of GDP in 2007 and 2008 (and onward). The authorities amplified this

beneficial outcome by reducing their recourse to expensive domestic borrowing via ways and means which had attracted a fixed interest rate of 20 percent per annum.¹⁸ By 2005, such recourse had been almost completely eliminated. The domestic interest rate peaked in November 2004 when the 3 month Treasury bill rate hit a high of almost 28 percent. The Treasury bill rate has since then declined to an end-of-period rate of 9 percent in 2008. The sharp reduction in the 2008 Treasury bill rate was the combined result of excess liquidity and increased competition for securities following the entry of three new commercial banks in the fourth quarter.¹⁹ A debt sustainability exercise completed in November 2009 finds that Sierra Leone's risk of debt distress is moderate. External debt indicators are projected to remain below thresholds through 2029, barring unexpected shocks.

Table 1.4: Interest Due, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Interest Due as Percent of GDP	5.3	4.9	5.4	4.5	3.8	2.3	2.1
A. External	2.7	2.2	1.9	1.9	1.7	0.3	0.2
B. Domestic	2.6	2.8	3.5	2.6	2.1	1.9	1.9
Stock of Net Domestic Debt as % GDP a/	21.7	21.1	17.1	15.9	15.0	14.9	15.4
Period Average Treasury Bill Rate	15.2	15.7	26.1	23.0	17.7	18.4	15.5
End of Period Treasury Bill Rate	15.0	20.2	27.3	20.4	14.2	21.3	9.1
Number of commercial banks	6	6	6	6	8	10	13

a. Excludes non-interest bearing instruments and domestic arrears.

Sources: Ministry of Finance and Economic Development, Bank of Sierra Leone, and staff calculations.

C. THE MEDIUM-TERM MACROECONOMIC FRAMEWORK FOR THE PRSP-2, 2009-12

1.15 Going forward, the Government intends to restore a high rate of real growth and poverty reduction through sharply increased public investment. The PRSP-2 for 2008-12 sets out a vision of high economic growth driven by increased public investment.²⁰ Specifically, it sets a minimum goal of 7 percent of GDP to be invested by Government on infrastructure alone, with additional amounts for other investments. The PRSP is correct in observing that investments in human development are as important as physical investments for growth and poverty reduction. This report considers aspects of both: chapter 2 examines the composition of spending, chapter 6 discusses the delivery of health services, and chapter 7 focuses on road infrastructure.

1. The Impact of the Global Recession

1.16 Sierra Leone's economic outcomes have been seriously affected by the global economic downturn.²¹ The full magnitude of the oncoming global financial crisis and associated recession was not well understood within or outside of Sierra Leone at the time that the macroeconomic framework for the 2009 budget was being formulated, from September through November 2008. This was the first budget meant to be fully aligned with the PRSP-2. By early 2009, however, it became clear that Sierra Leone's economic outcomes were being

¹⁸ Ways and Means now attract the same rate as treasury bills, as specified in a November 2006 Memorandum of Understanding between the BoSL and MOFED.

¹⁹ As of March 2009, there were 16 commercial banks operating in Sierra Leone.

²⁰ Although the PRSP-2 covers the period 2008-12, it was finalized and presented to donors in June 2009.

²¹ All data in this section were the most recent available as of December 2009.

seriously affected by the global economic downturn. Diamond export prices fell at an average rate of 8 percent per month, between January and June 2009, before stabilizing in the second half of the year. On the import side, the price of rice slowly fell while oil prices increased. These trends, taken together, led to a reduction in the terms of trade by almost 7 percent for 2009 (see Table 1.5). The September 2008 forecast of a small increase of 0.6 percent therefore proved to be too optimistic. Remittances from abroad were estimated to have moderately decreased from US\$38 million in 2008 to US\$35 million in 2009.

Table 1.5: Previous and Revised Macroeconomic Framework, 2009-12

	2009		2010		2011		2012	
	Sept. 2008 Frame- work	Nov. 2009 Budget Speech	Sept. 2008 Frame- work	Nov. 2009 Budget Speech	Sept. 2008 Frame- work	Nov. 2009 Budget Speech	Sept. 2008 Frame- work	Nov. 2009 Budget Speech
Real GDP Growth (%)	5.5	4.0	5.8	4.7	6.0	5.5	6.5	6.0
Consumer Price Infl'n (% e.o.p.)	9.8	9.5	9.0	8.0	8.7	7.0	8.2	6.0
Terms of Trade (% Change)	0.6	-6.7	3.4	2.4	0.8	1.4	0.8	1.6
Exports G&NFS (% GDP)	18.2	15.7	20.3	17.9	21.5	19.0	22.8	18.7
Imports G&NFS (% GDP)	26.0	28.5	27.5	31.0	27.6	31.0	28.7	30.9
Current Account (% GDP)	-5.2	-9.4	-4.6	-8.7	-3.6	-7.5	-3.6	-7.6
Revenue and Grants (% GDP)	18.4	18.6	18.2	19.5	18.3	19.7	18.9	20.2
Revenue	12.2	11.3	13.3	11.6	13.6	12.0	13.8	12.3
Grants	6.3	7.3	4.9	7.8	4.7	7.7	5.1	7.8
Expenditures (% GDP)	21.9	23.0	22.0	24.4	22.1	25.1	22.1	25.4
Recurrent	14.8	15.3	14.6	14.8	14.6	14.9	14.6	15.0
Consumption	12.7	13.8	12.7	12.9	12.8	13.2	12.9	13.3
Interest	2.1	1.6	1.9	1.9	1.9	1.7	1.6	1.7
Development and Net Lending	7.2	7.7	7.4	9.6	7.5	10.2	7.5	10.4
Overall Fiscal Balance (% GDP)	-3.5	-4.4	-3.8	-5.0	-3.8	-5.3	-3.1	-5.2
Financing (% GDP)	3.5	4.4	3.8	5.0	3.8	5.3	3.1	5.2
Net External	2.2	2.6	2.6	2.3	2.7	2.5	2.4	2.6
Net Domestic	1.3	1.8	1.2	2.7	1.1	2.8	0.8	2.6
Net External Financing (% GDP)								
As Percent of GDP	8.5	10.0	7.5	10.1	7.4	10.2	7.5	10.4
In Millions of US\$	183	194	170	201	180	220	195	245
Fiscal Savings (% GDP)	-0.5	-2.6	0.6	-1.3	0.8	-1.2	0.9	-1.0
Revenue as Share of Spending (%)	76	68	81	66	83	68	84	69

Sources: Ministry of Finance and Economic Development and World Bank staff estimates.

1.17 The decline in export prices led to a substantial reduction in exports, mainly in the mining sector, where producers have scaled back activities. Total exports improved in the second half of the year and are estimated at 16 percent of GDP in 2009, roughly the same as the GDP share from 2008. Preliminary data suggest imports in 2009 remained fairly constant as well, at 29 percent of GDP. The current account deficit is estimated to have remained high at 9.4 percent of GDP in 2009 compared to 10.6 percent of GDP in 2008 and 3.4 percent of GDP in 2007.

1.18 The shortfall in export receipts in the first half of 2009, relative to earlier years, combined with rising fuel prices, induced a rapid depreciation of the Leone. The exchange rate depreciated from 3,048 Le/US\$ in January 2009 to almost 3,900 Le/US\$ by the end of

December 2009. These same forces also slowed economic activity in 2009 with real GDP growth estimated to have declined to 4.0 percent compared to an earlier forecast of 5.5 percent made in September 2008. Total gross domestic investment is estimated to be 15.1 percent of GDP (US\$150 million) rather than 16.8 percent of GDP (US\$155 million) as originally forecast in September 2008.

1.19 Domestic revenue in 2009 is estimated to have declined by 0.1 percentage points of GDP to 11.3 percent of GDP (0.9 percent of GDP less than the budget target) due to a decline in mining activity, weaker corporate income, and revenue policy slippages. In particular, the Goods and Services Tax (GST) was not implemented in 2009 as originally intended.

1.20 Fiscal expenditures in 2009 came under pressure from unanticipated spending needs including additional costs associated with delays in completing the Bumbuna hydropower plant (continued fuel imports being among these), payments to an additional private power provider, an unbudgeted deployment of Sierra Leonean forces to the UN mission in Darfur, and additional counterpart funds to key road projects. Recurrent spending is therefore estimated at 23.0 percent of GDP compared to the budget target of 21.9 percent of GDP. Development expenditures are expected to be 7.7 percent of GDP compared to the budget target of 7.2 percent of GDP. The higher share is somewhat misleading since real GDP growth was less than expected. In fact, spending expressed in US dollar terms actually fell due to the rapid depreciation of the currency.

1.21 As a result, the overall fiscal balance is estimated to have worsened to -4.4 percent of GDP against the budget target of -3.5 percent of GDP, while the domestic primary fiscal balance would worsen to -3.8 percent of GDP compared to the budget target of -1.4 percent of GDP. The expected revenue shortfall was accommodated by additional net external assistance and slightly higher recourse to domestic borrowing.

1.22 The impact of the global recession is evident in the revised macroeconomic framework for 2010-12. A new set of macroeconomic projections were completed by the authorities for the 2010 budget speech in collaboration with the IMF in September 2009.²² Real GDP growth prospects remain good, but with a slower trajectory: the real growth rate forecast for 2010 was revised downward to 4.7 percent from 5.8 percent while the real growth rate for 2012 was revised to 6.0 percent from 6.5 percent (see Table 1.5). The fiscal stance set out in the 2010 budget speech is more accommodating of spending in accord with Government intentions to boost investments in physical and human capital. The down-side of this approach is evident in the wider deficit and higher recourse to domestic borrowing.

1.23 Revenues are projected to increase as a share of (lower) GDP at a slower pace than originally envisioned. Revenues as a share of GDP were to increase by almost a full percentage point of GDP in 2009 and again in 2010 before reaching 13.8 percent of GDP in 2012 as new tax policies and improved administration are implemented. Under the new framework, the Goods and Services tax is assumed to be implemented in 2010 rather than 2009 with the result that revenues would grow by more than a full percentage point of GDP between 2009 and 2012,

²² The macroeconomic and fiscal framework presented by the authorities in the 2010 budget speech is mostly consistent with, but not the same as, the framework published by the IMF in the December 2009 5th Review of the Poverty Reduction and Growth Facility (EBS/09/200).

reaching 12.3 percent of GDP (see Table 1.5). The net effect is a lower revenue stream because GDP is lower than before, in every year, as is the share of GDP. See Box 1.2 below for more information on ongoing revenue reforms.

Box 1.2: Ongoing Revenue Reforms

Sierra Leone's revenue effort, at just over 11 percent of GDP, is among the lowest in the world. To correct this, a number of tax policy reforms are in the pipeline at the National Revenue Authority including the introduction of a value-added tax (Goods and Services Tax) that began in 2010. Off-budget revenues collected by some ministries are to be brought into the consolidated revenue fund. An effort is also being made to make taxation less of a burden to firms that would otherwise remain outside the formal economy. Other policy reforms include the introduction of self-assessment for some categories of tax payers, the development of a Small Taxpayer Regime, customs law reform, and a study on the reform of tax incentives. MOFED intends to initiate the implementation of the IFMIS revenue module and is considering strengthening its capacity to formulate tax policy (see also Chapter 3, Part B.2.).

Administrative changes at NRA include the creation of a Large Taxpayer Unit in 2008, the introduction of taxpayer identification numbers in 2009, customs administration, improving taxpayer education and outreach, and building tax administration capacity in general. These efforts are being supported by a number of donors including the Commonwealth, DfID, FIAS, and the World Bank.

1.24 Planned Government consumption is to be maintained despite the impact of the global recession on GDP. Recurrent spending is projected to contract somewhat in 2010 because the completion of the Bumbuna Hydroelectric project in late 2009 will eliminate the need to procure expensive fuel for emergency power. This produces a saving worth approximately 1 percent of GDP. Government consumption is thus programmed to fall from 13.8 percent of GDP in 2009 to 12.9 percent of GDP in 2010. Government consumption is expected to increase, thereafter, reaching 13.3 percent of GDP by 2012. These GDP shares are higher than what had been used in the previous framework (see Table 1.5), thus ensuring roughly the same level of spending in current prices despite the lower GDP levels.

1.25 The authorities have chosen to expand their target for development budget expenditures in spite of the global crisis. Total spending from the development budget increased from 6.2 percent of GDP in 2008 to an estimated 7.7 percent in 2009. The 2010 budget speech sets out an aggressive expansion to 9.6 percent of GDP in 2010, 10.2 percent of GDP in 2011, and 10.4 percent of GDP in 2012. Half the expansion is to come from higher domestic contributions, primarily directed towards construction projects, which increase from 1.3 percent of GDP in 2008 and 2009 to 2.8 percent of GDP for 2010-12.

1.26 The revised overall fiscal deficit in each year will be substantially higher than what was forecast earlier and could be too accommodating unless the adverse impact of the global recession is prolonged. The deficit target set for 2010 in the budget speech will be the equivalent of 5.0 percent of GDP rather than 3.8 percent of GDP while the deficit in 2012 will be 5.2 percent of GDP rather than 3.1 percent of GDP (see Table 1.5). The planned expansion in spending may be too aggressive. On the one hand, the previous trend of moving revenues and recurrent spending closer together is to be interrupted: revenues in 2009 are estimated to have been roughly 68 percent of recurrent spending compared to 72 percent in 2007 and 2008. By 2012, the share would have risen to only 69 percent. On the other hand, the new framework requires increased recourse to domestic borrowing from the Bank of Sierra Leone, commercial

banks, and non-bank sources such as the National Social Security Trust. Net domestic financing would increase from an estimated 1.8 percent of GDP in 2009 to 2.7 percent of GDP in 2010, 2.8 percent of GDP in 2011, and 2.6 percent of GDP in 2012. This domestic borrowing is noticeably larger than what appears in the IMF December 2009 framework. Balanced against this is the possibility that some extra stimulus spending could be useful in the event that the impact of the global recession lasts longer than expected. Net external assistance (grants plus net borrowing after debt relief) is assumed to provide the necessary financing, mainly for development budget projects, rising from 7.0 percent of GDP in 2008 to 10.4 percent of GDP in 2012. It should be noted here that the authorities intend to seek additional external financing in 2010 in order to reduce the need for domestic borrowing and, in the absence of additional aid, the authorities would reduce expenditures in order to avoid excessive domestic borrowing.

1.27 The targets for public investment rely on high levels of external project assistance. Cumulative external financing over the period 2010 to 2012 is expected to cover almost three-quarters of total public investment. In past years, however, the Government has rarely been able to fully obtain the target levels of external support programmed into their budgets. In most years, actual external project support has been less than 60 percent of the target level. The exceptions were 2006 when 60 percent was achieved and 2008 when 106 percent was achieved. To fully access the desired external resources, it is recommended that the authorities strengthen the capacity of the implementing ministries and agencies for project implementation, particularly with regard to procurement and contract management. As fiduciary controls are strengthened, more donors may be persuaded to switch to Government systems and procurement procedures. (See also section C.2 below on aid unpredictability).

1.28 The targets for public investment also assume that a higher share of the development budget will be financed from domestic revenues and budget support. The ratio of domestic to external resources was roughly 1:3 in 2006-2008 and 1:5 in 2009. This ratio would increase to 2:5 by 2010 onward (see Table 1.6). This, in turn, implies that more projects – mainly for construction – will be identified and implemented by Government ministries, departments, and agencies (MDAs). Chapters 3 and 4 provide cautionary notes in this regard, recommending that the authorities build more capacity and improve procedures for project identification, selection, implementation, monitoring, and evaluation. Chapter 5 discusses options for strengthening the technical capacity of the civil service.

Table 1.6: Development Expenditures, 2009-12

	2009		2010		2011		2012	
	Sept. 2008	Nov. 2009	Sept. 2008	Nov. 2009	Sept. 2008	Nov. 2009	Sept. 2008	Nov. 2009
In Millions of US\$	154	149	166	191	180	220	195	243
External	129	124	127	135	138	160	148	178
Domestic	25	25	39	56	42	60	47	65
In Percent of GDP	7.2	7.7	7.4	9.6	7.5	10.2	7.5	10.4
External	6.0	6.4	5.6	6.8	5.7	7.4	5.7	7.6
Domestic	1.2	1.3	1.8	2.8	1.8	2.8	1.8	2.8
Domestic / External	0.2	0.2	0.3	0.4	0.3	0.4	0.3	0.4

Sources: Ministry of Finance and Economic Development and World Bank staff estimates.

1.29 There is a risk the economy will suffer more if the recession lasts longer than expected or deepens. For example, if the terms of trade were 3 percentage points worse than forecast in 2010 (due to either steeper export price declines or larger fuel or food price increases), without improvement before 2012, then real GDP growth could be a percentage point lower than projected in 2010 and an additional half percentage point in 2011. This would reduce the tax base and the fiscal deficit would increase by 0.6 percentage points of GDP in 2010 over the original forecast--unless official grants were increased, or approved expenditures were reduced, in compensation.

1.30 There is a risk that a longer or deeper global recession could also adversely affect the prospects for external financing. In this context, it is notable that the macroeconomic frameworks from September 2008 and September 2009 both assume that the volume of net external financing, measured in US dollars, will grow in 2011 and 2012 following a moderate dip in 2010 (see Table 1.5). If this growth in aid does not occur, then it is possible that imports would need to contract – with adverse consequences for growth (via reduced intermediate goods) and the tax base. In fact, as discussed below, external aid has been fairly unpredictable even in the absence of global crises. The topic of external aid is therefore discussed in some detail below.

2. External Aid

1.31 The composition of external aid has changed substantially in the last several years. As shown in Table 1.7, the main sources of external assistance in 2006 and 2007 were budget support and project disbursements in almost equal measures. By contrast, project disbursements substantially outpaced budget support in 2008 and 2009 and are programmed to continue in this fashion through 2012. Project disbursements in 2008 were 4.9 percent of GDP compared to budget support worth 2 percent of GDP. In 2012, project support is set to be 7.6 percent of GDP, more than twice the level of budget support at 3.4 percent of GDP.

Table 1.7: The Composition of Net External Financing, 2006-12

	2006	2007	2008	2009	2010	2011	2012
Net External Financing (% GDP)	8.9	5.2	7.0	10.0	10.1	10.2	10.4
Budget Support	4.3	2.5	2.0	4.0	3.7	3.4	3.4
Project Disbursements	4.0	2.7	4.9	6.0	6.8	7.4	7.6
UN Peace Building Fund	0.0	0.2	0.3	0.5	0.0	0.0	0.0
Net Debt Relief and Amortization	0.6	-0.2	-0.1	-0.5	-0.5	-0.6	-0.6
Debt Relief and Changes in Arrears	3.4	0.7	0.2	0.2	0.2	0.2	0.2
Loan Repayments	-2.8	-0.9	-0.3	-0.7	-0.7	-0.8	-0.8
Budget support as share of Recurrent	24.5	18.0	13.6	25.8	24.9	22.9	22.7
Project support as share of Development	79.4	76.2	79.1	82.8	70.8	72.5	73.1

Sources: Ministry of Finance and Economic Development and World Bank staff calculations.

1.32 The implications of these changes can be partially inferred from an examination of the weight of budget support and project spending in the budget. As a consequence of fiscal adjustment, the need for external budget support to pay for recurrent expenditures had been falling: domestic revenues were thus able to cover a greater share of spending. The share of budget support in the recurrent budget fell from 25 percent in 2006 to 14 percent in 2008. The decline is discontinued in the current fiscal framework with budget support increasing to 4 percent of GDP in 2009 and 2010 and providing financing equivalent to 26 and 25 percent of the budget, respectively. Budget support would cover 23 percent of the recurrent budget in 2011 and 2012. Project financing, by contrast has been and will remain the major source of financing in the development budget. Project disbursements are expected to increase to 7 percent of GDP and above for the period 2010-2012, consistent with ambitious PRSP-2 objectives.

1.33 Aid volatility has been quite prevalent in Sierra Leone. One way to measure the volatility of aid is to compare the standard deviation in aid flows to the average aid flow.²³ The ratio of the standard deviation to the average is referred to as the coefficient of variation. Higher coefficients of variation imply greater volatility. Revenues can be used as a point of reference: between 2002 and 2008, the standard deviation in revenues as a share of GDP was 0.5 percent of GDP against an average of 11.7 percent of GDP, producing a low, non-volatile coefficient of variation of 0.05. By contrast, the standard deviation in *project* disbursements (grants and loans) over the same period was 0.8 percent of GDP against an average of 4.2 percent of GDP, making a moderately volatile coefficient of variation of 0.20. Deviations from budgeted project disbursements accounted for almost all of the deviation in development spending (80 percent donor financed). The standard deviation in *budget support* disbursements was 2.0 percent of GDP against an average of 4.5 percent of GDP. This creates a coefficient of variation of 0.44, more than twice the volatility seen in project aid. On average, deviations from programmed budget support explain roughly 57 percent of the budgetary deviations in discretionary primary expenditures even though many other variables such as revenues and domestic financing are also important in specific years.

²³ The standard deviation is a measure of how dispersed data are around a mean (average). For data with a normal distribution, one standard deviation above and below the mean will capture 68 percent of all observations two standard deviations above and below the mean will capture 95 percent of all observations.

Table 1.8: Cumulative Quarterly Disbursement Shares, 2003-06^{a/}

	Q1		Q2		Q3		Q4	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
2003	0	0	13	15	75	56	100	56
2004	45	0	62	24	85	38	100	119
2005	18	7	34	7	52	50	100	132
2006	0	12	34	60	88	60	100	95
2007	15	7	43	7	43	23	100	64
2008	17	0	68	0	81	44	100	60

Source: Ministry of Finance and Economic Development and World Bank staff calculations.

1.34 Aid predictability is a problem for budget support and project support. This is self-evident in the case of project support where so many variables can go awry. The problem posed by predictability of budget support, however, has been the subject of increasing concern within the Government. As shown in Table 1.8, the programmed timing and amounts of budget support are routinely deviated from by wide margins. For example, in 2005 18 percent of the programmed budget support was expected in quarter one but only 7 percent actually arrived. By quarter three, 52 percent of budget support was expected and 50 percent actually was. Yet, by the fourth quarter, the actual amount received was so large that the total for the year exceeded the programmed amount by 32 percent. This kind of unpredictability complicates fiscal and monetary management. On the one hand, for the first three quarters, Government authorities are faced with a choice of reducing expenditures or gambling that they can borrow domestically and repay in the fourth quarter when aid receipts are expected to appear. On the other hand, they are faced with more funds than expected in the fourth quarter and are unlikely to have developed optimal plans for spending the excess. It is also worth noticing that the bulk of budget support usually arrives in the 3rd and 4th quarters. The problem was especially acute in 2007 when only 23 percent of programmed budget support had been disbursed by the third quarter.

1.35 Sierra Leone is not alone in dealing with the issues of volatility and unpredictability. Eiffert and Gelb (2005) document a number of serious problems seen in most aid dependent countries:

- volatility tends to rise with the level of aid dependence;
- program aid (budget support) tends to be more volatile than project aid;
- in most aid-dependent countries, donor commitments convey no more information on future disbursements than do past disbursements;
- aid is mildly pro-cyclical; and
- unpredictability biases spending towards consumption (Walliser, 2008).

1.36 The most effective way to address these problems is to reduce aid dependency by improving the revenue effort and/or further reduce the growth of primary expenditures. In this context, it is noteworthy that fiscal adjustment has already slowed expenditure growth enough to allow revenues to cover 72 percent of all non-project financed spending in 2008. Yet, if the medium-term macroeconomic framework devised in late 2009 were implemented as programmed, revenues would cover only 69 percent of all non-project financed spending by 2012 (see the bottom row of Table 1.5). If this projection could be substantially surpassed, then the magnitude of shocks transmitted to expenditures would be reduced.

1.37 **There are several interim options available until revenues finance a larger share of spending in the medium-term.** One is to reduce unpredictability and volatility as much as possible. There are several options for *project* support (see also Chapter 4 which discusses other aspects of public investment). These include:

- Reduce the potential for resistance from stakeholders by ensuring each project is desired by implementing ministry and other stakeholders, avoid projects that are “donor driven” to the extent they would not be implemented without donor pressure.
- Avoid overly ambitious project designs relative to capacity of both borrower and lender. Similarly, avoid bunching too many projects per year in each MDA.
- Improve institutional capacity to plan and implement projects (see chapters 4 and 5 on public investment and on public service reform).
- Minimize delays and cost escalations by avoiding arrears to suppliers and contractors. This could require improvements in filing and processing the so-called PETS forms (see Chapter 3) and improvements in the procurement capacity of implementing ministries and agencies.
- Ensure prerequisites are in place: for example, if a new health facility requires staff, then work with PSC and HRMO to ensure the hiring process starts early enough to obtain the staff when the clinic opens.
- To avoid delays associated with donor procedures, make sure there is clarity on counterpart financing requirements and these are met on time.

1.38 In the case of budget support, the donors and authorities could consider the following:

- Donors could be persuaded to increase the size of their fixed tranche relative to the size of the less predictable performance tranche. The way to do this is to build a track record of using aid well by ensuring that program objectives and benchmarks are met well and on time and donor requirements for fiduciary standards are met.
- Some donors could agree to announce disbursement decisions well before budget plans for next year are finalized. This is sometimes referred to as N+1 disbursement decision making.
- Donors could agree to make multi-year commitments (Eiffert & Gelb). Donors would need to explain to their capitals why a multi-year commitment would bring good results without being risky.
- Donors and Government authorities could carefully review the basis of their aid agreements. In particular, it would be important to avoid agreeing to infeasible benchmarks for performance tranches. A 2005 assessment of donor’s views by the SPA Budget Support Working Group indicates that 40 percent of non-disbursements were considered to be due to failure to meet policy conditionality, 25 percent to recipient Governments’ delays in meeting administrative conditions, 29 percent to administrative problems on the donor side, 4 percent to political problems on the donors side and 2 percent to other factors.
- The authorities may wish to consider the trade-offs involved with having too few or too many donors (and benchmarks). Fewer numbers will reduce transaction costs but increases the likelihood of large delays.

- It is critical to maintain a satisfactory macroeconomic framework. Bulir and Hamann (2003) show that countries off-track with IMF programs receive 33 percent of commitments, compared to 75 percent for on-track countries.

1.39 Finally, another option is to find ways to manage the prevailing unpredictability and volatility. The authorities have already been doing this to some extent. For example, the IMF already allows adjustments to domestic borrowing targets when budget support falls short of the targeted level. In 2005, 2006 and 2008, the authorities also took care to not to over-promise on how much budget support would be received. They chose not to fully program donors' performance tranches, knowing that the average amount received is roughly half the amount programmed. This policy has no major disadvantages. When aid receipts are higher than programmed, a supplementary budget could be used, or external debts could be paid down ahead of schedule. Some additional options to consider include:

- Various *fiscal rules* could be considered. The adoption of a cash budget, as was done in 2007, is one example of a fiscal rule: e.g. no borrowing is allowed; spending rises and falls with revenues and grants. The "opposite" rule would be to maintain all planned spending so that domestic borrowing rises and falls in compensation. A variation on this theme would be to maintain all planned recurrent spending so that investment and domestic borrowing are adjusted in compensation. Each rule has its own pros and cons. For example, a cash budget is very useful in defending macroeconomic price stability (so long as arrears are not accumulated) but it is extremely harmful to the implementation of Government objectives via its expenditure programs. Conversely, a fiscal rule emphasizing spending stability could create price instability. This risk might be reduced if the authorities could make the fiscal balance less negative and spread any necessary domestic borrowing over long-run instruments (see also Box 1.3).
- Consider the use of a stabilization fund (Eiffert & Gelb). This scheme requires saving a portion of program support (denominated in foreign currency only) so that the savings can be drawn down when budget support falls short of targets. This option creates some challenges. On the one, hand donors may resist the idea of not fully employing all aid. On the other hand, some Government officials may be tempted to use the fund at inappropriate times, so that little is left in a time of genuine need.

Box 1.3: Arguments For and Against Fiscal Rules

Arguments for Rules. The strongest justification for fiscal rules is the need to reinforce fiscal discipline. In addition, it is argued that rules help overcome the politicization of choices regarding how much to tax and spend – productively refocusing the political debate on the structure of taxation and the choice of what to spend on – *e.g.* what public services would benefit the nation the most. Rules may also be advantageous in a federal system either because sub-national Governments realize they will not be rescued from their own fiscal imprudence or because there is a recognized need for fiscal coordination across consolidated Government.

Arguments Against Rules. One strong argument against the use of fiscal rules is that they can overly constrain the conduct of macroeconomic policy. The prudent use of discretionary fiscal policy has long been viewed as essential for growth and employment. A second argument is that rules will simply invite creative accounting and manipulation. This reaction has been documented in the case of Germany and several US state Governments.²⁴ A third argument against fiscal rules is that Governments may not have sufficiently strong budgetary processes and institutions to ensure their success.

Source: Kopits, 2001. ‘Fiscal Rules: Useful Policy Framework of Unnecessary Ornament?’ *Working Paper WP/01/145*, Washington DC: International Monetary Fund.

3. Contingent Liabilities

1.40 Contingent liabilities pose a risk to public savings. The Government has established a number of public entities that are empowered to enter into contractual obligations. These include two commercial banks, NASSIT, the National Power Authority, and a number of other public enterprises. An entity’s obligations may become Government liabilities if the public entity cannot meet them. They are thus considered to be contingent liabilities. Contingent liabilities may take two forms, they may arise as a result of *explicit* legal obligations such as a loan guarantee, or they may be *implicit* when it is believed that the Government has a moral obligation based on public expectations and political pressures (see Box 1.4 for examples). Large contingent liabilities have the potential to push governments into unsustainable positions requiring steep expenditure reductions.

1.41 In the case of Sierra Leone, there is no systematically maintained database of contingent liabilities. Yet, there are significant contingent liabilities that must be addressed. Table 1.9 provides estimates prepared by the Accountant-General’s Department for 2006, worth the equivalent of 5 percent of GDP, and estimates for 2008 worth 10 percent of GDP based on a partial list comprised of obligations from only 3 parastatals plus liabilities incurred by the Government. The stock of contingent liabilities appears quite significant when the total stock of Government debt is 55 percent of GDP (see Table 1.3).

²⁴ Kopits (2001) cites Charles Goodhart’s observation that a statistical indicator ceases to be trustworthy once it is declared an official target.

Table 1.9: Estimated Contingent Liabilities, as Percent of GDP^{a/}

	2006	2008
Incurred by Government b/	3.9	3.7
Incurred by Parastatals c/	1.1	6.3
Total	5.0	10.0

a. The estimate does not constitute a full accounting of all contingent liabilities.

b. Includes five claims under recent litigation including war-time domestic supplier.

c. Includes independent power producer but excludes BHP operating contract and power purchase agreement.

Source: Ministry of Finance and Economic Development and staff calculations.

1.42 Much of the increase between the two estimates is a contract between the National Power Authority (NPA) and an independent power provider.²⁵ The total value of the contract has been estimated at US\$65 million or 3 percent of GDP. The risk to Government is quite high because NPA has yet to demonstrate financial viability.²⁶ NPA viability had been expected to improve with a 50 percent increase in electricity tariffs in September 2009. The extra revenue was meant to cover the high cost of emergency fuel procured in 2008 and 2009. Much of this incremental improvement in revenues was subsequently diverted to cover an exit arrangement for the independent power provider that required US\$6 million in extra-budgetary payments in 2009 and another US\$6 million in 2010. Thus, a contingent liability worth US\$65 million became an actual liability worth US\$12 million. This outcome is positive to the extent that the liability was reduced and regularized. It is negative, however, to the extent that the contract had not been properly entered into and the exit strategy displaced US\$6 million in budgeted spending.

1.43 The Government is poised to take on additional contingent liabilities. For example, Sierratel is seeking a slightly non-concessional loan to provide new services. More examples from the power sector include an operating contract for the Bumbuna Hydropower Project and the associated power purchase agreement between BHP and NPA. The proposal to establish a national health insurance plan, if implemented, could also create an additional (and possibly substantial) contingent liability.

1.44 In light of the current situation, it is recommended that the authorities maintain and systematically review a registry of contingent liabilities, following the typology set out in Box 1.4, with risk assessments attached to each liability. This might become a responsibility of the Debt Monitoring Unit of the Ministry of Finance and Economic Development. In fact, the AGD had last reported such a list in its 2000 Report and Annual Statement of the Public Accounts.

²⁵ The ACC found that this contract was improperly obtained and recommended it be cancelled or renegotiated on more affordable terms. An exit agreement was reached in mid-2009.

²⁶ World Bank, 2006. Sierra Leone NPA Recovery Strategy Preliminary Report. NPA had been losing money in the years 2004-2006. Unaudited accounts suggest losses continued in 2007 and 2008. Preliminary reports for 2009, based on unaudited accounts, suggest there has been some improvement. Critical elements of future viability include the quality of management, the terms of the BHP PPA, and the status of obligations to IEL.

Box 1.4: Examples of Possible Contingent Liabilities

Explicit

- Guarantees for borrowing and obligations of:
 - Publicly owned banks such as Sierra Leone Commercial Bank
 - Public enterprises such as the National Power Authority
 - Local Councils
- Umbrella guarantees for various loans (mortgage loans, student loans, agriculture loans, small business loans)
- Guarantees for trade and exchange rate risks
- Guarantees for private investments or public-private partnerships (PPPs)
- Indemnities: commitments to accept the risk of loss or damage another party might suffer
- Uncalled capital: obligation to provide additional capital on demand to an entity of which it is a shareholder, e.g. official international financial institutions
- Insurance schemes (deposit insurance, pension funds (NASSIT), crop insurance, flood insurance)

Implicit

- Defaults on non-guaranteed debt and other obligations of:
 - Publicly owned banks
 - Public enterprises such as the National Power Authority
 - Sub-national Governments
- Liability clean-up in entities being privatized
- Bank failures (support beyond any national insurance)
- Failures of nonguaranteed pension funds, or other social security funds
- Default of central bank on its obligations (foreign exchange contracts, currency defense)
- Collapses due to sudden capital outflows
- Natural disasters, environmental recovery, disaster relief, military financing

1.45 The current regulatory framework does not adequately address contingent liabilities. It is thus recommended that the authorities modify the 2005 Government Budgeting and Accountability Act (GBAA) and the accompanying 2007 Financial Management Regulations (FMR) to require a more systematic approach to contingent liabilities. At a minimum, guidance is needed on when contingent liabilities may be contracted, how they should be reported and monitored, and how they should be provisioned for. To identify potential fiscal pressures, contingent fiscal risks could be analyzed in order of significance, based on existing Government programs and commitments.²⁷

1.46 There are additional benefits beyond simple risk assessments. Focusing on determinants of risks and ways of controlling Government risk exposure makes it possible to compare the costs of alternative Government programs. Budget institutions should require Government to treat non-cash programs involving contingent fiscal risks like any other spending item, and to make the potential fiscal cost of off-budget programs visible in advance. In particular, many countries require Parliamentary approval for some categories of contingent liabilities such as loan guarantees. In addition, ceilings can be set on either the stock of guarantees or the flow of new guarantees to be issued during each year. Accrual-based budget and accounting systems support fiscal discipline but are not entirely sufficient or necessary. More crucial are rules on disclosure of fiscal risks, on dealing with state guarantees and

²⁷ Additional suggestions for improvements in debt management can be found in World Bank, 2009, *Sierra Leone: Government Debt Management Performance Report*.

insurance programs, and on the financial health and behavior of Government-guaranteed and public agencies and sub-national Governments.²⁸

1.47 The authorities may also wish to consider a cautious approach to the proposal to provide partial guarantees to private sector investors.²⁹ The strategy of offering only a partial guarantee rather than a full guarantee is wise. In addition, it may be useful to include in the revised FMR a requirement that guarantee recipients must be charged a fee that should reflect, at a minimum, the expected cost of the guarantee. Like a traditional insurance policy, a guarantee has value to the insured and imposes a cost on the insurer; hence an investor would normally be expected to pay for the guarantee an amount at least equal to its actuarial cost. Such a requirement would have two benefits: it would help compensate the Government for committed resources, and it would also help eliminate frivolous investors who would be unwilling to bear the cost of the guarantee.

²⁸ Readers who wish to learn more about managing contingent liabilities are directed to IMF Working Paper WP/08/245, *Contingent Liabilities: Issues and Practice*, by Aliona Cebotari. See <http://www.imf.org/external/pubs/ft/wp/2008/wp08245.pdf>.

²⁹ Ministry of Trade and Industry, March 2009. *Unleashing the Power of Our People, A Vision and a Promise: Private Sector Development Strategy, 2009-2014*.

2. BUDGET COMPOSITION AND EXECUTION

There are several encouraging aspects of past and planned trends in budgetary allocations. Defense expenditure shares have stabilized at a lower share than what prevailed immediately after the war, administrative efficiency is improving, and investment spending is set to rise with an emphasis on infrastructure. These aspects of planned spending are generally consistent with the PRSP-2. In contrast, the declining shares for the health and education sectors and low allocations for maintenance of Government assets point to a need to further tighten the linkages between policy objectives and expenditure shares if good outcomes are to be achieved. Effective PRSP implementation will also require improvements in budget execution. Deviations from budgetary allocations have often been significant. These deviations are only partially explained by overall resource availability. Specifically, poverty reducing priorities, particularly in the health sector, have not been well protected from resource shortfalls. Ensuring full and timely transfers from the central to local Governments will improve the provision of public services, including primary education and primary health care, at the local level.

A. INTRODUCTION

2.1 The PRSP-2 states that fiscal policy over the period 2009-12 will aim at stepping up investments in infrastructure (energy and roads) and agriculture.³⁰ The Government will also aim to make a gradual increase in poverty-related expenditures from 3 percent of GDP in 2007 to 6 percent by 2010, targeting improved access to basic social services (health and education), and public utilities (water and electricity). At the same time, many key public services such as primary education, primary health care (PHC) and water supply are being gradually devolved to the local council level.

2.2 This chapter will explore these policy objectives from two perspectives: Part I will examine budgetary composition while Part II will look at how well the budget is executed relative to allocations. The former will help inform a discussion of what might be desirable and feasible. The second will explore the capacity of Government to implement budgetary policy. Reasons for expenditure deviations and their implications will be explored. The central and local levels of Government will be reviewed in each part.

B. COMPOSITION OF EXPENDITURE ALLOCATIONS

1. Central Government

2.3 **While the recurrent share of total spending is meant to fall over the period 2010-12, the GDP share of recurrent spending is expected to remain steady.** Recurrent spending in 2009 is estimated to be worth 15.3 percent of GDP (see Table 2.1). The budgeted share for 2010 is 14.8 percent of GDP with indicative targets of 14.9 percent of GDP in 2011 and 15.0 percent

³⁰ The second PRSP was meant to cover the period 2008 through 2012 but was adopted by the Government only in 2009.

of GDP in 2012. Within recurrent spending, interest obligations are expected to remain just under 2 percent of GDP.

2.4 As indicated in Chapter 1, the Government intends to increase the future level of investment through the development budget. The share of public investment in total spending is expected to increase by 14 percentage points, from an average of 26 percent of the total for the period 2005-09 to an average of 40 percent of the total between 2010 and 2012 (see Table 2.1).

Table 2.1: Expenditures, by Economic Function, in Percent of GDP, 2002-12

	2005	2006	2007	2008	Est. 2009	Budget 2010	Indicative	
							2011	2012
As Shares of Total Spending								
Total Spending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Recurrent Budget	76.0	77.4	79.8	70.5	66.5	60.7	59.4	59.1
1. Wages	26.6	28.4	33.8	27.5	27.0	25.8	25.1	24.4
2. Goods and Services a/	30.5	32.1	33.2	32.9	32.6	27.0	27.5	28.0
3. Transfers to Private Sector	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Interest	18.7	16.9	12.8	10.1	7.0	7.8	6.8	6.7
B. Development Budget	23.6	22.4	19.8	29.5	33.5	39.3	40.6	40.9
1. External Contribution	20.4	17.8	15.1	23.7	27.8	27.9	29.5	29.9
2. Domestic Contribution	3.2	4.6	4.7	5.8	5.7	11.5	11.2	11.0
C. Net Lending	0.4	0.2	0.3	0.0	0.0	0.0	0.0	0.0
As Shares of GDP								
Total Spending	24.6	22.7	17.6	20.7	23.0	24.4	25.1	25.4
A. Recurrent Budget	18.7	17.6	14.1	14.6	15.3	14.8	14.9	15.0
1. Wages	6.5	6.4	6.0	5.7	6.2	6.3	6.3	6.2
2. Goods and Services a/	7.5	7.3	5.9	6.8	7.5	6.6	6.9	7.1
3. Transfers to Private Sector	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Interest	4.6	3.8	2.3	2.1	1.6	1.9	1.7	1.7
B. Development Budget	5.8	5.1	3.5	6.2	7.7	9.6	10.2	10.4
1. External Contribution	5.0	4.0	2.7	4.9	6.4	6.8	7.4	7.6
2. Domestic Contribution	0.8	1.0	0.8	1.3	1.3	2.8	2.8	2.8
C. Net Lending	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Ratio of Goods and Services to Wages	1.2	1.1	1.0	1.2	1.2	1.0	1.1	1.1

a. Includes transfers to the National Power Authority in 2008 and 2009.

Sources: Ministry of Finance and Economic Development, as of the fourth quarter of 2008, and staff calculations.

2.5 The authorities expect to make this change through increased domestic and external financing. Domestic financing is to increase from 1.3 percent of GDP in 2007 and 2008 to an average of 2.8 percent for 2010-12. External project financing is expected to grow from an estimated 6 percent of GDP in 2009 to 7.6 percent of GDP by 2012. With exception of 2008, however, actual development spending has almost always fallen short of the budget targets, largely due to lower than expected external project financing. In this respect, achievement of the Government's development objectives will require policies aimed at aid mobilization and capacity building for project implementation. Chapter 4 includes a review of the situation and proposes a number of options to improve implementation of the investment budget. Section C.2 of Chapter 1 also includes a number of useful suggestions for reducing project aid volatility and unpredictability.

2.6 The Budget Speech for the 2009 and 2010 budgets indicated that the Government would support the priority sectors identified in the PRSP-2: energy and water supply,

infrastructure, youth employment, the growth sectors, the social sectors, and capacity building. To this end, the speeches asserted that some substantial changes were made to the composition of spending allocations.³¹ In fact, many compositional changes had already been made prior to PRSP-2 and within the time period covered by PRSP-1. Some aspects of these changes are examined below.

Table 2.2: Budget Allocation Shares, 2005-12^{c/}

	2005	2006	2007	2008	2009	2010	2011	2012	Changes 2005-12
Selected Executive Functions	4.5	5.1	4.8	4.8	5.3	5.5	5.3	5.0	0.5
110 President	1.0	1.6	1.8	1.7	1.7	1.8	1.8	1.7	0.7
116 Parliament	0.2	0.2	0.2	0.2	0.4	0.6	0.4	0.3	0.1
118 Justice a/	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	-0.1
128 Foreign Affairs	3.0	3.0	2.6	2.7	2.9	2.9	2.9	2.8	-0.2
Selected Security Services	13.7	14.8	12.2	13.8	12.8	11.4	11.2	11.0	-2.7
201 Defense	8.3	8.4	6.8	7.4	6.5	5.9	5.8	5.7	-2.6
206 Police	4.4	5.2	4.4	5.3	5.0	4.6	4.5	4.4	0.0
207 Prisons	1.0	1.2	1.0	1.1	1.3	0.9	0.9	0.9	-0.1
Selected Social Services	29.6	29.6	29.0	27.0	25.2	24.9	24.8	24.9	-4.7
301 Education b/	18.8	19.6	18.4	18.9	18.3	17.3	17.0	17.0	-1.8
302 Youth and Sports b/	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.2
304 Health Central b/	10.6	9.8	10.4	7.9	6.7	7.2	7.4	7.5	-3.1
Selected Productive Services	27.4	24.3	29.3	32.5	33.7	31.5	31.7	33.2	5.8
401 Agriculture Central b/	4.2	5.8	7.0	5.2	5.8	5.5	4.7	4.7	0.5
402 Marine Resources b/	1.4	0.4	0.7	0.5	1.1	1.1	1.2	1.2	-0.2
406 Energy and Water	5.5	5.1	4.1	12.1	7.9	5.1	5.2	5.2	-0.3
408 Works & 411 Road Fund	16.3	13.0	17.5	14.7	18.9	19.8	20.6	22.1	5.8
All Other	24.8	26.2	24.7	21.9	23.0	26.7	27.0	25.9	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0

a. Includes the Supreme Court, the Court of Appeals, the High Court, and the Justice and Legal Services Commission.

b. Includes transfers to Local Councils.

c. Includes external project financing. Indicative wage bill shares for 2010-12 were not available in any published documentation for the 2009 budget. These are assumed to remain unchanged from 2009.

Sources: Ministry of Finance and Economic Development and World Bank staff calculations.

2.7 There has been a broad substitution taking place with smaller allocation shares for security and social services making room for the productive sectors. The changes in the composition of intended spending for 2010-12 are generally a continuation of past trends, with only a few exceptions. The budget allocations shown in Table 2.2 include all planned spending, including expected disbursements from external donors. In the recent past, the sector receiving the largest allocation has consistently been education, with roads (and other construction) coming in second. In 2009, these two sectors reached parity and their ranks are reversed in the budget speech for 2010. The share for education has been slowly declining from a peak of almost 20 percent in 2006 to 17 percent by 2012. Allocations for roads (and other construction) have followed a general upward trend, moving from 16 percent in 2005 to 22 percent by 2012, with some ups and downs on the way (the analysis in Chapter 7 suggests some of this increase may not be necessary). The health sector received the third largest allocation in 2005 but its share steadily declines from just under 11 percent of the total to a low of 6.7 percent in 2009 before climbing to 7.5 percent in 2012 – well below the 2005 share. The fourth largest allocation in 2005 went to defense. This share steadily declines from just over 8 percent to just over 6 percent in 2012 (it is noted in Chapter 5 that the size of the armed forces may exceed peacetime requirements although regional instability may justify the current size). The fifth largest share in 2005 was for the ministry responsible for energy and water. This share has been quite variable

³¹ This list comprises roughly three-quarters of total spending. Thus, any substantial increase in spending for these categories would require large reductions in all other spending.

over time, moving from over 5 percent in 2005, to 4 percent in 2007, then to a peak of 12 percent in 2008 (due to the need to procure fuel for emergency power) and back down to 5 percent by 2012. The share intended for agriculture has also been variable, starting at 4 percent in 2005, reaching a peak of 7 percent in 2007, and falling to just under 5 percent by 2012. Although the shares for the Presidency and for marine resources are small, it is noteworthy that both have essentially doubled over the period: the Presidency received 1 percent in 2005 and is intended to obtain 1.7 percent in 2012 while marine resources had 0.4 percent in 2006 with an expected share of 1.2 percent by 2011.

Box 2.1: Millennium Development Goals for Education and Health

Sierra Leone is making progress on a variety of fronts related to the Millennium Development Goals. For example, the number of children enrolled in primary schools has increased sharply. The gross enrollment rate increased from 65 percent in 2000 to 147 percent in 2007. The rate exceeds 100 percent because many over-age pupils who had been denied an opportunity for education were included. The primary school completion rate is estimated to be 81 percent, well above the low income country average (see table below). Considerable progress has been made in increasing the share of children sleeping under insecticide treated bed-nets to combat malaria, moving from almost zero in 2000 to 26 percent by 2007. The share of pregnant women receiving some form of prenatal care has increased from 68 percent in 2000 to 81 percent in 2007, above the low income average of 67 percent.

Despite progress, Sierra Leone's educational and health related outcomes remain well below average outcomes in other low income countries. The average literacy rate for males (aged 15-24) is 64 percent compared to 79 percent for low income countries. The average literacy rate for females (aged 15-24) is far lower at 44 percent, compared to the low income average of 69 percent. Health outcomes are particularly poor. Mortality rates for infants, children under 5 years of age, and for mothers giving birth are among the highest in the world. The incidence of tuberculosis is rising and is more than twice the low income country incidence. The average life expectancy at birth is only 47 years compared to the low income country average of 57 years.

Selected Millennium Development Goals Indicators

	----- Sierra Leone -----		Low Income Average
	2000	2007	2007
Education Inputs			
Primary school, gross enrollment rate	65	147	94
Primary completion rate, total (% of relevant age group)	..	81	65
Education Outcomes			
Literacy rate, youth male (% of males ages 15-24)	..	64	79
Literacy rate, youth female (% of females ages 15-24)	..	44	69
Health Inputs			
Children under 5 sleeping under insecticide-treated bed nets	1.5	25.9	19.9
Pregnant women receiving prenatal care (%)	68	81	67
Immunization, measles (% of children ages 12-23 months)	37	67	76
Health Outcomes			
Mortality rate, infant (per 1,000 live births)	161	155	80
Mortality rate, under-5 (per 1,000)	274	262	126
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	2,100	780
Incidence of tuberculosis (per 100,000 people)	377	574	269
Prevalence of HIV, total (% of population ages 15-49)	1.2	1.7	2.1
Life expectancy at birth, total (years)	41	47	57

Source: United Nations 2009 Millennium Development Goals Report.

2.8 The alignment between expenditure shares and policy objectives needs to be tightened. On the one hand, with the civil war having ended in January 2002, it is easy to understand why the authorities would gradually reduce budget allocation shares for defense. It is

also quite reasonable to seek a greater share for investments in infrastructure and other services supporting private sector growth. On the other hand, it is not clear why the share for police services would not grow, nor why the shares for education and health should be declining when educational and health outcomes are poor, relative to low income country averages, even after some progress on some fronts (see Box 2.1).

2.9 The negative change in the health sector share is especially striking. No other sector experienced such a decline in the share of allocations over the period. Yet, Sierra Leone remains one of the poorest performers globally for many key health indicators, driving its ranking in the UN Human Development Indicators almost to the bottom ranking (180 out of 182 in 2009). Moreover, actual spending in the health sector has fallen far short of planned spending (see section B below). In this situation, it is recommended that the authorities improve health outcomes through a major reform in health care financing backed by expenditure reallocations and increased donor assistance until the tax effort is improved. Chapter 6 provides specific recommendations related to such reforms.

2.10 It is possible to learn more about how public resources are used by tabulating the composition of goods and services purchased by each MDA. In theory, this should be possible because the chart of accounts includes object codes that describe fairly specific expenditure categories. Examples include 2122 for medical allowances, 2212 for overseas travel, and 2246 for computer running costs. In reality, the data provided by the authorities suggests that the structure of the chart of accounts does allow for useful analysis of goods and services with some major exceptions: agriculture, defense, police, education, health, and development spending.

2.11 The assessment of the composition of spending presented here is limited to recurrent spending. Domestic development spending is not reviewed here because only one chart of accounts code has been utilized for domestic development expenditures: code 2721 for capital transfers. This makes it impossible to determine what any MDA purchases with its domestic development spending without a detailed review of expenditure vouchers. The lack of easily available information on development spending limits transparency and accountability in the implementation of the budget (see also Chapter 4 on public investment).

2.12 Personnel expenditures are increasingly dominated by salaries. The ratio of actual allowances to actual salaries decreased from 0.72 in 2006 to 0.51 in 2008 (see Table 2.3). Much of this change took place in reductions in shares for transport and rent allowances. Some of this reduction can be traced to the retirement of senior staff. Going forward, the authorities may want to take a strategic approach to the use of these allowances. On the one hand, the judicious use of transport and housing allowances for staff stationed outside of Freetown could help improve public service provision in under-served areas. On the other hand, for all other staff, there may be an advantage in monetizing the allowances and wrapping them into salaries. This would help make remuneration more predictable for staff and reduce transaction costs within the Government since many allowances are often discretionary in practice.

2.13 Planning for salary grants (transfers to subvented agencies) needs to be strengthened. The data show that actual expenditure shares for salary grants were roughly three times larger than planned while actual shares for basic salaries were smaller than planned.

2.14 **The composition of goods and services utilized for defense, police, and agriculture is not transparent.** The chart of accounts includes a few object codes that are overly broad. These include codes 2391 for defense expenses, 2392 for police and other security services, and 2393 for agricultural expenses. Code 2391 consumed 76 percent of actual spending on goods and services by the defense budget in 2006, 91 percent in 2007, and 96 percent in 2008. This obscures important distinctions between spending for barracks and spending for operational capacity. Code 2392 accounted for 76 percent, 87 percent, and 92 percent of actual spending on goods and services by the Sierra Leone Police in 2006, 2007, and 2008 respectively. Code 2393 consumed 62 percent of actual spending on goods and services by MAFFS in 2006, 50 percent in 2007, and 67 percent in 2008. This makes it difficult to know how much was spent on agricultural inputs such as seed rice and the conduct of annual crop surveys to more accurately determine output and yields. In addition, the picture is incomplete without an accounting for how the local councils have contributed to the sector. At present, the IFMIS does not record Local Council spending by object code.

Table 2.3: Expenditures on Personnel, Percent of Total, 2006-08^{a/}

Object	Percent of Budget			Percent of Actual Spending		
	2006	2007	2008	2006	2007	2008
Salaries	48.2	50.8	55.8	49.8	54.1	57.7
2111 Basic Salaries	40.4	41.7	45.7	28.2	26.0	27.4
2112 Salary Grants	5.6	7.1	8.2	19.2	25.8	28.0
2118 Overtime	0.0	0.0	0.0	0.0	0.0	0.0
2119 Daily Wages	2.2	2.0	1.9	2.3	2.3	2.3
Allowances	33.9	29.8	25.3	35.7	33.3	29.7
2121 Transport Allowance	11.9	6.1	3.8	15.9	10.6	9.0
2122 Medical Allowance	6.8	8.3	7.1	5.5	5.8	5.3
2123 Rent Allowance	11.6	9.1	8.3	10.1	9.0	8.1
2125 Rice Allowance	3.5	2.9	1.3	1.7	2.4	1.5
All Other	0.0	3.4	4.8	2.3	5.5	5.8
Social Security/Pension	9.6	11.0	10.8	9.5	11.5	11.2
Arrears and Adjustments	8.3	8.4	8.1	5.0	1.1	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ratio of Allowances to Salaries	0.70	0.59	0.45	0.72	0.62	0.51

a. Excludes the Road Fund, Miscellaneous Services, and transfers to Local Councils.

Sources: Accountant General's Department and World Bank staff calculations.

2.15 **The accounting for the composition of spending in the education and health expenditures is incomplete.** As in the case of agriculture, the analysis of how resources are used must include spending by the local councils. In addition, a substantial portion of spending in the education sector occurs through grants to the universities and other bodies outside the central Government.

2.16 **In light of the above issues, it is recommended that the authorities consider reviewing the chart of accounts to provide some additional information about what MDAs**

purchase, notably for agriculture, defense, and all domestic development expenditures.³² The authorities may also wish to consider revising their accounting procedures to allow for the construction of a consolidated Government account that allows a view of the composition of spending by local councils and the numerous public agencies supported by central Government grants.

2.17 Some aspects of object code share trends appear to be aligned with policy. The share recorded in Table 2.4 for defense falls, for example, while the share for police services increases. This is consistent with the post-conflict policies of the Government. Expenditure shares for maintenance (mainly vehicles and buildings) and for staff development (mainly training) were held relatively constant over time despite the extreme displacement created by the need to procure fuel for emergency power in 2008.

Table 2.4: Expenditures on Goods and Services, Percent of Total, 2006-08^{a/}

Object	Percent of Budget			Percent of Actual		
	2006	2007	2008	2006	2007	2008
A. Service Delivery	70.5	73.9	81.0	72.8	78.6	81.5
1. Directly Provided by MDAs	43.3	45.5	34.9	42.8	39.7	35.8
2324 Diets and Feeding	3.7	3.1	1.4	4.0	5.0	3.5
2325 Drugs and Medical Supplies	2.2	6.8	5.6	6.2	0.0	0.8
2391 Defense	13.6	12.5	9.7	12.2	13.7	10.6
2392 Police b/	6.4	6.6	7.2	7.0	6.6	7.3
2393 Agriculture	0.0	3.2	1.0	3.4	1.1	2.8
All Other	17.3	13.4	9.9	10.0	13.3	10.8
2. Provided by Government Institutions	27.2	28.4	22.8	30.0	32.9	23.8
2411 General Government Bodies	23.3	11.5	9.7	10.3	10.9	9.7
2412 Tertiary Educational Institutions	0.0	11.6	8.5	13.2	15.7	10.3
2415 Grants-in-aid	0.0	1.7	1.9	2.5	1.8	2.0
All Other	3.9	3.7	2.7	4.0	4.5	1.8
3. Fuel for Emergency Power c/	0.0	0.0	23.4	0.0	6.0	21.8
B. Administration	23.6	22.9	16.6	25.4	20.2	17.1
2212 Overseas Travelling	2.2	1.9	1.2	3.1	2.4	3.8
2221 Electricity	2.7	1.4	1.1	2.0	1.9	0.3
2241 Office and General	8.0	8.1	6.1	9.7	7.4	6.8
2245 Office Stores/Supplies	1.6	1.2	0.9	1.5	0.5	1.0
All Other	9.2	10.4	7.4	9.1	7.9	5.3
C. Maintenance (2261-64)	1.6	1.8	1.4	1.1	0.6	0.9
D. Staff Development (2311-13)	1.4	1.3	1.0	0.8	0.6	0.6
E. Other	3.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ratio of Administrative Expenses to Service Delivery	0.33	0.31	0.21	0.35	0.26	0.21

a. Excludes the Road Fund, Miscellaneous Services, and transfers to Local Councils.

b. Includes National Security Advisor (Head 210).

c. Incomplete accounting. MOFED reported Le 83.5 billion was spent on emergency fuel in 2008.

Sources: Accountant General's Department and World Bank staff calculations.

2.18 Some object codes have not been used well for planning purposes. The allocations for agriculture (2393) and tertiary education grants (2412), for example, were zero in 2006 even though actual spending was later recorded against those codes. It is also unclear why the share for grants for general Government bodies in 2006 was more than twice the shares for 2007 and 2008 when actual spending shares were relatively stable at close to 10 percent. In another example, the share for diets and feeding drops to 1.4 percent in 2008 without any change in policy when it had been 3.7 percent in 2006 and 3.1 percent in 2007. Actual spending on diet

³² The recommendation to further develop the object codes is complementary to, but is not the same as, the MOFED intention to introduce activity codes. Activity codes will allow MDAs to associate specific expenditures with specific PRSP objectives while object codes allow an accounting of how those objectives are advanced.

and feeding in 2008 was 3.5 percent of the total. In fact, many object codes give the appearance of a random distribution over time for a large portion of the object codes. Finally, there are several codes which have been utilized for planning purposes but always registered zero values for actual spending. These are listed in Table 2.4 as “other.”

2.19 Linking the use of object codes with specific indicators, whether assets or policy objectives, could increase their usefulness in planning. Thus far, with only a few exceptions, the indicative targets set in any one budget year have been highly incremental. In essence, the majority of the object codes within an indicative year for goods and services have been increased by the same percentage rate. This suggests that the budget hearings and the MTEF process (see Chapter 3) do not yet yield enough information about what MDAs should be planning to spend in order to achieve their policy objectives. The recent introduction of procurement plans presents an opportunity to improve on this situation: the planning process allows a much higher level of detail to be discussed and reviewed. To be effective, however, it will be important to establish how expenditures are related to the policy objectives of each MDA.

2.20 The value of object codes for maintenance could be doubled by coupling them with an asset registry.³³ For example, if the Government knew exactly how many vehicles are owned by each MDA, then it could better calculate the fuel and vehicle maintenance requirements for each. Similarly, if it knew how many buildings are owned by each MDA, their size, and their specific nature, then it could better calculate utility costs, cleaning costs, and maintenance costs. Detailed information on the existing stock of computers owned by each MDA would allow to calculate the size and cost of the IT workforce required to maintain them. Ultimately, such calculations can also help inform decisions about the timing of investments in the replacement of various assets as operations and maintenance costs tend to rise with asset age.

	Maintenance and Repair
Vehicles	Between 5.0¢ per mile and 5.5¢ per mile for the first four years of vehicle use. Includes engine maintenance and tire replacement. Costs rise with vehicle age and degradation of road surface. Excludes standing costs such as insurance and financial depreciation.
Buildings	Annual expenditures of between 2 and 4 percent of the current replacement cost of the building.
Computers	While there is no established standard, surveys indicate that commercial firms providing in-house services expect each of their information technology staff to provide service to as few as 25 computers and as many as 400 computers. The cost will increase with the level and quality of service provided while economies of scale will reduce the average cost per computer.

American Automobile Association, 2008.

Committing to the Cost of Ownership: Maintenance and Repair of Public Buildings, National Academies Press, 1990.

Staffing for Technology Support: The Need May Be Far Greater Than You Think, Forrester Research, 2008.

See also <http://www.federalelectronicchallenge.net/resources/docs/costofown.pdf>

2.21 Expenses for vehicle maintenance may be too low. On the one hand, actual spending is far below the amounts allocated (see Box 2.2 below). On the other hand, an examination of the data show several instances where a ministry had recorded expenditures on fuel and oil for vehicles without recording any expenditures on vehicle maintenance. It was also striking to see that many ministries did not pay for vehicle insurance. In such circumstances, the Government may be forced to buy more replacement vehicles than would otherwise be necessary. The authorities may want to complete an inventory and assess whether the allocations for maintenance and insurance are sufficient.

³³ It was reported that the Accountant-General’s Department started in 2009 to build such a registry.

2.22 Administrative efficiency appears to be improving.³⁴ The expenditure share taken up by administrative expenses³⁵ fell in 2007 and 2008 both in terms of budget allocations and actual outcomes while the shares for other aspects of service delivery increased. Thus, as shown at the bottom of Table 2.4, the ratio of actual administrative expenditures to actual spending on service delivery (excluding local councils) fell from 0.35 in 2006 to 0.21 in 2008. Some caution in interpreting these numbers is warranted since the data do not show how much is spent on administration by public institutions and local councils that rely on central Government transfers.

Box 2.2: Illustrative Calculation for Vehicle Maintenance

Suppose the Government fleet of vehicles consisted of 800 sports-utility vehicles (SUVs) and 200 light trucks, all less than 4 years old, with maintenance costs of 5.0¢ per paved mile and 5.5¢ per paved mile respectively. These costs exclude insurance and depreciation. Operating costs, mainly fuel, are also excluded. Assume that the SUVs are used mainly in Freetown and travel an average of 7,500 miles per year. Assume also that the light trucks travel throughout the country with 36,500 miles per year. In this example, the annual maintenance costs per vehicle per year would be US\$371 and US\$2,011 respectively. This makes for a total annual fleet cost of almost US\$700,000 per year or Le2,085 million using the average 2008 exchange rate. A more accurate estimate is likely to be higher since many vehicles in the fleet are older than 4 years and most roads in Sierra Leone are unpaved. By contrast, the totals allocated and actually spent in 2008 were Le 2,225 million and 1,362 million. Actual spending was 40 percent below the programmed amount.

2.23 The efficiency of several MDAs could usefully be reviewed. Several MDAs have achieved good levels of administrative efficiency including the Ministry of Defense, the Police, and the Ministry of Education, Youth and Sports (MEYS) with administrative efficiency ratios of 0.03, 0.09, and 0.03 respectively. The ratios of several other MDAs may be too high.³⁶ Some that stand out in this regard, with ratios above 0.5, include the National Fire Authority (0.69), the Ministry of Tourism and Culture (0.83), the Ministry of Health and Sanitation (0.59), the Ministry of Social Welfare (0.69), the Ministry of Marine Resources (2.17), and the Ministry of Mineral Resources (0.91).³⁷

2.24 A more detailed analysis of how well the budget is aligned with policy goals is not possible. Such an analysis requires clearly stated measurable goals and the unit costs associated with meeting those goals. This information is generally absent not only in the budget but also in most of the strategic sector plans produced by a handful of ministries.

³⁴ Administration is an integral part of service delivery, thus we refer here to administration and other aspects of service delivery rather than treating service delivery as distinct from administration.

³⁵ Examples of administrative expenses include office supplies, furniture, and equipment, utilities, rent, printing, insurance, membership dues, and travel.

³⁶ A more definitive statement would be possible only after deeper exploration of each MDA. For example, a ministry that has contracted out for the bulk of the services it provides would necessarily have a high administrative expense ratio. Yet, in the case of Sierra Leone, most ministries do not have large service contracts beyond cleaning, computer and generator maintenance, and security.

³⁷ All MDAs in the general services category with budget heads in the 100's series are excluded from this analysis because the composition of their spending on service delivery is difficult to distinguish from expenditures on administration.

2. Local Council Transfers

2.25 Much has been achieved in the five years since the Local Government Act was enacted but there are opportunities to further improve the transfer system.³⁸ Two of the main strengths of the current system are the way it was implemented with minimal disruption to existing institutions and its transparency with regard to allocations. There are, however, a number of areas that need further attention if the full benefits of decentralization are to be obtained. These include the vertical and horizontal design of a second generation system of inter-governmental transfers, Local Council autonomy, and accounting issues.

2.26 According to the Local Government Act (2004), during the transition period (2004-08), the quantum of the grant (the vertical share) was to be based on negotiations with the responsible ministry to ensure that services could be provided at least at the prevailing standard (Section 48.1 of the Act). For the post-transition period, the Act notes that the vertical share should adequate to ensure that services are provided at an “adequate standard”(Section 47.2); annual increases should be no less than for the general appropriations (Section 47.3); and grants may continue to be tied to achieve national priorities (Section 47.4). The horizontal allocation across councils is to be based on a combination of needs and revenue raising capacity per Section 48.2. These changes have not been made so far.

2.27 The design of the vertical grant needs to be amended to deal with issues of predictability and transparency. As noted in section C below as well as Table 2.11, the amounts transferred have often been below the amounts allocated and the transfers are often made late in each quarter. Transparency is reduced because the decisions about how much to transfer and when are often somewhat ad hoc, driven in reaction to events elsewhere in the budget. A simple improvement could be achieved by determining the aggregate amount as a percentage of an easily understood number such as national revenues (perhaps defined also as a statutory transfer), thus enhancing predictability and transparency. A costing study would be needed to determine the initial resources required to meet the responsibilities assigned to the Local Councils. The resulting revenue share would also need to be periodically visited, perhaps every three years, to allow for changing conditions. The amount required would clearly be higher than the current amount which is based on pre-devolution standards and not, say, achievement of the MDGs. A case in point comes from the health sector (see Chapter 6) where prevailing service levels are well below what is required to generate acceptable health outcomes. Addressing this through the provision of free health care, as proposed in the 2010 budget speech, will require much larger transfers to district health facilities.

2.28 It is recommended that the horizontal transfer system be better aligned with needs rather than prevailing standards. The current approach tends to entrench existing inequalities to the extent that current transfer formulas are based on measures of current supply (e.g. number of doctors, the number of schools) rather than identified needs or even predefined entitlements (e.g. free primary health care). On the other hand, in some cases, actual measures provide the right incentives and are equitable. Enrolment rather than an age based measure may be appropriate for school subsidies and scholarships as many over age students may be in school on account of the war. Attendance may be a good criterion if it encourages councils to promote attendance. Similarly, revenue potential and not actual performance should be the criteria for

³⁸ See also section C.3 of Chapter 3.

fiscal capacity. In the absence of reliable data, poverty measures could be used as a proxy. In both cases the criteria should reflect the legal revenue and expenditure jurisdictions of the councils. Finally, the criteria should promote appropriate behavior on the part of the councils.

2.29 The present design of the grant system may soon prove to be burdensome. The 19 local councils are provided a series of detailed tied grants that can only be used for specified sectors and activities within those sectors. The amounts for each grant are placed in separate accounts and the councils are unable to transfer funds across accounts or activities. The LGFD has developed 23 grant formulae in order to provide 27 different detailed tied administrative and devolved grants for 2009 (see Table 2.5).³⁹ The total allocated to the vertical transfer in 2009 was Le 71,476 million including the LGDG. Education (43 percent) and health (22 percent) comprise nearly two-thirds of total proposed grants. Experience indicates that the grants are provided on a cash finance basis, and the amount actually delivered relative to that appropriated varies dramatically across years and to some extent across local councils.

2.30 The transfer formulae are not complex but the number of different calculations is large and could be confusing to most local councils and their constituents. The presence of multiple formulae and tied grants for several of the sector ministries further raises the potential for misunderstanding. This certainly affects the accountability of local councils and the transparency of the grant structure. The formulae generally determine the horizontal share going to each local council of the total vertical transfer that has been determined for each grant. The vertical shares have generally been set through ad hoc negotiations with the respective line ministries since 2004. The negotiations are effectively decisions on the operating budgets that are to be available for ministry staff delivering services in the districts.

Table 2.5: Grants to Local Councils in 2009

Sector/Ministry	Number of Tied Grants	Number of Formulae	Proposed Budget (Leone millions)	Percent Distribution
Administration	2	5	5,919	8.3
Education a/	10	4	30,851	43.2
Health	2	3	15,441	21.6
National Fire Force	1	1	209	0.3
Social Welfare	2	1	387	0.5
Youth and Sports	2	1	296	0.4
Solid Waste Management	1	1	1,587	2.2
Water Services	1	1	805	1.1
Agriculture	4	4	7,892	11.0
Fisheries	1	1	89	0.1
Development Grants b/	1	1	8,000	11.2
Total	27	23	71,476	100.0

a. Includes a portion controlled by the Min. Education and not transferred to the Councils.

b. Includes programmed external support.

Source: Recurrent and Development Estimates, 2009-11.

2.31 There may be advantages in providing Councils with some autonomy over expenditure priorities. The LG Act envisages tied grants after 2008 but states that Parliament

³⁹ Four components are added together to yield the total administrative grant, which is one of the tied grants provided by the Ministry of Finance and Economic Development. Grants for school fees, textbooks (one allocation for primary schools and one for secondary schools), teaching and learning materials, and exam fees (one allocation for primary schools and one for secondary schools) are all based on the same criterion, percent that schools in each council represent of actual national school enrollment.

“may” specify the functions for which the grants are to be used. On the one hand, grants are typically tied to ensure that certain national priorities are met and a belief that local governments do not have the capacity to make service delivery decisions. On the other hand, one of the key benefits of decentralization comes from relying on local knowledge to determine how best to meet local needs. Thus, some combination of tied and untied grants will be appropriate for Sierra Leone but the current level of tying leaves very little room for discretion at the local level. Consistent with the requirements of the law, one way forward is to tie the grants to broader purposes and sectors rather than to specific activities as is the case today. The World Bank Decentralized Service Delivery Project (DSDP) pilots a reduction in the number of grants by providing greater local discretion within sectoral grants.

2.32 Accounting issues make it difficult to assess the full extent of Local Council activities. On the one hand, it is difficult at present to get consistent estimates for the level and composition of transfers from the MOFED Budget Bureau, LGFD, and AGD. For example, in 2008, the LGFD reported total actual transfers as Le 30.9 billion, the Budget Bureau reported Le 43.7 billion, and the Accountant-General’s Department reported Le 44.5 billion against a budgeted allocation of Le 68.7 billion. The large discrepancy between the LGFD estimate and those from the Budget Bureau and AGD arises because LGFD tracks only those resources directly transferred to the Councils. For example, spending by the Ministry of Education on behalf of the Councils is not tracked. In addition, the AGD only tracks transfers by Council which makes it difficult to compute total actual spending by sector. These issues could be resolved quickly through tighter collaboration between these three departments and some minor modifications to the chart of accounts to facilitate AGD recording by transfers by sectors as well as Councils.

2.33 There is no easy way to track what portion of the staff or staff expenditures should be assigned to local councils because central ministries have not devolved control over their staff. The only exception to this is a small grant component for administrative costs incurred for the Local Council’s own core administrative employees. The medium-term solution would be to devolve human resource management of MDA staff assigned to the Local Councils to the Councils after a deliberate program of administrative capacity building including the establishment of good fiduciary controls and record keeping preferably through a management information system. In the short-run, after an inventory of staff assigned to the districts, it might make sense to modify the chart of accounts to allow the identification of staff by geographic posting in addition to posting by MDA.

Box 2.3: The Burden of Success

Because of its initial success, some donors are starting to use the LGFD to manage the distribution of funds for their projects. This is fine while the Department has the capacity to do the work and it does not intrude on the focus of decentralizing governance in Sierra Leone. Care will be needed, however, to ensure that the department has resources to perform both its core functions and any ‘outside activities’ allocated to it. Various missions for the IRCBP and this review noted that LGFD staff were generally stretched thin. The planned addition of new staff, if implemented, would help alleviate the pressure. In addition, LGFD resources should be a consideration in the development of future donor programs, as it has been during the development of the DSDP.

3. Local Council Expenditures

2.34 **The Local Government Finance Department within MOFED assembled, for the first time ever, a comprehensive tabulation of local Government receipts and expenditures for 2007 and 2008.**⁴⁰ These data are utilized below to show the sectoral distribution of local council budget allocations in 2007 and 2008.

2.35 **Under the present system, the Local Councils do not have much autonomy in deciding budgetary allocations.** These are largely determined by a series of sector-specific transfers from the central Government, as noted above. The amounts transferred are determined by a set of formulas published by the Local Government Finance Department. Yet, the Local Governments do collect some revenues. Thus, in theory, there could be some incremental spending above the LGFD transfers.

2.36 **The majority of Local Councils used their own revenues to increase the budgetary allocation for only one category: administration.** The main exceptions were the Pujehun District where the allocations for the agriculture and health sectors were increased in 2007 and the Kailahun District where the allocation for solid waste management was increased. In addition, in 2007 the increased administrative allocations were also made at the expense of allocations for fire fighting services, fisheries, social welfare, youth and sports, and other development grants (see Table 2.6). Whether this is a defensible choice requires more study. Discussions with the authorities indicate that many local councils may have more staff than they can afford, with many of them coming from pre-devolution town management committees. The authorities may want to consider how many local administrative staff are needed and explore options to adjust to those needs, including the possibility of increasing administrative transfers.⁴¹

Table 2.6: Local Government Receipts and Expenditures, 2007 and 2008

	2007 LC Budget as % of Transfers	2007 Budget Allocations as % of Total	2008 LC Budget as % of Transfers	2008 Budget Allocations as % of Total
Expenditures	122	100.0	125	100.0
Administration	324	35.0	355	41.2
Health	103	23.5	100	31.0
Agriculture	101	5.1	100	6.8
Education	100	4.8	100	6.2
Solid Waste Management	100	2.8	112	2.1
Water Services	100	1.5	100	1.4
Others b/	85	1.8	100	2.1
Local Government Development Grants	100	21.9	105	8.3
Other Development Grants	97	3.6	100	0.8

a. Estimates are unaudited and may vary from data reported elsewhere.

b. Includes fire fighting services, fisheries, social welfare, and youth and sports.

Source: Local Government Finance Department, MOFED, and World Bank staff calculations.

2.37 **The largest allocations made by the Councils in 2007 were for administration (35.0 percent), health (23.5 percent), and the Local Government Development Grants (21.9 percent).** The share for education remains small because this sector was not fully devolved.

⁴⁰ LGFD data do not match AGD data. Partial data from LGFD exist for 2005 and 2006.

⁴¹ The Local Councils were instructed in the budget call circular for the 2010 budget to allocate no more than 40 percent of their own resources to administration.

The MEYS continues to make many expenditures on behalf of the Local Councils. The distribution changed in 2008 as the share for development grants fell and the shares for administration and health rose.

2.38 The aggregate allocations across sectors are supportive of service delivery at pre-devolution levels but more may be needed for some sectors. The Local Government Act (2004) mandated that the resources transferred to the LCs for a given sector should be sufficient to maintain the same level of service provided for that sector in the year before devolution. The IRCBP surveys of household perceptions from 2005 and 2007 suggest that this objective has been largely achieved.⁴² The household surveys also show that access to schools, clinics, shared storage space, drying floor, drivable roads, market, and water source improved during these years. On the other hand, the level and quality of service in some sectors needs to be improved, particularly since pre-devolution outcomes were so poor. This is especially so in the health sector, where child and maternal mortality rates are among the world's worst. Educational outcomes, while improving, remain poor and access to agriculture extension workers declined in recent years rather than grew.

2.39 It should be noted however that the process of devolution is incomplete. Local Councils do not yet have full control over the staff seconded to them by the central Government ministries (see Chapter 5 for more on this subject). As a consequence, they cannot ensure that all functions are adequately staffed in terms of numbers and quality nor can they create incentives for good results.

C. BUDGET EXECUTION

1. Central Government

2.40 The Government has made significant progress in expanding the share of poverty reducing spending as defined under the HIPC Initiative.⁴³ Spending on programs and projects deemed as HIPC priorities increased from 32 percent of the discretionary budget in 2001 to 62 percent and 74 percent in 2007 and 2008, respectively (see the first row of Table 2.7).⁴⁴

Table 2.7: Priority Poverty Reducing Expenditures, 2001-08^{a/}

	2001	2002	2003	2004	2005	2006	2007	2008
HIPC Priorities as % Discretionary Spending	32	50	56	57	58	62	62	74
Excluding fuel for emergency power	..	..	..	..	..	..	..	54
Ratio of Actual to Budgeted Spending (%)	83	75	100	77	91	89	57	95

a. Omits personnel and development expenditures financed from abroad. Includes transfers to local councils.

Sources: MOFED and staff calculations.

⁴² See Chapter 5 of *Decentralization, Democracy, and Development: Recent Experience from Sierra Leone*, World Bank, 2009.

⁴³ The list of expenditure programs that are deemed to be poverty reducing was agreed in 2002 as part of the HIPC Decision Point discussions. The list includes the domestic contributions to programs for the ministries and agencies responsible for agriculture, mineral resources, marine resources, youth and sports, gender programs, education, health, water supplies, and road maintenance. It also includes some aspects of security, reflecting Sierra Leone's post-conflict status. Only a few changes have been made to this list since 2002, most notably the addition of transfers to local councils following the re-establishment of local Government in 2004. Wages are excluded. Poverty impact analyses for each program have yet to be conducted.

⁴⁴ The figure for 2008 falls to 54 percent if fuel for emergency power is omitted.

2.41 Poverty reducing expenditures could have been higher if budgetary allocations had been fully spent. The data in Table 2.7 suggests that Government capacity to fund pro-poor spending and protect expenditure targets needs strengthening. Pro-poor spending fell short of budget targets in all years except 2003. The degree of under-spending was especially noteworthy in 2007. The Government's efforts to protect poverty reducing programs in that year were constrained by an excessive use of the budget head for miscellaneous expenditures (head 501) in the first quarter and sharply reduced external budget support.

2.42 In general, the authorities have found it difficult to maintain spending targets for individual ministries.⁴⁵ As shown in Table 2.8 below, the number of budget heads that deviated by more than 5 percent (up or down) from the allocated amount reached a peak of 93 percent in 2004, temporarily decreased to 84 percent and 81 percent in 2006, and then settled at 92 percent in 2007 and 2008. In all years, there was a mix of over-spent and under-spent budget heads. The number of under-spent heads, however, has been much larger.

Table 2.8: Expenditure Deviations, 2001-08^{a/}

	2001	2002	2003	2004	2005	2006	2007	2008
Deviation in Net Resources (%) b/	2.2	-2.7	3.6	-2.7	-0.6	1.2	-22.4	-8.5
Over-spent Heads (>5%)	8	12	16	10	20	18	3	18
Under-spent Heads (<-5%)	25	27	30	39	29	33	56	40
Spending without Allocation	2	0	2	2	0	0	0	2
Sub-Total with Deviations	35	39	48	51	49	51	59	60
Total Budget Heads	56	55	57	55	58	63	64	65
Heads with Deviations (% Total)	63	71	84	93	84	81	92	92

a. Excludes externally financed development expenditures.

b. Includes revenues, net domestic borrowing, and net external budget support from loans and grants.

Sources: Accountant General's Department and World Bank staff calculations.

2.43 Wages and salaries are more frequently on-target, more often over-spent, and less under-spent than goods and services or domestic development expenditures (see Table 2.9). Even so, it is striking to see that the best identified spending requirement should display substantial deviations at all. Spending on allowances deviated considerably more than spending on salaries (see Table 2.10). This suggests that part of the problem could be attributable to the discretionary nature of several allowances.

Table 2.9: Spending Functions and Budget Execution

	Correl- ations	Observ- ations	Under- Spent	On-Target	Over- Spent	No Allocation
Wages and Salaries	0.48	439	40%	24%	34%	2%
Goods and Services	0.92	437	61%	21%	18%	0%
Domestic Development	0.85	200	67%	18%	13%	2%

Sources: Accountant General's Department and World Bank staff calculations.

⁴⁵ This is documented in the 2004 PER, the 2004 HIPC Assessment and Action Plan, and the 2007 PEFA Progress Report.

Table 2.10: Personnel Expenditure Deviations, 2006-08^{a/}

Object	Percent Deviation from Budget		
	2006	2007	2008
Salaries	4.9	2.6	-2.9
Allowances	6.9	7.9	10.1
Social Security/Pension	1.4	0.4	-2.0
Arrears and Adjustments	-38.3	-87.0	-83.7
Total	1.7	-3.5	-6.1

a. Excludes the Road Fund, Miscellaneous Services, and transfers to Local Councils.

Sources: Accountant General's Department and World Bank staff calculations.

Table 2.11: Quality of Budget Execution by Budget Heads^{a/}

		Years Observed	Correl- ation	Under- Spent (%)	On- Target (%)	Over- Spent (%)
Good Performers						
121	Office of the Auditor-General	8	0.13	25	75	0
132	Accountant General's Department	8	0.00	25	50	25
206	Police	8	0.68	38	50	13
210	National Security Adviser's Office	4	0.78	25	50	25
406	Power and Water	8	0.11	38	50	13
Most Frequently Over-spent						
501	Miscellaneous Services	8	-0.05	13	0	88
112	Office of the Vice President	8	-0.07	0	25	75
204	Peace Operations	3	-0.11	33	0	67
101	Charged Emoluments	8	-0.52	25	13	63
128	Foreign Affairs	8	0.32	0	38	63
129	Finance	8	0.48	25	13	63
211	Immigration Department	4	0.74	50	0	50
408	Works, Housing & Tech. Maint.	8	0.61	50	0	50
Most Frequently Under-spent						
108	Ministry for Public Affairs	4	0.20	100	0	0
140	Mass Media Services	4	0.20	100	0	0
141	Government Printing Department	4	0.71	100	0	0
143	Justice and Legal Service Comm.	3	0.06	100	0	0
212	National Drugs Secretariat	4	0.85	100	0	0
402	Marine Resources	8	0.47	100	0	0
410	Nat'l Comm. on Environ. & Forestry	3	0.62	100	0	0
412	National Telecomm. Comm.	2	0.00	100	0	0
415	SL Maritime Administration	1	0.00	100	0	0
701	Transfers to Local Councils	4	0.86	100	0	0
120	High Court	8	0.45	88	0	13
124	Law Officers' Department	8	0.26	88	0	13
302	Youth and Sports	8	0.84	88	13	0
303	Tourism and Culture	8	0.71	88	13	0
305	Social Welfare, Gender & Children	8	0.62	88	0	13
407	Labor, Industrial Relations	8	0.71	88	0	13
111	Immigration Department	4	-0.79	75	25	0
119	Court of Appeal	8	0.61	75	25	0
122	Establishment Secretary's Office	8	0.44	75	0	25
123	Public Service Commission	8	0.63	75	13	13
133	Information and Broadcasting	8	0.33	75	0	25
137	National Comm. for Democracy	8	0.78	75	25	0
207	Prisons Department	8	0.40	75	13	13
208	National Fire Authority	8	0.34	75	13	13
304	Health and Sanitation	8	0.85	75	25	0
306	Lands, Country Planning & Environ.	8	0.65	75	25	0
307	Gender and Children's Affairs Div.	8	0.31	75	0	25
340	Socially Oriented Outlays	8	0.39	75	0	25
401	Agriculture and Food Security	8	0.69	75	13	13
403	Mineral Resources	8	0.32	75	0	25
409	Trade and Industry	8	0.87	75	25	0

a. Excludes externally financed development expenditures. Correlation refers to the relationship between the budgetary deviations over time for a budget head and the aggregate deviations between total budgeted and actual resources.

Sources: Accountant General's Department and World Bank staff calculations.

2.44 **Most ministries have not routinely under- or over-spent.** A close look at the data in Table 2.11 shows that not a single ministry consistently maintained their spending within +/- 5 percent of their budget targets. Five MDAs do stand out, however, for keeping their spending within +/- 5 percent of their budget targets more frequently than all others. For example, the Office of the Auditor-General spent close to what was allocated for 6 of 8 (75%) years. Eight budget heads were over-spent more often than most. These include the Office of the Vice-President, the Ministry of Foreign Affairs, the Ministry of Works, and Miscellaneous Head 501. The latter has been significantly over-spent in 2002 and from 2005 onward (see Table 2.12). Ten budget heads including transfers to local councils have consistently suffered spending below the budgeted allocation between 2001 and 2008. A total of 21 heads were under-spent between 75 percent and 88 percent of the time.

Table 2.12: Quality of Budget Execution for Miscellaneous Services, 2001-08

	2001	2002	2003	2004	2005	2006	2007	2008
501 Miscellaneous Services	-10.2%	489.0%	22.7%	70.9%	750.1%	390.4%	233.8%	288.5%

a. Excludes externally financed development expenditures.

Sources: Accountant General's Department and World Bank staff calculations.

Table 2.13: Quality of Budget Execution by Object Code, 2006-08

	Percent Deviation from Budget		
	2006	2007	2008
Deviation in Net Resources (%) b/	1.2	-22.4	-8.5
A. Service Delivery	-4.1	-31.7	-10.9
1. Directly Provided by MDAs	-8.1	-43.9	-9.0
2324 Diets and Feeding	0.3	2.8	120.9
2325 Drugs and Medical Supplies	158.4	-99.7	-87.5
2391 Defense	-16.8	-29.6	-3.1
2392 Police a/	1.3	-35.8	-10.0
2393 Agriculture	..	-77.5	141.5
All Other	-46.3	-36.0	-4.1
2. Provided by Government Institutions	2.4	-25.7	-7.6
2411 General Government Bodies	-59.0	-38.8	-11.4
2412 Tertiary Educational Institutions	..	-13.0	7.7
2415 Grants-in-aid	..	-31.0	-8.4
All Other	-4.7	-22.6	-41.3
3. Fuel for Emergency Power c/	..	..	-17.1
B. Administration	-0.3	-43.5	-8.9
2212 Overseas Travelling	28.7	-15.4	181.7
2221 Electricity	-31.3	-14.0	-75.0
2241 Office and General	13.4	-40.9	-1.2
2245 Office Stores/Supplies	-13.4	-72.4	-5.7
All Other	-8.0	-51.1	-36.7
C. Maintenance (2261-64)	-38.6	-78.1	-43.2
D. Staff Development (2311-13)	-47.5	-72.7	-49.5

a. Includes only expenditures on goods, services, and transfers (grants).

b. Includes revenues, net domestic borrowing, and net external budget support from loans and grants.

c. Incomplete accounting. MOFED reported over-spending on emergency fuel in 2008.

Sources: Accountant General's Department and World Bank staff calculations.

2.45 **Improvements in the quality of budget execution are needed to tighten the alignment between public expenditures and Government policies.** There is a need to tighten

the alignment between Many of the more frequently under-spent budget heads are of strategic importance to public service delivery (Ministry of Agriculture, the Ministry of Health, transfers to Local Councils), the proper functioning of Government (the High Court) and even key export priorities (the Ministry of Mineral Resources and the Ministry of Marine Resources). Table 2.13 shows the need to also tighten the policy linkages at the object code level. It is especially striking to see how spending on maintenance and staff development were sharply reduced in 2007 in response to the resource shortfalls that year. The percentage reductions for those categories were twice the percentage reduction for service delivery.

2.46 Resource trends explain much but not all of the deviations. In the sampled years shown in Table 2.8, there were 3 years when total resources (revenue, grants, and net lending) were higher than budgeted and 5 years when resources fell short of budget targets.⁴⁶ The number of under-spent budget heads tends to increase, and over-spent heads tend to decrease, as total resources fall relative to budgetary targets. If the only issue were resource availability, then all budget heads would be over-spent in years of excess resources and all heads would be under-spent when resources were less than programmed. In fact, the data show a mix of under-pending and over-spending. In addition, the number of under-spent budget heads is twice as responsive to resource shortfalls as the number of over-spent heads. If one looks deeper still, it becomes apparent that the degree of responsiveness to resource availability varies across MDAs. The authorities may thus want to examine more closely what influenced spending deviations over the last several years. In general, closer adherence to the procedural requirements set out in the Government Budget and Accountability Act (2005) and the Financial Management Regulations (2007) would help to reduce the level and frequency of the deviations.

2. Local Councils

2.47 The two available years of data for local council expenditures allow only a limited analysis of the quality of budget execution. The deviations from budget allocations, summed across all local councils, are reported in Table 2.14.

2.48 Expenditure deviations appear to be driven mainly by resource availability and a desire to protect or augment administrative expenses. Under-spending was prevalent in 2007 when actual transfers from the central Government were only 40 percent of the budget allocation and local revenues were only 35 percent of the budgeted amount. Actual spending within specific sectors ranged from a low of 17 percent of the budgeted amount (for education) to a high of 58 percent of the budgeted amount (for recurrent administrative costs).

2.49 The provision of public services at the local level, including primary education and primary health care, can be supported by ensuring full and timely transfers from the central Government. As evidence, one can observe that the frequency and depth of under-spending was much reduced in 2008 when actual transfers increased to 81 percent of the budget allocation and local revenues exceeded the budgeted amount by 19 percent. In fact, some over-spending was observed for administrative expenses and for “other development grants.” The authorities may also want to review Section 51 of the Local Government Act (2004) and its

⁴⁶ The very large deviation of 22 percent for net resources in 2007 is a result of overly optimistic assumptions about revenues and donor disbursements, compounded by donor decisions to delay aid in reaction to weakening fiduciary controls and distractions from the political campaign cycle.

requirement that transfers be made on a monthly basis. To date, this requirement has not been met. One option would be to treat transfers to Local Councils as a statutory transfer, defined as a fixed share of monthly revenues.

Table 2.14: Quality of Local Government Budget Execution, 2007 and 2008^{a/}

	2007	2008
Actual Revenue as Share of Budgeted Revenue	35%	119%
Actual Grants as Share of Budgeted Grants	40%	81%
Actual Expenditures as Share of Allocations	31%	93%
A. Administration	43%	149%
1. Personnel	28%	158%
2. Other Recurrent	58%	140%
B. Health	29%	96%
C. Agriculture	27%	70%
D. Education	17%	68%
E. Solid Waste Management	25%	52%
F. Water Services	27%	81%
G. Others	31%	96%
H. Local Government Development Grants	30%	41%
I. Other Development Grants	24%	228%

a. Estimates are unaudited and may vary from data reported elsewhere.

Source: Local Government Finance Department, MOFED, and World Bank staff calculations.

3. PUBLIC FINANCIAL MANAGEMENT

The authorities have introduced several reforms in support of better governance and improved public service delivery since the last Public Expenditure Review of 2003-04. Moreover, a comprehensive public financial management reform program strategy is in place and under implementation. This chapter highlights selected outstanding issues drawn from that program including the need to implement aspects of the legal framework, provide for a more integrated budget preparation process with enhanced review by the political leadership, better budget execution and adherence to procurement laws, and further strengthening of accountability mechanisms.

The chapter includes a section on the decentralization program which has started well with a fairly equitable and transparent system of transfers and generally adequate service delivery. Inadequate human resources are the most significant challenge to successful decentralization followed by inadequate and unpredictable transfers. The legal framework for decentralization is generally acceptable, yet until the regulations are officially adopted, there is no legal basis to prosecute any misconduct. Also, several inconsistencies between the 2004 Local Government Act and various sector-specific laws need to be resolved. In addition, the quality of budget execution should be improved as most of the Local Councils returns display fairly substantial deviations from their budgeted expenditures. Accountability to citizens has started well but budgetary autonomy should be improved.

A. INTRODUCTION

3.1 Since the last Public Expenditure Review of 2003-04 the authorities have introduced several reforms in support of better governance and improved public service delivery. The implementation of a broad and sustained program of public financial management (PFM) reforms has played a central role. Key reforms under this program are summarized in Box 4.1 below. By mid-2007, the adoption and implementation of these reforms placed Sierra Leone's fiduciary arrangements almost on par with the regional average (see Appendix 3.1).⁴⁷ This is a commendable achievement and contrasts strongly with the strong erosion in capacity in the years leading up to, and during, the recent civil war. To maintain and deepen these reforms, in 2007 the Government set up a PFM Oversight Committee chaired by the Financial Secretary along with five sub-committees. A National Action Plan for PFM reform has been formulated and donor support is being solicited via the preparation of an Integrated PFM Reform Program (IPFMRP).

⁴⁷ Sierra Leone obtained a total score on 28 PEFA indicators of 52 compared to the regional average of 60. This score is arrived at by giving 4 points for an A, 3.5 for a B+, 3 for a B, etc down to 1 for a D. The maximum score on 28 indicators is 112. See the Sierra Leone External PEFA Assessment, Final Report, December 2007. The regional average is calculated from the most recent PEFA scores from 17 countries.

3.2 A detailed analysis of selected aspects of the PFM reform program and remaining challenges can be found in Section B, for the central Government, and in Section C for the local Governments.⁴⁸

B. THE CENTRAL GOVERNMENT

3.3 This part of the chapter is divided into 6 topics. Part 1 sets out the legal and regulatory framework for public financial management. Part 2 and 3 describe issues related to macroeconomic and revenue management. Parts 4 and 5 discuss budget formulation and execution. Part 6 takes up the important topic of procurement reform. Part 7 concludes with a discussion of oversight responsibilities and issues. Section C on local Government issues takes a parallel structure.

1. Legal and Regulatory Framework

3.4 **Fiscal management in Sierra Leone is backed by a well developed legal and regulatory framework.** The Constitution of 1991 sets out the over-arching legal framework for fiscal management. The key features are the assertion of Parliamentary supremacy over public finances with the Minister of Finance administering the treasury and the budget on behalf of the Office of the President. There appears to be at least one *de jure* exception to Parliamentary supremacy. Section 114 (2) c allows the President to authorize warrants under his signature for extra-budgetary expenditure when he considers that there is such an urgent need to incur the expenditure that it would not be in the public interest to delay.

Box 3.1: Key Reforms in Public Financial Management, 2004-2008

- Local Governments, and local Government elections, were re-established through the adoption and implementation of the Local Government Act (LGA) 2004.
- The Public Procurement Act of 2004 replaced a wasteful, centralized procurement regime with a decentralized procurement system based on the principles of competition, transparency, and accountability (See B.5 below).
- A weak legal foundation for fiduciary standards was strengthened by the Government Budgeting and Accountability Act (GBAA) in 2005 and by the adoption of new Financial Management Regulations (FMR) in 2007 (See B.1 below).
- The Accountant General's Department was strengthened by the appointment of a qualified Accountant-General and eight professional accountants after years of low capacity.
- The Annual Public Accounts and their audits have been brought up to date, after years of delays, and the quarterly publication of unaudited accounts has become a normal, routine procedure.
- Old, centralized software for financial management has been replaced with a new, decentralized system (IFMIS) that should both empower MDAs and increase their accountability. The IFMIS has been rolled out to eight MDAs
- Local Government legislation was enacted in 2004 and Financial Administration Regulations issued in 2005, temporary manual financial management systems were put into place, and training was provided (See C below).
- The capacity for external audit has been strengthened by enhanced terms and conditions of service for the Office of the Auditor-General and by new recruitment and training.

3.5 **While the Constitution clearly lays out the roles for all key actors, it is largely silent on how public finances shall be managed.** Guidance on how to manage public finances is

⁴⁸ More comprehensive coverage, through early 2007, can be found in a separate publication, the Public Financial Management Performance Assessment Report (see http://www.pefa.org/assessment_reportmn.php).

provided by the organic budget law. Several sub-optimal amendments were made in 1996 to the Public Budgeting and Accounting Act of 1992. These amendments reduced the oversight roles of both the Office of the Auditor-General and the Parliament and distorted the relationship between the Accountant General's Department (AGD) and the Ministry of Finance and Economic Development (MOFED). The Government Budgeting and Accountability Act (GBAA) of 2005 and the associated Financial Management Regulations (FMRs) of 2007 repealed the 1992 Act and 1996 amendments and provided the foundation for the reform of public financial management. The GBAA restored Parliamentary supremacy over public finances and re-instated the oversight roles of the Auditor General and the Public Accounts Committee.

3.6 The GBAA and FMRs clearly spell out the responsibilities of the Minister of Finance, the Financial Secretary, the Accountant General, Chief Internal Auditor, Vote Controllers and Chief Financial Officers. The basic framework is that the administrative head of an agency is nominated as Vote Controller for that agency and is then accountable directly to Parliament for the proper use of funds appropriated by Parliament to that agency.⁴⁹ This accountability is effected through a central accounting system and independent audit. The GBAA also mandates the internal audit function for the first time and empowers the District Budget Oversight Committees (DBOCs) to participate in the preparation of the Government budget and monitor its implementation in their communities. Other elements of the legal framework for PFM include the 1998 Audit Services Act, the 2004 Public Procurement Act and the 2004 Local Government Act. Selected issues relevant to these acts are discussed in the sections below.

3.7 Sierra Leone's PFM legal framework is generally sound and appropriate, and compares well with that of most developing countries. A Commission to Review the Constitution of 1991 reported its findings in January 2008. No changes were recommended to the PFM legal framework, except for minor changes on the appointment of the Auditor General.⁵⁰ Even so, the Ministry of Finance and Economic Development has identified several deficiencies in the GBAA and FMR and inconsistencies with associated legislation such as the 1998 Audit Services Act, the 2004 Public Procurement Act and the 2004 Local Government Act. Some of these will be highlighted in the sections below.⁵¹

3.8 Perhaps the most pressing issue with regard to the legal framework is its implementation. Anecdotal evidence suggests that not all FMR procedural requirements are being met, particularly with regard to budget execution. Management of miscellaneous budget head 501, which is routinely and significantly over-spent, is one example. Also, several large extra-budgetary commitments were made in late 2007 and 2008. One of these was a large (at least US\$65 million) power sector contract that was incorrectly procured. This contract, which was a major contingent liability of the Government in 2008, has become an actual liability worth US\$12 million, payable over 2009 and 2010 (see below and Chapter 1, part C). Another

⁴⁹ There are about 70 Vote Controllers.

⁵⁰ Section 119 of the Constitution says that the Auditor General is appointed by the President after consultation with the Public Service Commission and subject to the approval of Parliament. Para. 107 of the Report proposes to amend this by changing "Public Service Commission" to "Civil Service Commission and Audit Service Commission". The latter was established by the Audit Service Act of 1998.

⁵¹ The Institutional Reform and Capacity Building Program (IRCBP) and the Integrated Public Financial Management Reform Program (IPFMRP) include a review of the legislative framework, and the Phase II of DFID support to the Audit Service includes a review of the legal framework for audit and oversight of PFM.

example was the claim by a domestic commercial supplier which had been rejected by the previous Government was recognized and US\$2 million in extra-budgetary payments were made in 2008, with a commitment to pay an additional US\$23 million over the next several years. Most recently, in the first half of 2009, a decision was made to make an extra-budgetary payment of US\$1 million to a food importer while also providing US\$2.75 million in duty waivers.

3.9 Interviews with the authorities have identified politically sensitive decisions as the root cause of some of these deviations from the legal framework. If the issue is one of speed, existing procedures should often be sufficient. For example, if the required spending is not too large, one could make use of the Contingency Fund allowed by the Constitution and sections 39-44 of the Government Budgeting and Accountability Act. Moreover, section 114 (2) c allows the President to authorize warrants under his signature for extra-budgetary expenditure when he considers that there is such an urgent need to incur the expenditure that it would not be in the public interest to delay. However, adherence to normal procedures is important to help protect the integrity of the budget and the efficiency of public expenditure management. The sole source contract concluded with a private power provider mentioned above is a good example. This might have been justified under the provision for procurements in emergencies in the Public Procurement Act (2004) but the ACC found that the requirements for this option, if applicable, were not complied with. In addition, there is no public record of attempts made to ensure that adequate funds were available for the contract. The ACC suggested that the contract either be canceled or renegotiated on more favorable terms.

2. Macroeconomic Management

3.10 Institutional roles and reforms have facilitated macroeconomic management and fiscal adjustment. The primary authority for the management of all fiscal issues rests with MOFED, subject to Parliamentary review. Monetary policy is managed by the Bank of Sierra Leone (BSL). In 2001 the authorities established a Net Domestic Financing Technical Committee (NDF/TC) to execute the mandates of the Technical Memorandum of Understanding (TMOU) under the first PRGF. The NDF/TC is chaired by the Director of Banking, Bank of Sierra Leone and consists of senior officers from MOFED, Bank of Sierra Leone, Accountant General's Department and National Revenue Authority (NRA). A Monetary Policy Committee (MPC) was established in 2008 chaired by the Governor of the BSL with attendance by the most senior officials from MOFED, National Revenue Authority (NRA), and the Statistician General. The MPC focuses on broad policy decision-making. A Monetary Policy Technical Committee (MPTC), which meets at the technical level, presents its report to the MPC to facilitate further discussions.

3.11 The formation of these two committees has helped to improve collaboration between the central bank and MOFED in the conduct of fiscal and monetary policy operations. As a result, the authorities have minimized recourse to ways and means advances. Now, even when overdrafts are accumulated during the course of the year, they are usually eliminated at the end of the fiscal year. In addition, the central bank is now guided by weekly liquidity forecasting data for monetary operations which helps to determine the liquidity that is needed for fiscal operations before it is mopped up by the central bank.

3.12 **Several other reform efforts are under way.** The Government is moving from a cash-based to a commitment-based fiscal reporting system to help minimize the build-up of domestic arrears. A Cash Management Committee meets on an ad hoc basis to review changes in the fiscal resource envelope and their implications for expenditure priorities. Also, in 2008 a Macroeconomic Forecasting Working Group was established.

3. Revenue Management

3.13 **The perennially low revenue mobilization effort has focused attention on issues of tax policy and administration.** According to Section 110 (1) of the Constitution, no taxes shall be levied without the consent of the Parliament. Responsibility for the direction of all matters pertaining to the public moneys of Sierra Leone is assigned by Parliament to MOFED via Section 3 (1) of the GBAA, thus establishing the primacy of MOFED in tax policy. Under the MOFED and as per the National Revenue Authority Act (2002), tax policy is to be implemented by the National Revenue Authority (NRA). In practice, the implementation of tax responsibilities has been less clear cut. MOFED has indeed led on issues of broad policy. Yet, until 2008, various ministries as well as the NRA made a number of ad hoc decisions on tax rates, waivers, and exemptions. Examples are waivers for a sugar refinery, various mining companies, and a fisheries company. Such decisions can be very costly when they result in foregone revenues.⁵²

Box 3.2: Non-Tax Revenues

The 2008 Finance Act amended the NRA Act and gave the NRA a mandate to collect most non-tax revenues. The legislation has not had a positive effect. In 2008, against a target of Le 71.5 billion, only Le 57.2 billion could be collected. The weak performance can be traced to three issues:

1. Political objections from ministers and commissioners who prefer to retain and use the revenues they collect.
2. As many as 7 MDAs do not deposit revenue collections in the Consolidated Fund, as required by Section 111 (1) of the Constitution and FMR 40. Among these are the National Telecommunications Commission and the Sierra Leone Marine Authority.
3. The responsibility for the assessment of non-tax revenues remains with each MDA. In addition, NRA often lacks the technical expertise to properly assess some of the non-tax revenues. The authorities may therefore wish to make a further clarification to the Act as regards the assessment function.

The issue extends beyond revenues to procurement, transparency, and accountability. This is because it is not possible to systematically monitor the use of monies outside the budget. The embassies, for example, collect revenue on the sale of visa stickers, but retain the revenue for unaccounted expenditures. In 2008, only Le 0.4 billion was deposited in the Consolidated Fund out of an estimated Le 5.3 billion.

Providing a guarantee to MDAs that their budgetary allocations would be increased to cover the amount of non-tax revenues deposited into the Consolidated Revenue Fund (CRF) would encourage them to deposit revenues mobilized and allow the NRA to make, or at least double check, assessments.

3.14 **According to Section 110 (2), the authority to grant any waivers or variations from the tax law is subject to the prior approval of Parliament.** Various revenue acts prescribe the criteria on which exemptions or waivers may be given. Section 9 of the Income Tax Act (2000) is an example. The Finance Act 2006 made the National Revenue Authority

⁵² One might argue that income taxes to be paid by new employees might replace or more than replace revenues foregone. No such evidence has been provided to date.

responsible for waiver administration, but the Finance Act 2008 transferred this responsibility back to MOFED.

3.15 It is regrettable that no data are captured on revenue foregone due to waivers of income or sales taxes. Foregone revenue due to waivers of import duty is calculated, but only for imports which are entirely duty free and revenue lost on concessional rates of duty is not precisely known. In 2008, it is estimated that Le 58 billion was lost on total exemptions from duty.

3.16 To make tax waivers and exemptions more transparent and to better respect the role of the Parliament, it is recommended that the authorities budget explicitly for waivers and exemptions. The specific waivers and exemptions and their estimated value could be submitted for Parliamentary approval in the annual budget and finance bill. This practice is now increasingly becoming a feature of the budget process in many countries including Uganda, South Africa, Morocco and India.

3.17 To further improve on the quality of tax policy, it is recommended that the Minister of Finance and Economic Development strengthen the Revenue and Tax Policy Division. The credibility of the budget and all its expenditure programs depend on good revenue forecasts.⁵³ The Revenue and Tax Policy Division would benefit from greater capacity to analyze tax policy options in the context of macroeconomic and social goals, formulate policy decisions, and exercise effective supervision over the NRA. A particular area in need of strengthening is revenue forecasting. This should be done collaboratively with the BSL and NRA.

3.18 The NRA is benefiting from a major Modernization Plan for the period 2008-2011, supported by DFID and FIAS. The plan consists of seven linked projects on: customs modernization, income tax modernization, GST implementation, gold and diamond office (GDO), non-tax revenue modernization, taxpayer identification number (TIN) and integrated revenue information system. The plan was approved by Cabinet and Parliament in 2008 and the main contractor started in 2009. Progress has been made in a number of areas, such as the ASYCUDA++ database for customs administration and the TIN project (see also Box 1.3 in Chapter 1).

3.19 In general, many of the ongoing reforms are positive. There has been, however, one noteworthy reversal. The Gold and Diamond Office (GDO) was moved in July 2003 from the Ministry of Mineral Resources to the National Revenue Authority. This was done to reduce conflicts of interest that could arise within a ministry empowered not only to grant mineral leases but also to assess the tax value of output and exports. This correction was reversed in April 2008 when responsibility for supervision of the GDO was reassigned to the Ministry of Mineral Resources.⁵⁴ Beyond the issue of conflict of interest, this move may suffer from the declining capacity within MMR as documented in the October 2005 Management and Functional Review. Very few experienced professional staff above the middle and senior levels remain (see also Chapter 7). As a temporary solution, the MMR has engaged 10 to 20 new graduates from the University of Ghana to work for the next two years. The MMR has also lined up several senior

⁵³ This is the highest priority in the IPFMRP.

⁵⁴ Assignment of Responsibilities to Ministers, Government Notice No. 72, gazetted on April 30, 2008.

positions to be filled through the diaspora funding program and some other funding from the UNDP. Looking forward, officials have indicated that the GDO may be merged with a new National Minerals Agency that is presently undergoing final stages of establishment. The act has been prepared and is going through the approval process although some aspects of its governance remain to be determined.

4. Budget Formulation

3.20 The budget process can be improved for more effective service delivery and better investment outcomes. The first part of the process focuses on setting out a credible *macroeconomic and fiscal framework*. This works fairly well in Sierra Leone although some opportunities for further gains are discussed below. The second part of the process involves coordinating and reconciling numerous *policy objectives*. There are many opportunities here for improvement.

a. Macroeconomic and fiscal framework

3.21 There is an established process for determining and communicating how much fiscal space will be available in each new budget year. A macroeconomic and fiscal framework (MEFF) forecast is made in June in order to determine how much fiscal space is available while remaining consistent with targets for fiscal sustainability and stability⁵⁵ (see Chapter 1). This informs decisions about fiscal expenditure ceilings for the coming year with indicative ceilings for the following two future years. These ceilings, along with a short summary of key macroeconomic and fiscal variables, are included as guidance to the MDAs in the Budget Call Circular (BCC), normally issued in June or July.⁵⁶ The BCC constitutes a formal request to the MDAs to provide their initial budget requests to MOFED. The MEFF also forms the main content of a draft Budget Framework Paper (BFP) which is discussed by MOFED senior management before it is endorsed by the Cabinet in early September.

3.22 Budgetary ceilings are not respected by the MDAs. This is because there is usually a significant revision of the spending ceilings for each MDA (as well as the MEFF and BFP) in the fourth quarter, often as part of a scheduled PRGF review. This process is usually completed by early October. It is noteworthy that the BCC also carries limited weight because it is issued before Cabinet endorsement of the Budget Framework Paper and before the macroeconomic and fiscal forecast is finalized. Consequently, ceilings are not respected by the MDAs, leaving little motivation for genuine planning. MDAs instead treat the BCC as an initial form-filling exercise and a bid for resources which they know will be allocated later.

3.23 There a few aspects of this process that could be strengthened. First, the MEFF used in the BCC and BFP is usually drawn from the latest IMF framework which is often many months old.⁵⁷ As such, it is often not reflective of recent events and is then replaced by a new

⁵⁵ This is done jointly by the MOFED Economic and Policy Research Unit, the MOFED Budget Bureau, the National Revenue Authority, the Bank of Sierra Leone, and the IMF.

⁵⁶ Financial Regulation 7 (1) requires the Financial Secretary to issue the BCC not later than 6 months before the start of each financial year.

⁵⁷ The MOF has made several attempts to develop its own modeling and forecasting capacity. To date, none of these efforts have been sustained. It is now a high priority activity in the Integrated Public Financial Management Reform Program (July 2009-December 2012).

IMF forecast in the fourth quarter which in turn is fast overtaken by events within the budget year⁵⁸ as revenues and grants deviate from programmed targets. The authorities may want to consider: i) setting the expenditure ceilings just once in June on the basis of a conservative economic forecast made in May,⁵⁹ with IMF assistance if desired, and ii) adjusting quarterly expenditure allocations as necessary in line with current practice. In other words, any forecast made in the fourth quarter should be used to help inform quarterly allocations rather than motivate a wholesale revision of expenditure ceilings.

3.24 Second, the authorities may want to consider using the BFP as a means of seeking formal approval for their intended fiscal policy stance and to circulate it to the Cabinet before the BCC is issued. This will allow the Cabinet to make a fully informed decision to endorse the framework and BCC as-is or seek needed changes. Their endorsement, together with more credible ceilings, will help add weight to the BCC. Providing the BFP to appropriate Parliamentary committees for comment would also be useful, both to inform them of expected economic conditions and to allow them to provide useful feed-back that could be valuable during the appropriations hearings.

b. Expenditure proposals

3.25 The amount of information the MDAs are asked to supply each year is significant. In response to the BCC, and according to Section 7(2) of the 2007 FMR, the MDAs are required to submit:

- a medium-term strategy (referred to as a strategic plan) accompanied by target outcomes in line with national and sectoral strategies and performance indicators for assessing the achievement of those outcomes;
- a detailed work plan for the implementation of the strategy;
- a procurement plan showing details of the estimated amount of continuing contracts and each contract to be entered into in the following year, item to be purchased, estimated timing and amount of payments, and the modality of each contract; and
- revised estimates of revenue and expenditure for the current year together with the anticipated revenue and recurrent and capital expenditure for the following three years within the financial ceilings prescribed by the Minister.

3.26 In addition, according to the November 2008 Budget Speech for Fiscal Year 2009, the Ministry of Finance and Economic Development has begun requesting MDAs to prepare program-based budget estimates. This is intended to align MDAs' strategic plans to their budgets, thereby ensuring that funds are better directed to national poverty reduction priorities.

3.27 The annual information requirements could be made both simpler and more strategic. On the one hand, strategic plans and work plans might be required only every three years unless substantial changes are required. On the other hand, the BCC does not ask for information required by decision makers to properly coordinate and reconcile the various

⁵⁸ There have been many surprises over the years. Revenues and grants fell far short of targets in 2007. Food and fuel prices accelerated far faster than expected in 2008 and then rapidly fell in 2009 as most of the world moved into recession.

⁵⁹ Revenue forecasts have typically been too optimistic, forcing expenditure cuts later in each year.

proposals from all the MDAs. In particular, the BCC could require information needed for manpower planning, selection of investment projects (see Chapter 4) and the recurrent operations and maintenance requirements of investment projects in the development budget.

3.28 The consistency of budget proposals and strategic plans with the PRSP could be improved with better communications. According to MOFED officials, acceptable strategic plans were provided for 2008 by only four out of 59 MDAs.⁶⁰ Most of the strategic plans could benefit from further qualitative and quantitative improvements. The PRSP-2 is a key policy document of the Government. Yet, interviews with various MDA officials in the first quarter of 2009 revealed a surprising lack of knowledge concerning the contents of the PRSP-2.⁶¹ A summary of the PRSP-2 relevant to each key MDA, and presented to each MDA, may help to spread understanding, while performance could be enhanced by appropriately worded ministerial performance contracts (see Chapter 5).

3.29 The quality of the MDA budget proposals needs to be strengthened. The MDAs are usually allowed about six weeks to prepare the above, but planning capacity is weak. Work plans and procurement plans are usually completed late and often display limited consistency with the detailed expenditure proposals. Indicative targets for budget years N+1 and N+2 are usually highly incremental, e.g. most MDAs are given the same rate of increase even though their needs may vary. Moreover, as documented in Chapter 2, many object codes that could allow a tighter link between spending and PRSP objectives are not well utilized. To further ensure consistency between the budget and the procurement plans, Section 7(3) of the 2007 FMR could be usefully amended to require Vote Controllers to include the procurement officer in the Budget Committee. MOFED staff is providing training to help overcome capacity constraints. Until capacity is improved, however, it may also be helpful to increase the preparation time by several weeks.

3.30 The degree of stakeholder participation in the budget preparation process could be improved. According to Section 7(3) of the 2007 FMR, each MDA shall ensure that the revenue and expenditure estimates are prepared with the involvement of the relevant program officers, civil society organizations, and District Budget Oversight Committees, in accordance with any other instructions or guidelines given by the Minister. This shall be done through MDA budget committee meetings chaired by the relevant vote controller (Permanent Secretary or other executive head). According to the interviews with the authorities, the actual practice has been very mixed, depending considerably on the management capacity of the administrative head. If the problem is lack of time, perhaps the budget cycle could explicitly include time for this purpose. MDA leadership could also be given training on how to organize the necessary consultations.

c. Coordination and reconciliation of policy objectives

3.31 Once the MDAs have made their proposals, the authorities need a process to reconcile competing claims on limited resources. This is meant to be achieved through the

⁶⁰ Agriculture, Defense, Health and National Commission for Social Action. The health sector strategy is limited to issues of reproductive and child health rather than the sector as a whole.

⁶¹ It is somewhat ironic that the second PRSP observes, in the Lessons Learned section, that “in most cases, MDAs and local councils did not implement the [first] PRSP as it was largely viewed as separate from their routine work. This had a fundamental detrimental impact on PRSP-I implementation.”

Medium-Term Expenditure Framework (MTEF) process and associated hearings. In fact, the Government is well on its way towards the creation of a medium-term budget framework (MTBF) in which budgetary allocations are not only consistent with the fiscal framework but also with national strategic priorities. This is the next stage in the move towards a full MTEF.⁶² The MOF is aiming to consolidate the financial implications of national strategies and policies, such as the National Recovery Program, the orientation to poverty-reducing expenditure, and the devolution of functions and the corresponding budget provisions to the local authorities.

3.32 There are few opportunities to review policy options at a strategic level before MDA budget proposals are completed. In recent years, MDAs have been asked to submit their initial budget proposals towards the end of July or early August. Manpower hearings, policy hearings, and participatory budget discussions are then conducted, all in August. Budget proposals are then required to be revised on the basis of these hearings and discussions, and completed by end-August. This does not leave enough time for policy makers to thoughtfully review options and provide guidance, nor does it leave much time for officials to certify that any guidance received from the hearings has been incorporated accurately into the revised budget proposals. The fact that the 2009 Appropriations Act and the Finance Act were adopted by Parliament only by April and July of 2009 is surely a symptom of this problem. The general conclusion is that the process of budget formation and deliberation could usefully start sooner and last longer. The next several paragraphs set out some issues and options for consideration.

Box 3.3: The Medium-Term Expenditure Framework

The MTEF process involves a top-down process of defining a resource envelope that is consistent with macroeconomic stability and explicit strategic priorities, while providing bottom-up estimates of the current and medium term costs of existing and new programs. Iterative decision making helps to resolve key trade-offs and match costs with available resources. The output of a MTEF process is often a multi-year rolling plan, integrating capital and recurrent expenditures, and comprehensively including all expenditure whether funded by the Government or by the donors. If done well, all specific actions needed to implement strategic plans and reach performance targets are well identified and costed.

3.33 The process of manpower hearings needs to be improved. Manpower hearings are held for one day in July or August, independently of the budget proposals for the recurrent and development budgets. Participation is limited mainly to the HRMO, PSC, and the sector MDAs, while there is limited participation by politicians, mainly from members of the Parliamentary Budget and Finance Committee, and no participation from DBOCs or CSOs. These hearings generally proceed with limited information concerning the composition of the public service and proposed changes to salaries and benefits which are usually agreed only by October. To remedy the situation, the authorities may want to start the process earlier to allow more time to adequately review the needs of each MDA and examine the trade-offs between various options (see also Chapter 5 on Public Service Reform). It may also be desirable to invite participation from a broader array of stakeholders.

⁶² The third stage is the addition of activity and output based budgeting. This last stage is quite demanding in terms of data requirements and bureaucratic capacity. Countries should focus first on the MTBF because achieving the full MTEF can be a costly exercise that denies resources from more essential objectives.

3.34 Policy hearings were introduced into the budget cycle in 2004 in order to allow the MOFED to review sector policies and strategic plans. The hearings are limited to two days in August and cover only the non-wage, non-interest recurrent budget. There is a separate process for the manpower planning (see above) and for the formulation of the development budget (see Chapter 4). Participation is again limited with members of DBOCs or CSOs generally not present. The hearings are strategy oriented, but do not involve an inter-sectoral discussion on the achievement of PRSP goals nor is there any systematic process for weighing inter-sectoral trade-offs. Discussions tend to be held in parallel, led by key MDA officials. To improve the policy hearings, it is recommended that the authorities broaden the hearings to include all expenditures, widen participation, start sooner,⁶³ allow enough time and interaction between participants to adequately review the trade-offs between various options. In addition, spending proposals could be reviewed in the context of progress made towards strategic goals in the last year as well as any planned changes in policy or goals. This could be facilitated by the early publication of a policy paper laying out key issues and options for participants to review in advance of the hearings.⁶⁴ Naturally, adequate time would need to be set aside in the budget cycle for the production of such a paper.

3.35 Participatory budget discussions are scheduled just after the policy hearings and before the annual budget retreat when the final details of the budget are worked out. Participation includes DBOCs, CSOs, and NGOs. These discussions include both the recurrent budget and the domestic contribution to the development budget. Discussions are expenditure oriented, and aim to reconcile spending proposals to the ceilings. There is no requirement that proposed departures from the indicative expenditure projections of the previous year be explained or justified. This situation therefore allows only limited coordination and reconciliation of policy objectives coming from the various MDAs. Given the late stage of these discussions, it could be inferred that most stakeholders outside the central MDAs would have little opportunity to genuinely shape the outcome of budget proposals. This could be remedied by broadening participation in the manpower and policy hearings, as recommended above. If this were done, it is more likely that difficult choices in reconciling spending proposals with spending ceilings would be more easily understood and accepted.

3.36 The fragmented nature of the budget process contributes to poor investment project results and inadequate service delivery. In particular, the separate process for human resource management has resulted in a shortage of skilled technical staff (see Chapter 5) to evaluate investment proposals (see Chapter 4), implement projects and programs, and ensure the delivery of high quality services. Similarly, the separate process used for the development budget (see Chapter 4), even after the integration of MOF and MODEP in 2008, denies opportunities to better link the recurrent budget to the operational and maintenance needs of investment projects. Tying these processes together, during the policy hearings as a minimum first step, would help bring the budgeting process closer to a true MTEF process.

d. Budget Execution

3.37 There has been a sustained program of improvements in budget execution with regard to the payroll and expenditures on goods and services. These include the introduction

⁶³ In Ghana, policy hearings are conducted in the second quarter of each year *before* budget requests are prepared.

⁶⁴ The BFP could be expanded for this purpose or a separate paper could be produced.

of better regulations and procedures, the GBAA and FMR in particular, and the replacement of the old computerized system with the IFMIS. This program, and its impact, is described in the 2007 PEFA report as well as the documentation for the IRCB and IPFMR projects. This report therefore focuses on two key issues: the protection of priority spending and the importance of effective commitment controls.

Priority expenditures

3.38 There have been significant deviations by MDAs from budgetary allocations in every year, as noted in Chapter 2. When looked at in aggregate, the number of under-spent budget heads is a response to resource shortfalls. Yet, with the exception of 2007, the responsiveness to shortfalls is neither universal nor all encompassing: there are several ministries that are routinely shorted even in good years while other ministries and budget heads (501 in particular⁶⁵) have routinely over-spent even in bad years. This suggests that MDAs deviations are the result of both external shocks and administrative reasons.

3.39 There are administrative loop-holes in the budget execution procedures. In theory, the allocation, commitment and payment procedures managed by Budget Bureau and AGD make it impossible to overspend against Parliamentary appropriations without a supplemental budget approved by Parliament. In reality, there is room for discretionary decisions that can result in under- and over-spending by MDAs.

3.40 First, *the expenditure control system is not comprehensive.* It applies only to expenditure incurred through local purchase orders (LPOs) and other contracts. According to Section 70(1) of the FMR, personnel emoluments, statutory transfers, debt service, and opening of imprests are *outside* the control system.⁶⁶ The authorities may want to consider revising the FMR and the IFMIS to bring these expenditures into the expenditure control system.

3.41 Second, *the commitment control system can be overridden* by the systems administrator or by varying the control parameters. If a commitment or payment is requested that is not budgeted, or budgeted but not within allocations, then other existing allocations are sometimes reduced or shifted from one head to another to make room for the required item. This is not authorized, as FMR 30 permits virement by the Minister of Finance only within programs. Virement between one program and another, or between one head and another, requires prior Parliamentary approval. A two-prong strategy may help improve the situation. On the one hand, the authorities may wish to broaden the formal definition of what constitutes a program.⁶⁷ This would help increase flexibility. On the other hand, the authorities should enforce the law more firmly.

⁶⁵ Expenditure on head 501 in 2008 was Le 13.4 bn against an approved budget of Le 3.4 bn. This is not accounted for in the Public Accounts.

⁶⁶ Quarterly allocations include the opening of imprests, which are immediately counted as expenditure. They are estimated to amount to Le 1 billion per year.

⁶⁷ A program is denoted by the first seven digits of the 27-digit expenditure code in the Chart of Accounts. For example, 304-40-12 is for the Port Loko Hospital secondary health services within the Ministry of Health and Sanitation. This may be too narrow for Parliamentary control. Programs might be better re-defined at the 5-digit level, eg. secondary health services.

3.42 The Government has tried to protect poverty reducing and other priority programs in the face of frequent budgetary shortfalls. Well identified resources, meaning those that are fairly predictable, were 185 percent of budgeted priority expenditures in 2008, thus providing a useful cushion against exogenous shocks.⁶⁸ In September 2006, the MOFED issued Procedures to Protect Priority Spending (PPPS) which divide each year's budgeted expenditure between 'priority' and 'non-priority' categories. Priority expenditures include statutory transfers (including transfers to local councils), salaries, debt service, budgeted repayment of arrears, election expenditures, poverty-related outlays (including all the expenditures of the education, health and agriculture ministries), and security-related outlays (including all the police and prisons expenditures and some of the defense ministry expenditures).

3.43 These procedures to protect priority spending have not been used. By the end of the first quarter of 2007, it became clear that a large gap was emerging between planned and actual revenues as donors had delayed budget support. If poverty reducing programs were to be fully protected, the required reductions in spending for all other essential Government functions would have been unacceptable. Beginning in April 2007, the MOFED implemented a cash based budget process. Quarterly allocations were abandoned and payments were limited to actual cash collections each week. While PRGF macro-fiscal quantitative performance criteria were largely met, excluding the accumulation of significant domestic arrears, the orderly execution of Government programs and services was badly affected. By the end of the year, expenditures on poverty reducing programs reached only 57 percent of the budgeted amount while all other spending reached 72 percent of the budgeted amount.⁶⁹

3.44 The quality of budget execution for priority spending did not improve in 2008. In fiscal year 2008, MOFED reverted to the normal procedures outlined in the 2007 FMR. Total spending on priority expenditures reached 101 percent of the budgeted target or, if fuel for NPA is excluded, 98 percent of the target. Yet, *the majority of specific budget heads continued to be under-spent*. For example, the recurrent allocation to MOHS for goods and services was to have been Le 27 billion but only Le 10 billion was actually spent. It is also noteworthy that the fourth quarter transfer to local councils was not made. The overall target for priority spending was largely met only because of significant over-spending for fuel for NPA within the recurrent budget and the rehabilitation of Njala University College within the development budget. Furthermore, while several priority programs were underspent, budget head 501 was over-spent by roughly Le 10 billion, which might have reduced the gap in funding for MOHS.

3.45 In this respect, it is recommended that the authorities: (i) continue efforts to increase revenues so as to be able to cover more spending with domestic resources, or decrease total spending to ensure at least all recurrent programs are covered by revenues; (ii) reduce over-spending in non-priority programs, especially with regard to budget head 501; and (iii) consider better options to better protect transfers to local councils. These are statutory transfers that could be pegged to a share of revenue in the same manner as the transfers to NRA or the Road Fund.

⁶⁸ Well identified resources are domestic revenues, domestic borrowing (within fiscal limits), HIPC/MDRI grants, and one half of external budget support (both fixed and performance tranches). These added to Le 923 billion in 2008. Budgeted priority expenditures were Le 498 billion (Budget Annex 6).

⁶⁹ This calculation omits salaries, statutory transfers to NRA and the Road Fund, interest, and externally funded project expenditure.

At a minimum, these allocations should be treated as non-discretionary in the same manner as interest and wage obligations (see also Section C below).

3.46 The introduction of performance contracts for ministers may help or hinder budget outcomes. Upon taking office in 2007, the President announced he would seek performance contracts from all his ministers (see Chapter 5 for more on this subject). Being held accountable for results could induce ministers to seek improvements in the budget process to increase performance. Conversely, if the budget process does not improve, there may be an incentive to break away from the budget. Ministers who were not well informed of constraints and who did not participate adequately in decision making concerning trade-offs may come to believe they were unfairly denied adequate resources to meet their contractual obligations. In reaction, they would naturally seek interventions from the Minister of Finance or, failing that, from the Office of the President. This would add to the budget execution problems documented in Chapter 2.

Commitment controls and cash management

3.47 The events of fiscal year 2007 revealed a serious weakness in commitment controls and cash management. The attempt to implement a cash budget was crippled by the inability to stop MDAs from entering into commitments with suppliers. As a consequence, a substantial volume of arrears to domestic suppliers was accumulated, worth Le 85.4 billion or roughly 1.7 percent of GDP.⁷⁰

3.48 The potential for further substantial resource shortfalls is quite high, at least in the context of the ongoing global recession (see Chapter 1). Thus, the authorities may wish to consider options for improving their ability to control spending, not at the payment stage, but upstream at the commitment stage. In theory, the required change is simple: cumulative discretionary commitments should be measured against the best forecast of cumulative resource availability, less non-discretionary obligations, rather than cumulative allocations. In practice, this can be complicated when the capacity for cash management needs strengthening. At present, cash management is effected through the Net Domestic Financing Committee (NDFC). The NDFC meets weekly to monitor cash balances and domestic borrowings, and ensure compliance with the IMF-PRGF quantitative targets. The NDFC has representatives from BoSL, MOFED, NRA, and AGD.

3.49 The NDFC has no reliable data on future cash needs. The MDAs are presently unable to provide monthly cash forecasts from their procurement management systems, as required by GBAA section 53(1). The needs of each quarter are estimated roughly from the forecast made at the beginning of the year which is broken down by quarter, actual past receipts and payments, and outstanding commitments in the IFMIS database. This forecast is used by Public Debt Unit to plan domestic borrowing, and by the Budget Bureau to determine the next quarter's allocations to MDAs.

3.50 The authorities are considering the establishment of a Cash Management Unit to be established in MOFED together with the recently initiated Cash Management Committee (see Section B.2 of this chapter). The Committee will take over the functions so far performed by the

⁷⁰ Of these, Le 53 bn were verified by the Auditor General. At the end of 2008, after audit corrections, arrears were Le 42 bn. GOSL intention is to pay off Le 27.6 bn in 2009 and the balance in 2010 and 2011.

NDFC. The Unit would have permanent staff to engage with MDAs, the Budget Bureau, EPRU, AGD, BoSL, and PDU in the continuous updating of cash flow forecasts. Depending on the volatility of cash flows, and the tightness of domestic financing limits, it might need to prepare forecasts monthly or even weekly. The AGD is developing a contract management package, which will feed into the cash forecasting model. The IPFMRP will support the Unit with software development and training.

e. Procurement

3.51 The Public Procurement Act of 2004 replaced a wasteful, centralized procurement regime⁷¹ with a decentralized procurement system based on the principles of competition, transparency, and accountability. To help implement this change, the law required the establishment of the National Public Procurement Authority (NPPA). It is now fully staffed and functional, together with an Independent Procurement Review Panel for handling problems and complaints. According to the 2004 law, procurement is implemented by MDA Procurement Units under the oversight of MDA Procurement Committees chaired by their Vote Controllers. In addition, a strict *code of conduct* is set out for all officials with procurement responsibilities (see section 33 of the Act).

Procurement planning and monitoring

3.52 The 2004 Procurement Act requires each MDA to produce a procurement plan. This requirement creates several opportunities for the Government to improve the quality of financial management. First, the existence of a procurement plan allows the authorities to satisfy themselves that a MDA has a viable strategy to achieve the goals set out for it. Second, a procurement plan allows the authorities to ensure that a MDA budget request is adequate to cover essential expenditures. Third, procurement plans can be used to inform cash flow requirements for better fiscal and monetary coordination. For example, a sudden large requirement for financing the procurement of heavy equipment could be anticipated well in advance.

3.53 The 2007 FMRs require that these plans be submitted along with the budget requests from each MDA. The plans are required to provide details of all procurements to be initiated or continued in the budget year, with details of the item to be procured, the modality of procurement to be used (competitive,⁷² limited tender, shopping or sole source), the estimated cost and time of procurement. The 2007 FMRs also require that MDA expenditure commitments not be made except against an approved procurement plan (as well as within quarterly allocations and approved budgets). Thus, the Budget Bureau reviews and approves, or rejects, each plan from central Government MDAs in consultation with the NPPA. Plans from the local councils are approved or rejected by the Ministry for Local Government while plans from public enterprises are approved or rejected by the National Privatization Commission. This requirement provides an incentive to complete the plans on time, make them responsive to policy objectives, and make them fit within prescribed spending limits. The NPPA monitors the targeted MDAs

⁷¹ Between April 2003 and January 2004, only 10 percent of the contract awards were made on the basis of an open tender process. Sierra Leone: Issues Paper on Public Procurement, dated May 2004.

⁷² International or national competitive bidding must be used when a contract for supply of goods or services exceeds Le 60 million, or works exceeding Le 150 million. These are the 2008 thresholds for 'large' contracts.

using quarterly formats. A standard procurement management information system has been introduced in selected MDAs to facilitate performance reporting and to establish a secure audit trail. World Bank procurement officers are advising on this internal system.⁷³

3.54 Some of the requirements associated with procurement plans have been met quite successfully. By early 2009, 25 major MDAs and all 19 local councils had produced their own plans compared to just 9 large MDAs in 2006.⁷⁴ Procurement plans now cover the whole of an agency's budget, divided between procurement items and non-procurement items (salaries, transfers, rent, utilities). This facilitates checking plans against budgets.

3.55 The procurement planning process has started well but further gains could be made. To further strengthen the procurement planning process, the authorities may want to consider the following options:

- Encourage MDAs to begin their planning process earlier in each year and seek training when needed. Most MDAs provide their procurement plans several months after submitting their budget requests rather than simultaneously as the FMR require.
- Use procurement plans to gain bargaining power with suppliers. Many MDAs simply provide a long, disordered list of desired procurements with little if any attempt to group similar goods and services that can be bought in bulk for cost savings.
- Improve the quality of the review and approval process with more attention paid to adherence to legal requirements, more scrutiny of how proposed procurements relate to project and program objectives, and cross-checking against budget allocations. FMR 70 (2) requires that the vote controller make commitments only within approved procurement plans. This may require strengthening the capacity of the Budget Bureau and the NPPA.

3.56 More progress is needed in the implementation of procurement plans. Thus far, procurement related benchmarks established under the MDBS Performance Assessment Framework have only been partially met. Only 50 percent of procurement expenditure in 2006 and 49 percent in 2007 was for planned items. Only 59 percent of procurements used the planned modality (competitive or sole source) in 2006; this share fell to 40 percent in 2007 due mostly to contract splitting. In 2006, it is estimated that 29 percent of the number of contracts over the small purchase thresholds were awarded on the basis of open competition, i.e. following international or national competitive bidding.⁷⁵ In 2007, this share rose sharply to 81 percent, mainly because cash was constrained, there were far fewer large contracts, and controls over these were tighter. In 2008, the share was 69 percent, showing a significant improvement on the 2006 baseline. As competitive bidding is mandatory above the threshold figures, the share should be 100 percent.

⁷³ It should be noted that donor funds to projects are considered to be public funds (GBAA section 7), and procurement from these funds should be monitored centrally by NPPA. At present, donor-funded contracts are typically entered into by PIUs in accordance with the respective donor's procurement rules. This is allowed by the Procurement Act. The PIU procurements, however, are not reported to the host MDA nor to NPPA. The authorities may wish to find ways to rectify this situation.

⁷⁴ There are about 74 MDAs, 19 local councils and 24 public enterprises. The majority of procurement expenditure is now brought within NPPA supervision.

⁷⁵ PEFA assessment of PI-19, with revision for correct thresholds. Data received in December 2009.

3.57 It is also recommended that the authorities shift their attention to how well the plans are prepared and used. Several options are listed here:

- Some procurement processes have been improperly led without oversight by vote controllers, accountants, and other staff.⁷⁶ Instead, the procurements should be conducted by procurement units under the oversight of procurement committees as required by Sections 17-19 of the 2004 Procurement Act.
- There have been several cases where procurement officers who try to apply the regulations are transferred out of their agencies (frequently into non-procurement posts where their training is wasted). Consideration could be given to ways of protecting the training investment and maintaining a procurement presence in every procuring entity. One option under consideration is the creation of a procurement cadre within the civil service.
- The Accountant General's Department could more actively enforce the FMR regulation against expenditure commitments that are not backed by an approved procurement plan. To date, there have been many cases of procurement splitting in order to avoid the threshold for competitive bidding and several examples of procurements by MDAs that were not included in their plans.

Transparency in procurement

3.58 **Free, unfettered access to information is the key to both *competition* and *accountability*.** In this regard, there are several key provisions in the 2004 Procurement Act. Section 37 (1) states that in most cases public procurement shall be undertaken by means of advertised open bid proceedings, to which equal access shall be provided to all eligible and qualified bidders without discrimination. Section 48 (1) requires the invitation to bid, or an invitation to pre-qualify, to be published in the Gazette, national print media of wide circulation and electronic media, when feasible, and, in the case of international competitive bidding, also in selected international media listed in the guidance provided by regulations. Section 26 requires each procuring entity to promptly publish in the Gazette, and any newspaper of wide national circulation, notice of each contract award in which the price of the contract exceeds the threshold for competitive bidding, indicating the contract price and the name and address of the successful bidder. Finally, Section 14(i) requires the NPPA to publish a quarterly Public Procurement Bulletin which shall contain information on public procurement, including approved procurement plans, proposed procurement notices, and notices of invitation to bid and contract award information.

3.59 **There has been only minimal progress towards transparency obligations.** Daily newspapers are indeed full of invitations to bid, but scrutiny reveals these are almost always associated with donor funded projects. The vast majority of goods and services procured through the recurrent budget go unadvertised. Contract awards typically go unpublished. Quarterly reports from the NPPA are also generally missing or unpublished. These are all issues the authorities may wish to rectify.

3.60 **The NPPA does maintain a website (www.publicprocurement.gov.sl) meant to provide access to much of this information.** The website provides a toolkit for procurement

⁷⁶ World Bank, 2007. Sierra Leone: Preliminary Ex-Post Procurement Audit of Selected Ministries and Agencies.

officers - the Act and regulations, manuals, standard bidding documents and procurement plans (44 for 2009), but virtually no transparency. Until the first quarter of 2009, no contract awards had been listed on the website. A partial list can now be found. No current invitations to bid had been displayed: as of May 2009 one could see only invitations from 2007 and 2008 and which were only retroactively published.

3.61 While capacity building is surely a big part of any solution, logic suggests the bigger issue is to what extent the authorities may wish to motivate the MDAs to adhere to the law. If adherence is actively sought, then the MDAs will request the financing and staff required to meet their legal obligations under PPA 14(i), 26, 37(1), and 48(1).

f. Oversight and Accountability

3.62 This section of the chapter provides a review of key oversight institutions and how well they have been working and the supporting roles of audit and the donors.

Parliamentary oversight

3.63 Under Article 119 of the Constitution and Section 66(3) of the GBAA, Parliament is required to consider the reports of the Auditor General, refer them to the Parliamentary Public Accounts Committee (PAC), or any other Committee. Those committees shall review the reports and publish their own reports. Under Parliamentary Standing Orders, the PAC is chaired by the Deputy Speaker (a member of the majority party). Party composition of the Committees is in accordance with their numbers in Parliament. The new Parliament (since August 2007) has appointed a PAC with 11 members. The PAC has the powers of a High Court to summon people and call for documents. FMR 165 says that VCs must respond to reports from the Auditor General and relevant provisions of PAC reports within 30 days of receipt, explaining how each irregularity arose and the corrective action taken or to be taken, with copies to the Accountant General and Chief Internal Auditor.

3.64 Parliament is increasingly fulfilling its oversight role. Two important reforms were achieved in 2009. One is the removal of the Parliamentary embargo on the Auditor-General's report. The other is the opening of PAC hearings to the public. Moreover, the PAC report is now a much more substantial document is motivating correctional results in the MDAs.

3.65 As of July 2009, the Office of the Auditor-General had published on its website the audited public accounts for 2006 and 2007 with 2008 under way. The current PAC has cleared the audit reports on 2003-05, and is expected to clear 2006-07 by the end of 2009. The PAC report on FY 2003-05 addresses 371 queries from the audit reports on those years. Of these, 46 percent had been cleared and verified by the Audit Service before the PAC hearings. Of the rest, 85 were directions to produce information or documents, 30 recommendations on systems, and 41 directions for recovery of losses amounting to Le 2.8bn. In the previous PAC report on 2000-02, there were 21 recommendations for recovery of public funds and surcharges on failure to produce accounting documents. These accounted for Le 1.7 billion, which was only 0.2 percent of total primary expenditure for the three years. Actual recoveries have been negligible.

3.66 Parliament could further strengthen its oversight role.⁷⁷ Parliament may wish to more actively pursue corrective actions. To do this, Parliament may wish to consider the following options:

- Consider placing a time limit in the law for Parliamentary review or publication of the PAC report and guidance on the mode of publication.
- Enforce FMR 166 which requires the Accountant General to maintain a register of irregularities cited by the Auditor General for PAC reference.
- Strengthen PAC capacity by recruiting technical and clerical staff. A Principal Auditor from the Audit Service is attached full time to the PAC and at its hearings it has technical advice from the Auditor General and/or the Accountant General or their representatives. The Speaker has promised a full-time secretary to the PAC, but the present PAC secretary serves on many other committees.
- Strengthen the capacity of the Audit Service of Sierra Leone so that the Auditor General can produce reports and opinions for the PAC on a timely basis. Achieving this will, in turn, require continued attention to the Accountant General's Department since the AGD produces the public accounts to be audited by the Audit Service. In this context, it is notable that the AGD had no sitting Accountant-General at the time this review was written.

Donor role

3.67 Donor institutions must justify to their taxpayers or Boards of Directors that aid funds are being well used. The most obvious way to do this is to review the audited public accounts. Yet, in 2007, budget support from DfID and the EC was nearly suspended for lack of access to published audited accounts. More recently, DFID has indicated that some of their support is conditional on greater transparency and respect for the Auditor General's reports. The reason for the lack of access in 2007 and earlier was the PAC's interpretation of Parliamentary Standing Order 75. Standing Order 75 had been interpreted to mean that publication of any evidence tendered to PAC meetings was not allowed until the PAC issues its own report. By contrast, in most countries, the Auditor General's report is not conditional on Parliamentary scrutiny prior to publication and dissemination to the public. The decision to revise this interpretation in 2009 and end the embargo will go a long way towards alleviating donor concerns.

Citizen role

3.68 Citizens are entitled to information on what their Government is trying to achieve, how much progress has been made against each goal, and whether their taxes and votes are well used.⁷⁸ This entitlement is enshrined in the Constitution, GBAA and FMR. However, the

⁷⁷ The PAC has asked the donor community to strengthen the capacity of both the PAC and the Audit Service. UNDP is planning to provide TA support, including TA through the Centre for Legislative Affairs in Accra. China is providing assistance with Parliamentary buildings and MPs' offices. NDI has convened a new Parliamentary Technical Working Group of all partners with programs supporting Parliament. The IPFMRP proposes capacity building for PAC and BFC committee members and new staff seconded to Parliament.

⁷⁸ The IPFMRP includes a component to support non-state actors (civil society organizations, advocacy groups, the media, women, youth and religious community leaders, professional associations, etc) by strengthening and formalizing their role in budget management.

public is poorly informed. Public finances are gazetted quarterly but this is not done in a manner that allows an easy comparison of planned versus actual expenditure outcomes. It is not common knowledge, for example, that the over-spending of budget head 501 sometimes exceeds the budget of various ministries. Also, several key categories of documents have not been available to the public:

- Strategic plans and performance contracts are not available. Yet, access to these documents is critical to determining whether Government plans are in line with the PRSP and citizen needs in general. Both could be published as annexes to the annual Budget Speech that is available at low cost to the public at the National Bookshop in Freetown while summaries could be referred to on radio talk shows.
- As mentioned in the procurement section above, information on tenders and awards is not generally available to the public. Putting the information on a website would be a good start but not sufficient since most of the population has no access to the internet. Newspaper summaries of gazette awards would be helpful.
- None of the Auditor General's reports had been made available to the public. This changed for the better in mid-2009 when the reports for 2006 and 2007 were posted on the new website for the Office of the Auditor-General.⁷⁹

3.69 Enacting a Freedom of Information law would contribute to improving oversight and accountability. Over sixty countries have enacted FOI laws. In Africa, these include Angola, Ghana, Malawi, Nigeria, South Africa, and Uganda. The Government has subscribed to the principles of freedom of information (FOI),⁸⁰ but it has taken a five year campaign by a coalition of NGOs to bring draft legislation to Parliament.

3.70 The draft Right to Access Information Bill for Sierra Leone includes all elements needed to make freedom of information a reality.⁸¹ It provides a clear statement of the right to access any information held by a public body, as well as information held by private bodies when necessary to enforce a right, subject only to narrow exceptions. The Bill envisages a low threshold access regime that would allow everyone, including disadvantaged persons, to gain access. Officials would be required to actively publish a wide range of important information rather than doing so privately and only when asked. It also establishes an Information Commissioner to monitor implementation. This effort could usefully be backed by an expansion of the Records Management Improvement Project financed by DfID.

Anti-Corruption Commission

3.71 The Anti-Corruption Act was passed in 2000 and the Anti-Corruption Commission (ACC) was established in the same year to carry out prevention and community awareness activities as well as investigate alleged or suspected corruption. A National Anti-Corruption Strategy (NACS) was published in February 2005 and an implementation plan was proposed. The intelligence and investigative capacity of the ACC has been improved by the recruitment of additional staff and intensive training. One constraint is that the ACC was not responsible for

⁷⁹ See <http://www.audit-service-sl.org/reports.html>

⁸⁰ GOSL ratified the African Charter on Human and People's Rights in 1983 and the International Covenant on Civil and Political Rights in 1996.

⁸¹ Summary from <http://www.article19.org/about/index.html>.

prosecution: cases were referred to the Attorney-General and the Minister of Justice. This had led to some frustration: as noted in a 2006 report to the UN Security Council, "not a single high-profile case has been fully prosecuted so far. There is a general feeling among the population that the Commission is not able or willing to achieve tangible results."⁸²

3.72 The stage seems to be set for a positive departure from the situation in 2006 and 2007. Some of the new developments include:

- A new ACC Act was passed in 2008. Amongst other changes (conflict of interest, misuse of public office, assets declaration), the ACC can now prosecute cases without going through the Attorney General/Minister of Justice (who is also a Cabinet Minister and therefore has a potential conflict of interest).
- The ACC has revised the National Anti-Corruption Strategy 2008-213 and prepared a Strategic Plan for 2008-210.
- The President declared his assets to the ACC within two weeks of the 2008 Act being passed, and some 15 out of his Cabinet of 45 have followed suit. Compliance in the civil service is incomplete.
- ACC produced strong findings regarding a power sector contract (see above).
- The Minister of Health and Sanitation came under indictment in 2009 for alleged corrupt practices (ACC press release of November 4, 2009).

C. LOCAL GOVERNMENTS

1. Decentralization

3.73 The Government has embarked on a decentralization program with the aim of addressing some of the root causes of the civil war. Among these were a lack of participation in the policy decision-making process and inadequate public services outside of Freetown. The 2004 Local Government Act (LGA) has established a legal framework for the progressive devolution of selected functions to 19 Local Councils (LC) and 149 chiefdoms. It has also introduced an equitable and transparent resource transfer system from the center to local levels so as to reduce the resource gaps and income inequalities amongst regions. The program has attracted support from development partners, particularly in public financial management reform and local council capacity development. Given the gradual transfer of resources and authority to the local level of Government, it is important to assess its capacity for public financial management. Such an assessment also makes sense in light of current plans within Government to conduct a review of the LGA.

3.74 The process of decentralization has started well. According to a recent study by the Local Government Finance Department in 2007, most LCs are doing a good job in providing

⁸² "First Report of the Secretary-General on the United Nations Integrated Office in Sierra Leone," 28 April 2006.

most of the services devolved to them.⁸³ A recent study commissioned by the World Bank concurs and highlights the following achievements:⁸⁴

- The development of a dedicated group in the LGFD and LGFC that work with a considerable level of efficiency and effectiveness towards achieving the Government's objective of decentralization.
- The development of a grants distribution system that most stakeholders agree should be beyond political influence.
- A level of transparency that is of a very high standard.
- The successful implementation of the Local Government Development Grant Program that by the end of 2009 will have injected nearly Le 30 billion into community and Council-initiated development projects.
- An increase in the skills and capacity of Council staff to manage fiscal decentralization as more Government services are devolved to the Councils.
- Yet, with only a few years of experience in local Government, many challenges remain. Some of these are discussed below.

2. Human Resources and Capacity Building

3.75 Inadequate human resources are probably the most serious risk to successful devolution according to a 2009 World Bank study on decentralization in Sierra Leone.⁸⁵ Attracting and retaining finance officers, accountants, and other key PFM staff with the required qualifications has met difficulties. Development planners and internal auditors appear to be in especially short supply. This has been the case even though most staff including LC finance officers are assigned from the central Government. As a consequence, there have been repeated rounds of recruitment and training. This situation was complicated by the outcome of the 2007 elections: virtually all the chief administrators, their deputies, and the treasurers who had been assigned to the local councils were replaced by new staff.

3.76 Now that several functions have been devolved to the LCs, it may be useful to strengthen and empower the LCs together with the Local Government Service Commission to take over some of the human resource management functions currently retained by central Government (See also Chapter 5.)

3.77 On-the-job training in PFM skills has been given by two accountants from the PFMRU, who also act as visiting internal auditors until LCs are able to have their own internal auditors. This is planned to continue but it is inadequate relative to needs. More training is needed in PFM and IT not only for finance staff, but also non-finance staff such as LC chairpersons, members of Budget and Finance Committees, chief administrators and their deputies, procurement officers and heads of devolved functions. At the chiefdom level,

⁸³ See the 2007 report by the Local Government Finance Department of MOFED entitled "Monitoring Local Councils Finances, Budget Execution, and LGDG Project Implementation for the Period 2005, 2006, and First Quarter 2007."

⁸⁴ World Bank, 2008. Sierra Leone IRCBP: Review of Fiscal Decentralization.

⁸⁵ World Bank, 2009. Decentralization, Democracy, and Development: Recent Experience from Sierra Leone. See especially Chapter 3.

Chiefdom Finance Clerks also need training. The training program needs to be backed by the introduction of a training policy to ensure a focused, consistent, and cost-effective approach.

3. Transfers and Revenues

3.78 Inadequate resource mobilization is the second most serious risk to decentralization.⁸⁶ Under the law, three sources of financing exist for local Government services in Sierra Leone:

- Central Government transfers for devolved functions and for administrative expenses.
- Local councils' own revenue from taxes, fees, royalties, etc.
- Loans and grants from other sources.

3.79 Currently, the vast majority of LCs' funding comes from central Government transfers, in the form of grants tied to specific expenditure assignments. The LGA specifies that these transfers are to be sufficient to allow for the continued operation and maintenance of the devolved functions at their pre-devolution level.⁸⁷ The Act also specifies that there will be transfers tied to administrative expenses, allocated on the basis of councils' revenue generation capacity and expenditure needs. The vertical allocation (total funds flowing to LCs) and horizontal distribution arrangements are to reflect capacity considerations, especially during the transition period.

3.80 The total vertical allocation is not defined a priori. The vertical allocation represents the sum of all sector-specific vertical allocations for devolved functions. Each sector allocation is determined through negotiations between LGFD and each line ministry. The only guidance found in the law comes from sections 47(3) and 48(3) which state that (i) annual changes in total (rather than individual) grants shall not be less advantageous than the change in total appropriations for central ministries; and (ii) the amount of the total grants shall increase at least as fast as inflation. Note that the latter requirement contains a serious omission: it does not include adjustments for population growth.

3.81 The total vertical allocation is inadequate and unpredictable. The share of LC transfers as percent of the actual discretionary budget increased from 6.2 percent in 2005 to 12.1 percent in 2008, although consistently falling short of budget targets. Similarly, LC transfers as share of domestic revenue increased from 3.4 percent in 2005 to 6.1 percent in 2008. Despite increases, these ratios remain low compared to developing country expenditures, where transfers to sub-national Governments are about 24 percent of the total taxes collected.⁸⁸ Total transfers in Sierra Leone represent only 0.7 percent of GDP, as compared to the developing country average of 2 percent of GDP. There is also a lack of predictability during the year, as revenue shortfalls and political re-allocations have seriously reduced actual transfers from the central Government, despite their classification as protected expenditures.⁸⁹ The authorities may therefore want to consider pegging these statutory transfers to a share of revenue in the same manner as the

⁸⁶ Ibid. See also section B.2 of Chapter 2.

⁸⁷ According to the LGA, this should apply only to the first phase. In 2009, funding was to be sufficient to allow for service delivery at an 'acceptable' standard. However, this change has not yet been applied.

⁸⁸ Bahl & Wallace (2004). Inter-Governmental Transfers: The Vertical Sharing Dimension. Working Paper 04-19.

⁸⁹ In 2008, only Le 46.5 billion was transferred out of an approved budget of Le 62.5 billion.

transfers to the NRA or the Road Fund. At a minimum, and as indicated above, the allocations should be treated as non-discretionary in the same manner as interest and wage obligations. This may require amending LGA 47(2).

3.82 Guidance on revenue collection and retention is inconsistent. There is a longstanding issue on the assignment of revenues between local councils and chiefdoms. The local tax (poll tax, about Le 5 billion a year) is collected at the chiefdom level, and the LGA requires that a percentage of the amount collected (called precept) be remitted to the local council. In 2005, the agreed precept was 40 percent. Other sources, such as market dues and mining surface rents, were also to be shared. Agreed shares have been widely ignored and revenues retained by chiefdoms. The shares have since been changed by the Ministry of Internal Affairs, Local Government and Rural Development. As of March 2009, chiefdoms have been instructed to retain all the local tax revenues. The impact on LCs is that they cannot predict some of their most important sources of revenue. This issue needs resolution, matched by legislative consistency and training for all key stakeholders. This effort might be made easier by clarity on the designation of chiefdom functions, what they cost, and what revenue is needed to sustain them.

4. Legal Framework

3.83 The legal framework is generally acceptable yet there is no legal basis to prosecute any fiduciary misconduct until regulations are officially adopted. The LCs are not subject to the GBAA or FMR. Instead, the local councils have had their own Financial Administration Regulations (FAR) since 2005. These regulations have been issued to all the local councils and are applied in practice, even though they have not yet been officially adopted and gazetted under the LGA. This creates a fiduciary risk because there is no compelling reason for compliance, nor any legal basis for prosecution for financial misconduct. The authorities may therefore want to consider laying the FAR before Parliament for assent.

3.84 Inconsistencies between the LGA and various sector-specific laws need to be resolved. There are over 30 different laws that are either inconsistent with, parallel to, or conflict with the LGA. To facilitate much more effective devolution as well as improve service delivery to the poor and needy, several key laws have been prioritized for review and rationalization to make them consistent with LGA 2004.

3.85 The most urgent of these is the Chiefdom Act and the LGA because the two Acts have implications for revenue mobilization, sharing, and retention as well as the assignment of some specific functions (see next sub-section on Transfers and Revenues). Three more laws need review to remove impediments and thus accelerate service provision and delivery.⁹⁰ These laws place much more control and authority in the Sector Ministers (of Education, Health and Sanitation, Energy and Power) and other institutions, to the disadvantage of the councils. If not reviewed, these laws will undermine the authority and control of local councils in their bid to take over and provide services in such vital sectors to citizens. Finally, the Local Tax Act needs amendment to strengthen the ability of the LCs to collect from all citizens.

⁹⁰ These include the Hospital Boards Act, the Education Act, and the Sierra Leone Water Company Act.

5. Budget Execution

3.86 Most of the Local Councils' returns displayed fairly substantial deviations from their budgeted expenditures.⁹¹ This is documented in Chapter 2 in the section on the quality of budget execution. In some cases this may be due to incomplete reporting or different priorities, notably for administrative expenses. As Table 3.1 shows, however, some of these deviations may also be attributable to weak administrative capacity. For example, there is only one recorded instance of an LC disregarding its budget while there were 16 cases related to PETS forms and 15 cases related to improper recording. To address these problems, the LGFD recommends more training, especially for finance officers and their assistants. It also recommends that the LC Budget and Finance Committees be more involved in oversight and supervision.

3.87 Some spending meant to be devolved remains under central Government control. Core administrative staff (chief administrator and deputy, finance officer, accountant, procurement officer and monitoring and evaluation officer) are paid by the Accountant General. The education grant is paid directly to suppliers of textbooks, teaching and learning materials, the Examinations Council, and (school fees subsidy) direct to school bank accounts. Spending on feeder road maintenance (see Chapter 7) should have been devolved in 2007 but remains under central Government entities, primarily the Sierra Leone Road Authority. A June 2009 national workshop reaffirmed the commitment of the Government to devolution: this now needs to be backed by action, notably with regard to education and road maintenance.

Table 3.1: Instances of Budget Execution Problems in Local Councils, 2005-07

Problem	Frequency
PETS forms are not always prepared or properly filed.	16
Spending requests are not accompanied by reports for previous expenditures.	4
Weak internal controls.	2
Budget is not respected.	1
Lack of activity plans for one or more sectors	1
Funds withdrawn without payment vouchers	1
Deviation from one or more tied grants not properly recorded	15
Large deviation from one or more tied grants (by purpose)	4
Deviation from one or more tied grants did not go through Council	3
Minor deviation from one or more tied grants (by purpose)	1

Sources: LGFD of MOFED, 2007, and World Bank staff calculations.

6. Transparency and Oversight

3.88 Monitoring at the technical level is well organized and functions well. Monitoring of PFM in local Government is divided among (1) the PFM Reform Unit which carries out spot checks on the books of LCs as a follow-up to its training function; (2) the LGFD which should receive in-year and annual budgets and financial statements; (3) Decentralization Secretariat (DecSec) coaches located in the districts, who provide various support services; and (4) the Auditor General, who audits the LC annual financial statements and reports its findings to the

⁹¹ This section draws on selected portions of a 2007 report by the Local Government and Finance Department of MOFED entitled "Monitoring Local Councils Finances, Budget Execution, and LGDG Project Implementation for the Period 2005, 2006, and First Quarter 2007."

Public Accounts Committee (PAC) of Parliament. The PAC Chairman has started holding hearings in the provinces on LC audit reports. In addition, staff from the central MDAs posted to the districts monitor projects and activities in their respective sectors and ensure that national strategies and standards are followed. The 2007 LGFD report does refer to one weak area that the authorities may wish to address: almost every LC was cited for a lack of internal audits.

3.89 The political leadership could demand more accountability. The highest national organ in the decentralization program in Sierra Leone is the Inter-Ministerial Committee (IMC) on Decentralization.⁹² The key, strategic responsibility of the IMC is to “oversee the proper implementation of the Act (LGA 2004); oversee the further development and implementation of local Government and decentralization; protect and promote local democracy and participatory Government; and arbitrate disputes [among] MDAs, provincial administration, and local councils...” The IMC has yet to assume and execute its full responsibilities. This difficulty has been compounded by the weak Secretariat support to the IMC. The secretariat has failed to take the lead in preparing the agendas and servicing meetings as well as putting in place a structured follow-up mechanism for actions and recommendations emanating from IMC meetings. DecSec has put forward a number of recommendations to improve the functionality and effectiveness of the IMC to be able to execute its wide-ranging and critical mandates. These must be performed thoroughly if local Government and decentralization are to work in Sierra Leone.

3.90 Accountability to citizens has started well. There are a number of channels of communication between LCs and their citizens. The LGA requires that monthly financial statements, annual income and expenditure accounts, asset inventories, development plans, by-laws and notices and council meeting minutes be put on Council notice boards, and there is general compliance. The public is encouraged to attend council meetings and, on big occasions like budget day, the Chairman makes his budget speech on radio. Local languages are used where possible. From 2009, there is a budget line in the administration grant for ward committee meetings.

3.91 Civil society is also engaged in monitoring local Government expenditure through about ten NGOs⁹³ and 16 district level budget oversight committees (DBOCs). DBOCs were legally mandated in GBAA section 21. This initiative has been undertaken by the Budget Bureau in MOFED as part of the MTEF process. Each committee at district level comprises 15 members selected in 2003 through a participatory process, which involves widespread community sensitization meetings on budgetary and public financial matters. The oversight committees report to MOFED through the Financial Secretary and the Budget Bureau (though not, at present, to the local councils which should be taking remedial actions). To date, this part of the process has functioned well, with reports being submitted in a timely manner. DBOC findings are occasionally potent: in one case, ghost teachers that had been detected in two

⁹² The Inter-Ministerial Committee (IMC) comprises The Hon. Vice President of the Republic of Sierra Leone (Chairman), Permanent Secretary in the ministry responsible for local Government (PS, or Secretary), all central Government ministers of devolving sectors (members) and one chair/mayor (from each of the four administrative regions of the country) member to represent the interests of all chairs/mayors in the region.

⁹³ The Centre for Democracy and Human Rights, ENCISS, Justice Peace and Human Rights Commission, Kambia District Budget Tracking and Advocacy Network, National Accountability Group, Network Movement for Justice and Development, Oxfam GB – Sierra Leone, Society for Democratic Initiatives, Western Area Budget Advocacy Network and Youth Alliance for Peace and Development (Rosalind Hanson-Alp (2009) Mapping Exercise of Non-State Actors Working on Budget Transparency and Financial Accountability in Sierra Leone, DFID, February).

districts were removed from the payroll. To further improve on this system, the DBOCs should also be required to report to the LCs so that they too may take appropriate remedial actions. At present, the LCs tend to view the DBOCs as intruders. DBOCs could also usefully be integrated more into the activities of various MDAs and NGOs who do not yet view DBOCs as allies. Finally, it would also be useful to require term limits for DBOC members and a system for replacing retiring members.

3.92 The legislation also requires that notice boards be kept in all wards within each local council area. The purpose is to display financial and other strategic documents such as development plans, tender documents, and contracts. There were varying degrees of compliance with the provision of maintaining notice boards. Most urban and city councils had higher degrees of compliance than did many district/rural councils, in which the compliance rate was lower. Explanations varied. It is often stated that urban and city councils could use the financial resources accruing from property taxes, markets dues, and other fees to erect notice boards in all wards. In contrast, it was asserted that the narrow revenue bases of district/rural councils made it extremely difficult to finance such a notice board scheme. In response, the authorities may wish to consider that communications are a necessary component of accountability. Financing should therefore be made available for the placement of, and maintenance of, public notice boards in all wards.

Appendix 3.1: Public Expenditure and Financial Accountability Scores, 2007

A. PFM-OUT-TURNS: Credibility of the budget	Score
PI-1 Aggregate expenditure out-turn compared to original approved budget	B
PI-2 Composition of expenditure out-turn compared to original approved budget	C
PI-3 Aggregate revenue out-turn compared to original approved budget	B
PI-4 Stock and monitoring of expenditure payment arrears	No score
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5 Classification of the budget	A
PI-6 Comprehensiveness of information included in budget documentation	C
PI-7 Extent of unreported government operations	No score
PI-8 Transparency of inter-governmental fiscal relations	B
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C
PI-10 Public access to key fiscal information	B
C. BUDGET CYCLE	
C(i) Policy-Based Budgeting	
PI-11 Orderliness and participation in the annual budget process	C+
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and Control in Budget Execution	
PI-13 Transparency of taxpayer obligations and liabilities	C+
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15 Effectiveness in collection of tax payments	D+
PI-16 Predictability in the availability of funds for commitment of expenditures	C+
PI-17 Recording and management of cash balances, debt and guarantees	C+
PI-18 Effectiveness of payroll controls	D+
PI-19 Competition, value for money and controls in procurement	C
PI-20 Effectiveness of internal controls for non-salary expenditure	C+
PI-21 Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting	
PI-22 Timeliness and regularity of accounts reconciliation	C
PI-23 Availability of information on resources received by service delivery units	A
PI-24 Quality and timeliness of in-year budget reports	C+
PI-25 Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit	
PI-26 Scope, nature and follow-up of external audit	D+
PI-27 Legislative scrutiny of the annual budget law	C+
PI-28 Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES	
D-1 Predictability of Direct Budget Support	C+
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3 Proportion of aid that is managed by use of national procedures	D

4. PUBLIC INVESTMENT MANAGEMENT

Most investment projects have been largely donor driven and were designed in response to urgent post-conflict reconstruction needs. In line with the country's post-conflict transition, the Government needs to enhance its public investment management system to ensure that investment decisions are driven by long-term national priorities. In this context, the laws and regulations governing public investment need strengthening for better strategy and priority setting, cost-effectiveness and accountability. Institutional capacity for project appraisal and implementation also needs to be enhanced through better staffing, training, clearer guidance on public investment priorities and the regulatory framework for public-private partnerships. Project delays and cost over-runs could be reduced through improvements to administrative procedures. In addition, it is recommended that a rolling public investment plan be introduced and a dedicated agency be established to conduct the appraisal process and advise the Cabinet, Parliament, and Local Councils as part of the Medium-Term Expenditure Framework planning process. This would allow MOFED staff to focus on facilitating project implementation. With respect to the Local Councils, the authorities may want to consider moving to a less restrictive grant allocation system as they gain experience in budgeting and mobilizing their own local tax revenues. Local Council project implementation would be improved if development grants did not fall short of budget targets and monitoring capacity were strengthened.

A. INTRODUCTION

4.1 The level and composition of the development budget is of strategic importance and yet it is mainly donor driven. Sierra Leone's development budget contains most central Government public investment spending on physical capital.⁹⁴ Many of the projects also include substantial support for investments in human capital.⁹⁵ The level and composition of the development budget are therefore of considerable importance to economic growth and poverty reduction. Table 4.1 shows that most of the development budget is financed by the Government's external development partners.⁹⁶ The contribution from domestic resources has remained at about 1 percent of GDP, excluding in 2003, or roughly one quarter of total spending.

Table 4.1: Development Budget Spending, 2003-08

	2003	2004	2005	2006	2007	2008
Actual Spending (% GDP)	4.8	4.6	5.8	5.1	4.3	6.0
A. External Financing	3.2	3.7	5.1	4.1	3.4	4.8
B. Domestic Financing	1.6	0.9	0.7	1.0	0.9	1.3

Sources: Ministry of Finance and Economic Development and World Bank staff calculations.

⁹⁴ Small investments in computers, low capacity generators, and furniture are usually included in the recurrent budget.

⁹⁵ The development budget is comprised of a list of projects, some of which have recurrent elements. Thus, strictly speaking, it cannot be defined as including only investment, nor can it be confined only to investments in physical capital.

⁹⁶ Many donor projects remain off-budget.

4.2 **Donor dependency has consequences.** On the one hand, as discussed in Chapter 1, Section D, the heavy reliance on project aid has introduced uncertainty and macroeconomic volatility into the budget. On the other hand, despite the best intentions from donors, the distribution of resources may not always be in accord with Government policy, there are multiple reporting requirements, and there are multiple procurement systems. It is also the case that some donors provide some of their assistance outside the Government budget. This makes it difficult to know how best to allocate the Government's own resources across sectors and needs.

4.3 **The remainder of the chapter is organized in the following manner.** Part A focuses on the central Government while Part B examines issues associated with the Local Councils. The following topics are discussed in Part A: Section 1 sets out the legal and institutional framework that governs the development budget; Section 2 describes public investment priorities and strategies; Section 3 assesses how projects proposals are appraised; while Section 4 discusses the quality of the development budget formulation and project implementation including issues related to procurement. Section 5 reviews the process of project monitoring and evaluation, a necessary activity if lagging projects are to be detected and brought up to speed, and a useful tool for applying lessons learned to the design and implementation of future projects. Part B follows a parallel structure with many of the same elements as Part A.

B. CENTRAL GOVERNMENT

1. Institutional Governance

a. The Legal and Institutional Framework

4.4 **The laws and regulations guiding investment decisions by the central Government are defined in the Constitution, the Government Budgeting and Accountability Act (GBAA) and the Financial Management Regulations (FMRs).** The Constitution (Section 112, subsection 1) stipulates that the Minister of Finance is responsible for preparing and submitting to Parliament estimate of public revenues and expenditure for the next financial year, including development expenditure. The GBAA (sections 42:2) and the 2007 FMR (section 2) charge the vote controller to ensure sound evaluation of projects and maintain records to show achievements of budgeted activities and projects. The 2007 FMR also requires that estimates of capital works which extend over one year show the anticipated expenditure for the next financial year, the revised estimates (if any) for the works, the total amount actually expended so far as the accounts are complete, the total amount likely to be expended up to the beginning of the next financial year, and the source of funds and the anticipated year of receipt of funds for each capital works.

4.5 **These laws and regulations do not specify arrangements for strategy and priority setting, cost-effectiveness or accountability** although they do set out institutional responsibilities and financial management requirements for investment projects. Specifically, there is no requirement that the Cabinet set out priorities or strategies for public investment, globally or at the sector level. There are no requirements that formal standards or criteria be established for use when deciding to accept or reject a project nor identification of institutional responsibilities for such decisions. Finally, there is little required from MDAs or donors with regard to public investment purpose, monitorable outcome and progress indicators, or implementation requirements beyond financing.

4.6 While key Government offices have been and are pursuing the above missing elements, even though they are not legally required to do so, their ability to demand compliance and good quality from the MDAs and donors is handicapped by the current inadequacy of the legal framework. The net result is that the Government is not well equipped to reject low priority projects, reject projects that are not up to standards, or monitor progress towards clearly defined objectives. Thus, it is not surprising that some observers assert that the development budget is strongly donor driven while many citizens and business firms complain that they see only small gains from the investments made so far and that some sectors (such as agriculture, roads, water, and electricity) are in need of more support. Thus, it is recommended that the authorities amend the GBAA and FMR to strengthen the legal and institutional framework for public investment. Specific recommendations for such amendments are presented throughout the remainder of this chapter.

b. Institutional Capacity

4.7 Recent institutional mergers present an opportunity for institutional strengthening in parallel with legal and institutional changes. In 2008, the Ministry of Economic Development (MODEP) and the Development Aid Coordinating Office⁹⁷ (DACO) were merged with MOF, forming the Ministry of Finance and Economic Development (MOFED). Such a merger can facilitate a tighter integration of recurrent operating and maintenance requirements associated with existing and new investments. The merger can also make it easier to explore trade-offs between recurrent and capital spending proposals during the initial stages of the annual budget process (see Chapter 3). According to interviews conducted for this report, however, many opportunities to capitalize on the merger remain unexploited. Most MODEP staffs remains in their original jobs with few changes in procedures, organizational structure or reporting requirements, while most DACO staff have left for other jobs. In this situation, it is recommended that the authorities update the managerial and functional reviews for MOF and MODEP conducted between 2004 and 2005 with the intention of implementing a short-term program of institutional consolidation.

4.8 Institutional capacity for project appraisal and implementation remains limited. Capacity in the sector ministries, as well as MOFED, is constrained by the small number of technical staff and limited access to relevant training. As a consequence, competent technical staff is often over-burdened with too many tasks. The risk of losing these people to better paid positions as well as periodic transfers for mid-level civil servants add to skill gaps. Furthermore, some technical staff is paid from donor support that will not be sustained in the long-run. In light of these challenges, it is recommended that the authorities ensure additional staffing supplemented by a training policy for project management techniques – from appraisal to implementation and monitoring and evaluation.⁹⁸ In this regard, an established process for training staff in project management techniques would help ensure the quality and sustainability of such training.

⁹⁷ The Development Aid Coordinating Office (DACO) was set up in 2004 under the Office of the Vice President with the intention of soliciting and monitoring aid in support of the first PRSP.

⁹⁸ See Fontaine (1997) for a description of the sustained effort undertaken by Chile to train a number of generations of public officials in project evaluation techniques.

Table 4.2: Planned Development Budget Spending, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Number of Projects (Planned)	70	75	73	68	88	103	102
Number of Projects (% of Total)	100	100	100	100	100	100	100
Productive Sector	19	16	15	13	19	21	21
Capacity Building	24	20	19	21	20	18	20
Post Conflict Priorities & Security Sectors	16	17	10	6	5	4	2
Social Services	14	16	16	19	13	13	13
Infrastructure	20	23	27	24	24	28	28
Community Development	1	3	5	6	5	3	3
Governance Related	6	5	5	10	13	11	13
Other/Unclassified	0	0	1	1	2	2	1
Value of Projects in Le Millions (Planned)	290,153	332,446	335,847	326,750	446,862	333,275	
Value of Projects (% of Total)	100	100	100	100	100	100	100
Productive Sector	7	11	9	17	14	11	
Capacity Building	7	2	2	6	6	4	
Post Conflict Priorities & Security Sectors	30	3	1	1	1	0	
Social Services	22	21	22	14	14	10	
Infrastructure	24	44	45	41	47	54	
Community Development	8	13	12	2	9	12	
Governance Related	2	5	8	18	10	9	
Other/Unclassified	0	0	0	0	0	0	

Sources: Ministry of Finance and Economic Development and staff calculations.

2. Investment Priorities and Strategies

4.9 The composition of projects appearing in the approved budget has changed over time in line with the country's post-conflict transition. Projects related to immediate post-conflict needs dropped from 30 percent of the budgeted investment spending in 2003 to 3 percent the next year and 1 percent thereafter (see Table 4.2). Spending on social services had been roughly 22 percent of the total budgeted investment for 2003-05 but dropped sharply in 2006-07 to make room for increased spending on governance related projects. Spending on infrastructure almost doubled in value between 2003 and 2004 to the dominant share of 44 percent of the total and has been generally rising since. Infrastructure took up more than half the total budgeted investment (54 percent) in 2008. Budgeted investment spending for community development attracted slightly higher shares from 2004 onward, when the Local Government Act was adopted. Support for the productive sectors, such as agriculture, has fluctuated without a clear trend, between 7 and 17 percent of total budgeted investment spending. Support for capacity building has also fluctuated, ranging between 2 and 7 percent of total budgeted investment spending. Parallel trends can be seen in project counts by category. It is noteworthy that infrastructure and capacity building attracted the highest number of projects per year, averaging 25 percent of the total and 20 percent of the total, respectively.

4.10 It is difficult to assess whether the trends in budgeted investment expenditures are consistent with Government strategy and priorities. The first PRSP for 2005-07 offers some guidance as to priorities but it does not clearly set out how the spending shares in the development budget would have to be adjusted to meet PRSP objectives. Several PRSP tables

do provide cost estimates but they appear to mix recurrent and capital costs and are not systematically benchmarked for easy comparison with pre-PRSP expenditure patterns.

4.11 The MDAs and donor community would benefit from more specific guidance on public investment strategies and priorities. Having some broad strategic guidance for public investment can be an important way to anchor Government decisions and to guide decision-makers within the MDAs. Such guidance is necessary for the first level screening of all project proposals to ensure that they meet the minimum criteria of consistency with the strategic goals of Government, constraints on fiscal space, and debt sustainability. It is also necessary to avoid situations where donor interests are not well aligned with Government objectives.

4.12 The preparation of adequate sector strategies and a more prioritized PRSP would help define public investment priorities. The Government had a national development plan during 1974/75 as well as 1977/78. These plans were replaced by three year rolling Public Investment Plans (PIP) through 1999. In 2000, a document entitled “Vision 2025” was developed to define the long-term development objectives, which was followed later by an Interim-PRSP and the first PRSP as the medium-term description of Government programs and activities. Unfortunately, these documents did not define intra or inter prioritization criteria that would allow decision makers to accept or reject projects. The Vision 2025 document did not provide clear and specific sector objectives. While the PRSP did include numerous sector objectives and a monitoring framework, it was designed to attract as many donors as possible and therefore did not provide guidance on project selection criteria or expenditure constraints.⁹⁹ In addition, many MDAs do not comply with the requirement to produce strategic sector plans or do so only poorly (see also Chapter 3). It is recommended that the authorities develop clear strategies for all critical sectors with monitorable progress indicators, backed by unambiguous project selection criteria and budgets that are benchmarked against previous budgets.

4.13 A clear statement on public and private roles is needed to help clarify project selection criteria. In some cases, the Government has supported projects that could have been handled by the private sector. Examples found within the development budget include the rehabilitation of sawmills, the distribution of tractors, and the distribution of seed rice. A preferable approach consistent with the Government’s stated priorities and orientation would be to promote a broadly facilitating environment through policy (internationally competitive laws and regulations) and through investments in physical capital (infrastructure) and human capital (health, education, agricultural research and extension). Thus, the Government should seek to gradually reduce its involvement in the direct provision of goods and services with largely private good characteristics, such as farm inputs and machinery. Doing so would make room for the formation of new or stronger private sector firms in the supply chain - and the jobs that come with them.

4.14 In other cases, there are clear needs for *public-private partnerships* (PPP) driven by financial and technical needs. Yet, in such cases, it is important to draw clear lines of responsibility for service delivery, financing and risk sharing. Currently, there are no laws or regulations in place to guide public-private partnerships, nor a Government office or unit dedicated to the promotion of appropriate PPPs. One consequence, brought out in Chapter 1, is the risk created by growing contingent liabilities as public enterprises take on new obligations.

⁹⁹ Moreover, the resulting financing gap was infeasible.

Issues in the power sector illustrate some of the problems that can arise. For example, when work commenced on the Bumbuna Hydroelectric project, and when work recommenced after the war, there was no clarity on who would operate the dam and under what terms. This has led to considerable confusion in prior years about Government's financial obligations towards the investment and more confusion in 2008 and 2009 over dam ownership, regulation of dam operations including the power purchase agreement, and creditor rights in the event of a default by NPA in paying for power. For more effective public-private partnerships, it is recommended that the Government adopt laws and regulations,¹⁰⁰ backed by a PPP office,¹⁰¹ to draw clear lines of responsibility for service delivery, financing, and risk sharing. PPP proposals that do not meet legal requirements would then be rejected.¹⁰² See also Box. 4.1 for a recent example drawn from Kenya.

Box 4.1: Kenya Approves PPP Regulations

In 2007 PPIAF funding was utilized to explore the creation of a PPP Unit within the Ministry of Finance in Kenya. The Government published rules and regulations in 2009 that set up the base for this unit. The Standard newspaper reported in March 2009 that the Deputy Prime Minister and Finance Minister Uhuru Kenyatta issued a statement saying that "the Public-Private Partnership projects (PPP) shall be affordable, and provide value for money while allowing the private party to maintain its financial integrity, attract capital, operate efficiently and compensate investors for risks assumed." Key targets include road, rail, and energy concessions.

3. Project Appraisal

4.15 A project appraisal system is in place. According to instructions in recent call circulars, it is the responsibility of the requesting agencies to prepare an appraisal of each project based on a project appraisal template provided by MOFED (formerly MODEP). Their findings are then sent to MOFED for another round of appraisal. The appraisal template asks requesting MDAs to justify the need for proposed project spending in terms of basic consistency with Government policy and strategic guidelines. The template also requires detailed technical and costing estimates based on previous similar project performance and market value for materials, respectively. The requesting MDAs are also asked to justify that the proposed project is the most effective modality to implement the related policies.

4.16 The appraisal template could be improved by asking for additional information. Projects or programs that meet a first screening test for consistency with Government priorities should undergo more rigorous scrutiny of their social and economic value. The guidance should describe techniques of economic evaluation that are appropriate to the scale and scope of the project – with larger projects requiring more rigorous tests of financial and economic feasibility and sustainability. The project appraisal process should consider project proposals of different scales and take into account the key macro, sector-specific and project-specific uncertainties such as inflation, cost over-runs, and changes in output and key input prices over the project life. Moreover, all projects should be assessed in terms of administrative feasibility in a low capacity

¹⁰⁰ See a general survey on PPPs from NEPAD at <http://www.oecd.org/dataoecd/44/4/34867724.pdf>. See also the following on regulation: <http://www.ppiaf.org/content/view/279/485/>

¹⁰¹ For detailed information on how to establish an appropriate PPP unit, see http://www.ppiaf.org/documents/other_publications/PPP_units_paper.pdf.

¹⁰² See also the following on treatment of unsolicited proposals: <http://www.ppiaf.org/content/view/250/485/>

environment. Specific suggestions to strengthen the appraisal template and process appear below, with MDAs asked to:

- Provide financial assessments of project costs and benefits over time.¹⁰³ This often facilitates the selection of the project with the highest net benefit from a pool of competing projects. This approach can also allow one to compare the net benefit of rehabilitating an old asset versus investing in a new asset.
- Provide information about the recurrent operating and maintenance requirements of each project. This would help avoid the selection of projects with seemingly attractive low initial costs but significantly higher life-time costs. For example, a hospital might be built without regard to the cost of hiring new doctors and nurses and providing adequate medical supplies or for maintenance of the facilities.
- Provide an analysis of any macroeconomic requirements for success.
- Provide an analysis of any required legal or regulatory changes required for project success.
- Provide evidence that key stakeholders have been consulted, including leaders of civil society organizations and district budget oversight committees, as mandated by FMR 7(3).
- Ensure that adequate safeguards are in place, including with regard to safety, environmental protection¹⁰⁴ and the displacement of populations.
- Provide clear organizational arrangements and a realistic timetable to ensure the capacity to implement the project. Project proposals, especially for a large infrastructure project, should also present organizational arrangements for running the project once the construction is finished.
- Provide procurement plans for each project¹⁰⁵ and assurances that capacity is in place to carry out the necessary procurements. In some cases, a positive appraisal has led to the approval of loan contracts that are not drawn down on a timely basis due to MDA capacity constraints. These incur commitment charges that can be expensive if continued for too long. MOFED is planning a review of the situation with a view to cancelling some dormant projects.

4.17 In practice, only a small portion of project proposals are carefully appraised. This is a consequence of the fact that the development budget is financed primarily from donor support. Government officers are well aware that most aid agencies have their own internal appraisal procedures. In such a circumstance, especially when Government capacity and remuneration are low, there is a tendency to rely on the aid agency appraisal as sufficient – provided that 1) the project meets understanding of what Government priorities are, and 2) the associated domestic financing needs, mainly counterpart funding, are not too burdensome. Indeed, interviews with various officials suggest that staff in the former MODEP often did rely on the appraisals done by the donors, irrespective of their quality. This, of course, can lead to disappointments when donors have not done their appraisals well, perhaps due to an incomplete understanding of the complexities of Sierra Leone.

¹⁰³ As MDA capacity increases, these assessments should be broadened to include economic and social concerns. Such analysis is generally easiest to apply to investments in physical capital.

¹⁰⁴ The Environment Protection Agency Act (2008) addresses the necessity to obtain an environmental impact assessment (EIA) license for certain projects, to be determined as subject to EIA provisions. It provides guidance regarding the conditions under which EIA license applications will be required, and about the general contents of an EIA.

¹⁰⁵ Some donors, such as the World Bank, often provide procurement plans in their project documents.

4.18 **There is no formally maintained inventory of appraised projects waiting for entry into the budget, nor a formal document that provides an annually updated assessment of the projects that are in the budget.** As a consequence, the Government has occasionally been unable to attract funding from interested donors due to a lack of fully worked out project documentation. To address this issue, the authorities may want to consider the introduction of a rolling public investment plan. There are three advantages to the requirement for a rolling public investment plan: (i) it would be compatible with the three year rolling framework of the MTEF process; (ii) it would make it easier to solicit funding from interested donors since fully appraised project proposals would be on hand (contrary to the recent past); and (iii) it would introduce a more disciplined approach to updating the status of each project on an annual basis rather than an ad-hoc basis.

4.19 **In order to ensure an effective project appraisal system, it is recommended that a dedicated agency or MOFED unit be established** to conduct the appraisal process and advise the Cabinet, Parliament, and Local Councils as part of the Medium-Term Expenditure Framework planning process.¹⁰⁶ There are three advantages to the creation of a dedicated agency or office: (i) it can be staffed with financial, legal, economic, and sector experts who's do not need qualifications for other job functions; (ii) its staff would not be distracted by other obligations; and (iii) the creation of such an agency would allow MOFED staff to focus on facilitating project implementation.

4. Budget Formulation and Project Implementation

a. Budget Formulation

4.20 **The development budget continues to include projects with recurrent elements** despite Government efforts to redefine the development budget as a capital investment budget and to better integrate this budget with the recurrent budget. At present, the formation of the development budget is done separately from the recurrent budgets for personnel and for goods and services. There are two main reasons for this outcome: (i) donors and the Government are not well informed about total recurrent costs because they have not worked out a way to monitor the distinction between recurrent and capital costs financed from project disbursements; and (ii) there are no formal requirements to consider the implications of project entry for the wage bill or for demands for goods and services – whether in the year of entry, during implementation, or after project completion.

4.21 **The benefits from making the intended transition to a true capital investment budget are high**, the most obvious being the provision of an adequate budget for operating and maintaining national assets. The authorities have made a substantial investment in a new computerized management information system (see Chapter 3) that should facilitate such a transition. However, it is recommended that the authorities insert specific amendments into the GBAA and FMR that would mandate the clear identification of recurrent activities financed from project aid, as well as the identification of recurrent implications of capital investments and back this with a comprehensive program of training. The Bank-financed IRCBP project can provide financial and technical support to this end, should the authorities desire it.

¹⁰⁶ Qualified consultants answerable to the dedicated agency or office could be hired as necessary if the necessary appraisal skills are not immediately available.

4.22 Projects may enter without prior Government appraisal, some projects enter outside of the budget process,¹⁰⁷ and many enter without sufficient scrutiny and debate by the Cabinet or the Parliament. In practice, a project is typically considered for inclusion into the development budget when it becomes an affordable priority or when donors show sufficient interest.

4.23 The present budget formulation process should provide clearer guidance on investment priorities and criteria for project entry into the development budget. Currently, the guidance provided to MDAs regarding the inclusion or prioritization of investment projects into the development budget is insufficient and has varied from year to year. The Budget Call Circular (BCC) for the budgets in 2005 through 2008 require that “development expenditures should be redefined and reprioritized to avoid expenditures of a recurrent nature, while adequately supporting implementation of donor programs and projects as well as direct Government funding of major developmental projects such as roads, energy, water supply, etc. MDAs should request information from NGOs and integrate their activities within their respective sectors in their plans and budget submissions.” The BCC for the 2009 budget maintains this language but adds additional requirements and details. The BCC contains two additional features that are rather striking. First, it solicits MDAs without projects in the development budget to come up with plausible proposals and incorporate them into the relevant MDA strategic plan. It is noteworthy that there is no required prior appraisal, nor any criteria for acceptance into the budget beyond adequate documentation. Second, the BCC admits candidly that “there are no indicative ceilings for ongoing or new projects” and only encourages MDAs to be mindful of budgetary priorities and resource constraints.

4.24 It is recommended that the authorities revise the FMR to require BCCs to include an expenditure ceiling for the development budget and provide more specific guidance about the criteria for project entry into the budget. One option would be to make a policy that projects may not enter the budget unless they have previously been appraised and included in the (proposed) public investment plan. Specific information to be requested by the BCC could include well developed cost estimates, including operating and maintenance requirements for inclusion in the recurrent budget, domestic counterpart funding requirements, a procurement plan for the project, an annually updated financing plan, and evidence that ongoing projects are making satisfactory progress against approved targets.

4.25 More involvement by the Cabinet and the Parliament early in the development budget preparation process is warranted. After the project submissions are received, discussions between MOF/MODEP and the line ministries take place during the budget hearings as outlined in Chapter 3. A technical committee in MOF/MOFED plays a critical role in the decision making. The Cabinet and the Parliament are given limited time to review and debate the merits of spending proposals early in the budget process, as an effective MTEF process would require. In particular, the role of Parliament has been limited to the ratification of project loans in the case of foreign investments and debate following the budget submission by the Minister of Finance. As suggested in Chapter 3, the authorities may want to consider revising

¹⁰⁷ A related issue is projects that are completely off-budget. An example is the UK technical assistance to the armed forces (see <http://ukinsierrealeone.fco.gov.uk/en/working-with-sierra-leone-1/security>). While the authorities indicated that there are many such projects in several sectors, they were not able to provide any data that would allow an analysis of the magnitude, composition, or impact.

the budget process to create more opportunities for early review of spending proposals, including for the development budget, by the Cabinet and the Parliament.

b. Project Implementation

4.26 Until 2008, the development budget had been consistently under-spent. As Table 4.3 shows, part of the problem may have been overly optimistic targets for project loans and grants. These have progressively come down over the last several years to the point where actual spending in 2008 slightly exceeded the intended target. This practice of establishing realistic project disbursement targets should be continued.

Table 4.3: Development Budget Spending, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Actual as Share of Planned (%)	31	39	40	61	66	48	106
A. Project Loans and Grants	27	29	36	60	61	47	105
B. Domestic Contribution	58	102	77	70	99	52	112

Sources: Ministry of Finance and Economic Development and staff calculations.

4.27 Almost all projects suffer delays beyond the initial estimated time. Examples include the reconstruction of the Treasury building, the construction of the Office of the Vice President, and the Waterloo-Kent road. Table 4.4 shows that two implementing agencies stand out with especially low project fund utilization rates: the Ministry of Education and the Road Authority. Each display average annual spending rates well below the weighted sample average of 13 percent (and the unweighted average of 18 percent).

Table 4.4: Project Implementation Status, 2003-08^{a/}

	Number of Projects	Amount (US\$)	Undisbursed (US\$)	Financing Utilized (%)	Average Rate of Spending per Year
Agriculture and Forestry	10	101,942,800	78,893,560	23%	12%
Power and Water	8	109,030,000	48,402,992	56%	17%
Education	7	81,184,432	31,768,667	61%	9%
Nat'l Comm. Social Action	7	76,925,121	9,521,719	88%	25%
S.L. Road Authority	7	122,375,000	112,112,268	8%	6%
Finance and Economic Dev.	4	39,653,878	3,927,243	90%	23%
Health and Sanitation	4	59,500,000	25,111,892	58%	27%
SALWACO	3	9,245,000	5,594,323	39%	10%
Office of the President	2	763,260	613,260	20%	27%
Others	9	48142594	15674571.26	67%	21%

a. From a sample of 61 projects. Omits some sectors and donors.

b. Completion rate in 2008 is high because of rapidly disbursing cash for works program in response to food and fuel price crisis that year. The completion rate is 25 percent when cash for works is excluded.

Source: Ministry of Finance and Economic Development and World Bank staff calculations.

4.28 Most of the delays can be traced to procedures, capacity, and funding. In the case of domestically financed projects, the failure to ensure adequate resources is the key reason. In the case of donor financed projects, lack of counterpart funding, rigid project effectiveness conditions, the complex nature of some project designs, slow processing of withdrawal application forms, delays in procurement, issues related to contract management, and weak capacity in the implementing agencies are normally responsible for such delays in project completion time. These generally reflect weak implementation capacity within the MDAs.

Project delays often result in significant cost escalation (see Box 4.2). Some of these issues are highlighted below.

Box 4.2: Delays and Cost Escalations

The link between delayed or inadequate funding and cost escalation is a well understood concept around the world. Under such circumstances, construction firms must slow the pace of their work, while normal inflation ensures that prices rise. Additional costs occur when firms are required to divert resources from other tasks in order to resume a pressing Government project. Some of the authorities interviewed for this report suggested that cost over-runs are frequent occurrences in building construction. These over-runs sometimes doubled the original costs. Typical examples include the construction of the newly completed Vice President's office, the rebuilding of the old Treasury building and the reconstruction of the Criminal Investigation Department building, the costs of which were estimated at less than Le5bn at the time when the projects were signed but ended up with finishing costs ranging between Le10bn to Le15bn each due to the delay in implementation of the projects.

4.29 Delays in processing withdrawal application forms can be traced to: under-staffing in the MOFED Economic Affairs Department (EAD) that is are charged with reviewing all loan withdrawal applications; the submission of insufficient documentation that should help substantiate claims on expenditure; and a lack of staff morale due to the large differences existing between the highly paid staff in the project implementation units and EAD staff. The problem might be improved by improving the quality of budget execution by increasing the number of grade 6-10 staff, both in EAD and in the sector MDAs, and by providing relevant training for MDAs.

4.30 Delays in counterpart funding result in project slowdowns. As discussed above, the budget process tends to underestimate counterpart funding requirements. In addition, programmed revenues and grants often fall short so that budgeted counterpart funds are not always provided. The consequence is that all but the most favored projects end up getting far less than they actually need. This, in turn, can trigger a substantial reduction in external financing since projects are often geared at a ratio of 3 to 1. The outcome in 2007 is a good example: shortfalls in counterpart funds led to steep reductions in actual disbursements relative to budget targets. The best solution to the problem of resource uncertainty is to try to better match recurrent spending and all domestic contributions to the development budget with domestic revenues (see also Chapter 1). In addition, there is room for donor reforms: for example, the World Bank has eliminated any requirements for counterpart funding in Sierra Leone.

4.31 Continued procurement reform can help improve project performance and reduce the need for multiple donor systems of procurement. Procurement capacity has been slowly improving following the introduction of reforms mandated by the 2004 Procurement Act. Yet, after the 2007 elections, the new leadership in many MDAs appears to be unfamiliar with all the requirements of the procurement law and regulations and many staff remain in need of training. Procurement plans are required but are often completed late and are of poor quality. These plans are often ignored with many MDAs avoiding competitive procedures through splitting or the inappropriate use of sole source or emergency procedures. Most importantly, the plans are too general, each serving an entire MDA and thus offering limited guidance to officers in charge of a specific project. The authorities may want to consider, as suggested above, the requirement that each project be accompanied by an annually updated procurement plan. In addition, to facilitate

procurement planning and implementation, all implementing MDAs should have adequately staffed procurement units or procurement committees. In addition, many MDAs need to improve the quality of contract management after procurements are approved: many contractors complain of late and incomplete payments which lead them to delay their work. Additional procurement reform options can be found in Chapter 3. Procurement reform can confer an additional benefit: the donors will be more willing to use the national system following visible and sustained improvements in the quality and timeliness of Government led procurements.

4.32 Discussions with Government officials revealed several additional issues that contribute to under-spending in development projects, relative to budget targets:

- lack of capacity in PIUs to effectively manage project contracts;
- lack of capacity in monitoring ministries to make sure that the PIUs carry out their responsibilities;
- delays in starting the implementation of some projects due to their complex nature;
- poor initial planning and designing of the projects; and
- inability to meet project effectiveness conditions (see Chapter 1).

5. Monitoring and Evaluation

4.33 Project monitoring remains limited. Effective project monitoring makes it easier for the authorities to communicate successes and address problems early, thus increasing the probability of future successes. Efforts are being made in this direction. According to the Economic Affairs Division of the Ministry of Finance, implementing agencies have been asked by the Ministry to prepare quarterly period reports to submit to the EAD of MOFED. Unfortunately, according to officials interviewed for this report, MDA compliance has been rather lax.

4.34 The capacity of EAD to monitor project implementation, even with quarterly reports from the MDAs, is weak. The number of staff in the division is too small to directly monitor more than a few investment projects per year. According to those interviewed, the quarterly reports that are presented to EAD receive only cursory review and are not well used in informing subsequent budgeting decisions. Even the financial progress of projects, which requires neither travel nor strong technical skills, is not systematically monitored.

4.35 This situation could be improved by several means. The incentive within MDAs to report well could be increased by ensuring all projects in the budget are Government priorities, dropping those that are not. Also, regular demands for progress reports should be made from the ministerial level and above. The technical and logistical capacity to conduct assessments, prepare and use reports – within the MDAs as well as EAD – could be strengthened through better staffing and funding for logistical needs. Similarly, the degree of cooperation between PIU staff and the civil service could be improved through pay reforms and other improvements in human resource management (see Chapter 5). Once an effective monitoring process is in place, the authorities could consider mounting an exercise to weed out projects that are not yielding good results relative to costs and national priorities.

4.36 There is no systematic ex-post evaluation of projects conducted by Government MDAs. The GBAA and FMR do not require ex-post evaluation. Moreover, the general lack of documented project objectives, projected timelines, and appraisal analysis makes it almost impossible to compare whether a completed project has achieved its intended objectives and whether the objectives were met on time at the approved cost. Ex-post evaluation of projects is usually done only for externally funded projects where it is required by the financing institutions and it is normally carried out by their staff or consultants hired by them. To remedy this situation, the authorities may want to consider amending the GBAA and FMR to require ex-post reviews of key projects, whether conducted by appropriate MDAs or by the donors. This requirement would need to be backed by strong efforts to improve the quality of project appraisal and record keeping.

Box 4.3: Regulations Governing Investment Decisions at the Local Council Level

Sections 85 through 89 of the Local Council Act 2004 outlines the regulations guiding development planning and development expenditure as follow:

Section 85 stipulates that:

- a Local Council shall cause to be prepared a development plan which shall guide the development of the locality;
- the draft of a development plan shall be made publicly available;
- a development plan shall form the basis for the preparation of the budget of a Local Council;
- a Local Council shall, before approving or reviewing a development plan, consult resident of the locality, agencies of Government and non-Governmental and international organizations that have interest in working in the locality; and
- the ministry responsible for development and economic planning shall issue guidance for the preparation of development plans.

Section 86 stipulates that for the purpose of subsection (1) of section 85, a Local Council shall appoint a local Technical Planning Committee which shall consist of:

- the Local Council Chief Administrator who shall chair the committee;
- heads of relevant Department of the Local Council Chief Administrator; and
- any technical person co-opted by the Local Council Chief Administrator.

Section 87 says that a Local Council shall review its development plan as and when necessary.

Section 88 requires that a copy of the approved development plans shall be made available at the office of the Local Council and in a conspicuous place in every ward, immediately after approval.

Section 89 stipulates that a development plan prepared and approved by a Local Council shall not be incompatible with any national development plan adopted by the Government.

4.37 The Government should also maintain a unified asset registry or organized inventory of public sector property and equipment. The Ministry of Finance and Economic Development acknowledges the needs and importance of such registry for more effective public investment management.¹⁰⁸ The registry should include all projects and other assets that benefit from public funds, whether directly from the consolidated budget or indirectly via Government guarantees.

¹⁰⁸ There is a National Assets Commission but the PER mission was given no indication that it maintained an up-to-date inventory of assets.

4.38 **Establishing an effective monitoring and evaluation system could motivate a reduction in redundant donor reporting systems.** For example, as noted in Chapter 7, there is very little data available from the Ministry of Works or from the Sierra Leone Road Authority regarding the annual status of the road network and thus little analysis of progress and problems. As a consequence, each donor is compelled to request the data that they need for their own projects. These multiple requests are a burden for the authorities. Similar issues are found in many other sectors. The establishment of a robust monitoring and evaluation systems for key sectors could help justify an end to multiple reporting requirements – and, at the same time, greatly assist national leaders in their policy decisions.

C. LOCAL COUNCILS¹⁰⁹

1. Institutional Governance

4.39 **The legal framework for Local Council development budgets has a strong focus on participation and accountability.** Box 4.3 sets out a summary of the relevant portions of the Local Government Act (2004). Unlike at the central level, Local Councils have District Development plans for devolved functions that are prepared by professional staff and approved by the councils during approval of council budget. Planning committees manage the process of drawing up and updating development plans during the budget preparation and update councils on status of projects during execution. As required in the regulations, these plans are normally developed through consultations at the local level, starting at the ward level. After development plans are approved, they are to be publicly posted in each ward. There is also a provision for consistency with any national development plan. It is also noteworthy that the councils' have legal ownership of the new assets generated from their investments, in contrast to investments made on their behalf under other programs.¹¹⁰

2. Access to Funds

4.40 **Local Governments currently undertake development projects only through the Local Government Development Grant Program (LGDGP).** This program commenced in 2004 with funding provided by the World Bank and the Government.¹¹¹ The size of the grants program was and remains small. The primary objective is to allow councils to progressively gain experience in participatory planning, budgeting, financial management, and project implementation.

4.41 **Funding under the LGDGP effectively started in 2004** with a challenge grant of Le1.53 billion meant to help kick-start the implementation of development initiatives before actual devolution of functions commenced in 2005. Over the period 2004-2008, as shown in Table 4.5, the World Bank provided 84 percent of all LGDGP funds to Local Councils through the IRCBP.¹¹² The Government of Sierra Leone provided the remaining 16 percent of the total.

¹⁰⁹ The discussion in this section is based on the situation through 2009.

¹¹⁰ IRCBP Review of Fiscal Decentralization, June 2008.

¹¹¹ Decentralization, Democracy, and Development: Recent Experience in Sierra Leone, World Bank Publication

¹¹² DfID expects to provide additional financing between July 2008 and December 2010.

Table 4.5: Total LGDG Funding by Source (Le Million), 2004-08

	2004	2005	2006	2007	2008	Total	Percentage
World Bank a/	1,553	4,555	3,414	5,766	2,826	18,114	84%
Government	0	550	1,000	0	1,913	3,463	16%
Total	1,553	5,105	4,414	5,766	4,739	21,577	100%

a/ The EC had intended to provide funding in 2006 and 2007 but was unable to do so. See Table 4.6.

Source: Local Government Finance Department. Accountant-General's Department data may vary from these.

4.42 Local Government access to external funding under the LGDGP is predicated on the fulfillment of a set of requirements intended to provide safeguards that ensure the efficient and effective use of the grant funds. These include:

- a development plan that includes the projects the Local Council intends to undertake, and on which the council has based its budget;
- a list of projects that reflects the priorities and needs of the locality as contained in the development plan;
- a strategic plan that was prepared in a participatory process that involved the community and was debated and approved by the council; and
- acceptable project proposals with acceptable procurement plans for all projects to be implemented.

4.43 In 2006, the LGDG Program Operating Manual was revised to introduce a performance grant component and a non-discretionary road component. The changes also introduced a second set of criteria that the Local Councils would need to meet for access to the LGDGP funds.¹¹³ The competing criteria have caused confusion and delays in the release of funds.¹¹⁴ To address this issue, it is recommended that the authorities take steps to clarify the criteria needed for access to development grant funds.

3. Project Appraisal and the Budget Process

4.44 There is no systematic appraisal process for project proposals coming from Local Councils. There are no formal requirements for project appraisal at the local level. The LGDGP Operating Manual only requires that the LGFD confirm that all necessary criteria have been met (see Section B above). The LGFD will make brief appraisals for selected projects that are completely financed from Local Council development grants. This is often done in close collaboration with other units within the IRCBP and the MDAs involved in the devolved functions. The current practice will need to change as the size of the development grants and associated projects grows over time. The authorities may want to establish some thresholds based on project financial size or expected scope of impact that would determine when a formal appraisal process is required.¹¹⁵

¹¹³ These are found in the Comprehensive Local Government Performance Assessment System (2006).

¹¹⁴ In applying the minimum conditions, the LGFD often defers payment in a year until a Council can demonstrate that it has met all criteria. In 2007, this led to 11 Councils not receiving any LGDGP grants because, by the time they conformed, there was no funding available for the Program. IRCBP Review of Fiscal Decentralization, June 2008.

¹¹⁵ Scope could address issues such as environmental impact, and numbers of people affected positively or negatively.

4.45 **Local councils do not have full autonomy in deciding the level and composition of their development budgets.** The process of project selection is complicated by the system of horizontal transfers within the LGDG program. In particular, discretionary grants, covering all sectors but roads, are distributed on the basis of population and an index of war damage – without regard to the level and content of councils’ desired spending. The non-discretionary roads component is based on the weighted population of the council and its road damage index value, with a lump sum given to all councils prior to these variables being applied to the balance of funds. The Performance Grant distribution is based on the score a council gets from the Comprehensive Local Government Performance Assessment System (2006). These assessments are not made on a regularly scheduled basis.¹¹⁶ It was not clear at the time of this writing how Local Council project proposals are reconciled with the amount of financing made available to them under the present system of transfers.

4.46 **As the Local Councils gain experience in budgeting and mobilize own resources through local taxation over the medium-term, the authorities may want to consider moving to a less restrictive system.** In particular, it may make sense to allow the councils to select both the level and composition of their project spending in ways that best fit their own needs. Simplifying the system would have an additional benefit at the central level: the number of people and the amount of time required to administer and monitor the system could be considerably reduced.

Table 4.6: Number of Local Council Project Proposals, 2004-07

Sector	2004	2005	2006	2007
Agriculture	2	16	6	4
Education	0	6	5	12
Governance	0	2	10	1
Health	7	7	7	6
Markets	1	11	7	7
Recreation	0	0	4	5
Roads	5	14	17	17
Social Infrastructure	1	12	6	15
Tourism	0	1	5	4
Transport	0	1	2	2
Water Services	3	2	5	2
Total	19	72	74	75

Source: Proposals submitted to LGFD by the Local Councils.

4.47 **Between 2005 and 2007, the number of project proposals from Local Councils was fairly high, over 70 per year.** The road sector attracted the most proposals with the number of projects rising from 5 road projects in 2004 to 17 in 2007. This is followed by social infrastructure with 15 projects and education with 12 projects in 2007 (see Table 4.6).

4. Project Implementation and Monitoring

4.48 **Project implementation would be improved if development grants did not fall short of budget targets.** The Operational Manual for the LGDG Program indicates that there should be quarterly payments into the program account by both donors and the Government, and that there should be quarterly payments to councils that conform to the grant conditions. This has not

¹¹⁶ IRCBP Review of Fiscal Decentralization, June 2008.

been achieved. As Table 4.7 shows, the **Government** and the donors have not delivered resources as planned. Moreover, within year data show that neither of them adhered well to the intended quarterly schedule.

4.49 In tracking down the sources of the grant shortfalls, four issues were identified. First, as documented in Chapter 2, resource shortfalls tend to force reductions in many categories of spending, including transfers for the LGDG program. As mentioned earlier in the report, this could be solved by insulating most spending from aid volatility by better matching the level of domestic revenues with the level of domestic spending. Second, some Local Councils have had difficulties with the paper load associated with the program. The authorities may want to consider simplifying the procedures in the LGDG Operational Manual in addition to ongoing training programs. Third, the annual appraisal of council bids for funding strains LGFD resources. As suggested in Section C above, a revised system of transfers with fewer controls (each of which must be monitored) would place less of a burden on LGFD staff. Fourth, there have been problems in getting aid replenishments into holding accounts.

Table 4.7: Planned and Actual Local Government Development Grants, 2004-08

	2004	2005	2006	2007	2008
Planned					
World Bank	0	5,163	6,000	0	6,169
EC	0	0	8,640	6,169	0
Government	0	1,000	1,000	5,000	2,550
Total	0	6,163	15,640	11,169	8,719
Actual					
World Bank	1,553	4,555	3,414	5,766	2,826
EC	0	0	0	0	0
Government	0	550	1,000	0	1,913
Total	1,553	5,105	4,414	5,766	4,739
Actual as % of Planned					
World Bank		88	57	..	46
EC		..	0	0	..
Government		55	100	0	75
Total		83	28	52	54

Source: Local Government Finance Department. Accountant-General's Department data may vary from these.

4.50 Efforts are being made to build capacity to monitor Local Council projects but data are generally lacking. The LGFD monitors these projects in collaboration with other units within the IRCBP as well as relevant MDAs. Its reports are submitted to MOFED on an annual basis. As discussed in Chapter 2, it has been difficult for the LGFD to assemble data on Local Council budgets and actual outcomes. This difficulty extends to project monitoring as well. It was not possible at the time of this writing to know how many of the projects listed in Table 4.6 above were actually implemented, whether the projects were implemented on time and at the expected cost.

5. PUBLIC SERVICE REFORM

To improve public service delivery, there is an urgent need to reform the public service to increase the number of technically skilled workers in the middle level grades, enhance accountability for staff performance and pursue the decentralization of public service delivery personnel. As PIUs, local technical assistants, and consultants are not sustainable solutions, the recruitment of skilled staff is required, facilitated by pay reform and better opportunities for career growth. To make the fiscal space for these changes, increased taxation, systematic retirement, or retrenchment may be required in addition to the current hiring freeze on low grade positions. The first steps in creating an accountable civil service have been taken by H.E. the President by requiring performance contracts for each minister. The next steps should include making ministerial contracts and reviews public, and introducing performance and merit based promotions for most civil servants backed by an independent system for redress. The successful decentralization of public service delivery will require improvements in capacity, incentives, managerial authority, and accountability of decentralized staff. Furthermore, the overall public reform program could be facilitated by the establishment of a broad coalition in support of an over-arching medium-term policy framework and by clarifying institutional roles.

A. INTRODUCTION

5.1 The ability to transform the country depends fundamentally upon the public service. According to the President, "It is our conviction that no economic transformation is possible without a *transparent, accountable and effective* public sector dedicated to providing supportive policies and actions."¹¹⁷ This statement provides motivation to a long-running effort, spanning several Governments, to improve the quality of the civil service.

5.2 There has been progress in recent years. A public service fed by decades of patronage has been significantly reduced in size. The estimated size of the public service in the mid-1980s was around 100,000 people.¹¹⁸ This number was sharply reduced in the early 1990s following a series of retrenchments and, by 2002, the total stood at roughly 62,000. The public sector has grown since then, at a pace just above the rate of population increase, to 71,000 in 2008. Workers are generally paid on time in contrast to periodic crises suffered throughout the 1980s and 1990s. The reduction in the share of armed forces and increases in the number of police and teachers are significant successes. Human resource (HR) management reforms in these sectors are ongoing. In addition, 19 district and town Councils have been established and populated with a core staff covering 8 standard positions.

5.3 Recent achievements also include a series of Management and Functional Reviews, the establishment of the new Human Resource Management Office (HRMO, from the former Establishment Secretary's Office), the retirement of many over-age workers, and the ongoing

¹¹⁷ December 2008 speech by Dr. Ernest Bai Koroma, President of the Republic of Sierra Leone, to launch Sierra Leone's second Poverty Reduction Strategy.

¹¹⁸ World Bank, 1994. Sierra Leone: Public Expenditure Policies for Sustained Economic Growth and Poverty Alleviation, Report No. 12618-SL. See especially Chapter IV.

elimination of ghost workers following a verification exercise in 2008 that covered the entire civil service.

5.4 The size of the public service is low relative to the regional average. The Sierra Leone public service with roughly 100,000 employees in the mid-1980s accounted for 2.8 percent of the population. With 71,000 employees in 2008, the public service accounted for only 1.1 percent of the population.¹¹⁹ By contrast, the Sub-Saharan average for public service employment as a share of the population was roughly 2.0 percent in the early 1990s.¹²⁰ It is important, however, to assess size in relationship to public service requirements, the efficiency (or capacity) of the public service, and its cost relative to available resources.

Table 5.1: Level and Composition of the Civil Service, 1993/94 and 2008

1993/94			Verification Workforce Interviews 2008		
Category	Workers	Percent	Grades	Workers	Percent a/
Low	23,400	80	1-5 b/	13,255	90
Middle	3,039	10	6-10	995	7
High	2,819	10	11-14	134	1
			Unclassified c/	369	2
Total	29,258	100	Total d/	14,753	100

a. Highly similar shares are obtained using data from the 2007 Recurrent and Development Estimates with a total of 16,591.

b. Includes 1,399 daily paid workers (grade 25).

c. Includes 355 workers with no given grade and 14 workers at grade 0.

d. From the October 2008 payroll database with an estimated 15,467 workers. The records for 714 workers are missing from the database.

Sources: Ministry of Finance and Economic Development and the 2008 Civil Service Payroll Verification Project.

5.5 The capacity of the public service to deliver services is low while the need is high. At the launch of the HRMO in 2008, Dr. Julius Sandy, Director of the Public Sector Reform Unit (PSRU) was quoted as saying “89 percent of our work force is either barely skilled, semi-skilled or totally unskilled”. This statement is confirmed by Table 5.1 which shows that 90 percent of the civil service is in grades 1 through 5. By contrast, the number of civil servants in the technically skilled grades¹²¹ 6-10 in 2008 was only 7 percent of the total and less than one-third the level in 1993/94. Much of this loss is attributable to the desire on the part of many to flee the civil war. The share of senior staff in the managerial grades has also declined over time, to 1 percent in 2008 from 10 percent in 1993/94. Yet the need for more and better public services, especially with regard to health and education outcomes, is obvious. Sierra Leone’s rank at the near bottom of the UN Human Development Index is a clear indicator of this need.

5.6 The cost of the civil service is comparable to the regional average and is constrained by low revenues. The wage bill decreased from 7.3 percent of GDP in 2002 to 5.7 percent of GDP in 2008, due to the rapid growth in the economy. This share is comparable to the West African average of 6.2 percent of GDP. Also, the wage bill in 2002 was the equivalent of 61 percent of domestic revenues but decreased to 50 percent by 2008 as the economy grew. By

¹¹⁹ Based on an estimate of 5.56 million from the United Nations Population Division. These estimates are projections based on the 2004 census and could change as demographic assumptions are updated.

¹²⁰ More recent comparators are difficult to find. See Schiavo-Campo, Tommaso, and Mukherjee, 1997., *An International Statistical Survey of Government Employment and Wages*, Working Paper Series 1806, World Bank.

¹²¹ Entry into most of these positions requires a graduate degree.

contrast, the regional average in 2008 was 33 percent of revenues (see Table 5.2). This disparity is a reflection of Sierra Leone's low revenue effort documented in Chapter 1. These numbers suggest that any expansion in the wage bill, from increased remuneration or from increased numbers of employed staff, would be affordable only with a stronger revenue effort or reductions in other spending and in the context of a speedy return to high rates of economic growth. This, in turn, indicates that the best way to improve the capacity to deliver more and better public services would be to change the composition of the public service to favor technically skilled employees over low skill employees while maintaining a roughly constant GDP share for the wage bill.

Table 5.2: Cross-Country Comparison of the Wage Bill, 2008

	As a Percent of GDP	As a Percent of Revenue
Benin	5.7	29.7
Cote D'Ivoire	8.6	45.5
Gambia	5.3	28.5
Ghana	11.3	41.2
Guinea	4.2	25.3
Liberia	8.7	33.9
Mali	4.7	35.7
Mauritania	5.9	27.2
Niger	3.5	29.8
Senegal	5.8	30.7
Sierra Leone	5.7	50.0
Togo	5.4	31.7
Average	6.2	33.4

Source: Table 2.6 of World Bank Report No. 47639-GH.

5.7 Challenges remain in the composition and management of the public service. One of the key reasons for the technical skill shortage, beyond the earlier need to flee the war, is insufficient remuneration in the middle grades. Frustration over the pace of salary reform has led to ad hoc measures such as the granting of salary top ups, significant numbers of civil servants "acting up"¹²² and proposals to establish independent pay and grade scales.¹²³ Limited opportunities to build a career due to frequent transfers, inadequate training, and few opportunities for merit based promotions may also contribute to the problem. Sierra Leone's civil service is also age-heavy: preliminary results from the 2008 Civil Service Verification Project¹²⁴ show that 1,108 staff are overdue for retirement. Finally, while the process of decentralization has started well, there are a number of critical human resource management challenges that need to be met. In particular, it appears that too many staff serve only from Freetown and/or are managed only from there.

5.8 There are several reform proposals pending. The Public Service Reform Unit (PSRU), a donor supported agency reporting to the Office of the President, produced several related documents over the course of 2008-09 all of which address civil service reform: (a) an

¹²² Staff paid for acting in a higher grade. The data necessary to verify the extent (and cost) of this "grade creep" were not available.

¹²³ Most recently in the Ministry of Health and Sanitation.

¹²⁴ Hereafter referred to either as Civil Service Verification or the Records Management Improvement Project (RMIP).

over-arching Public Sector Reform Strategy;¹²⁵ (b) a Civil Service Reform Program; (c) a document describing a proposed Civil Service Reform Project; and (d) the Emergency Capacity Support Program. Additionally, interested donors (UNDP, EC, DfID) have produced related program proposals focused on various aspects of Civil Service Reform. Annex 1 provides a summary of key components of the current proposals.

5.9 The status of specific reform proposals ranges widely to include: Cabinet approved policy, for example the agreed Pay Reform Principles (see section B-5); draft documents under advanced preparation such as the Revised Code of Conduct and Regulations (see section B-11); prior proposals that have failed to receive the consensus or necessary funding for implementation (Senior Executive Service); and draft proposals or consultancy reports that have never been widely disseminated or taken up in the policy dialogue (Draft Civil Service Law). The level of awareness, the continued relevance and, crucially, the level of ownership of the various proposals vary significantly. Thus specific proposals may be associated with only one part of the Government machinery or with a particular donor.

5.10 Reforms in one part of the public service reform are likely to interact with reforms in the rest of the public service. For example, proposed pay and grade reforms for the civil service would shape expectations throughout the broader public service. Similarly, proposed changes in the conditions of service (for example in the health sector) have the potential to impact back on the civil service. Likewise, the partly donor funded retrenchment package for military personnel could impact on expectations within the Civil Service proper. It is thus recommended that a medium term overarching policy framework be developed to ensure coherence and consistency among the various specific reforms and interventions proposed. Many elements are already in place. (See paragraphs 5.75-76 and Appendix 5.1 for more information.)

5.11 The remainder of the chapter is organized along the following lines. Sections B and C focus on how to create a more effective and accountable civil service. Section D summarizes key issues associated with personnel decentralization and local Governments. Section E considers opportunities to facilitate proposed reforms.

B. CREATING AN EFFECTIVE PUBLIC SERVICE

5.12 This section examines how the composition of the public service could be usefully improved, how pay reform can help motivate change, and why retrenchment might be needed to help create needed space on a timely basis. Proposals to facilitate the reform process are discussed in each sub-section.

5.13 The public service encompasses all those paid from the national budget. By contrast, the civil service excludes the military, the police, teachers, and judicial sector employees as well as a small number of directly hired local authority employees.¹²⁶ There is also a range of subvented agencies, the personnel costs of which are supported wholly through salary grants. Examples include the National Public Procurement Authority, Statistics Sierra Leone, and the

¹²⁵ The Public Sector Reform Program has been endorsed by the President in early 2009 but it had not been submitted to the Cabinet at the time the field work for this chapter was completed.

¹²⁶ Distinguished from MDA employees in the districts who, although devolved, remain on the central payroll and are hence part of the Civil Service.

Electoral Commission. In other cases, there is a mix of staff financed through the core salaries budget and via salary grants. The discussion below, however, focuses only on the civil service, military, police, and teachers. The justice sector is included in the data for the civil service while subvented agencies and local councils' direct hires are excluded due to data constraints.

Table 5.3: The Public Service, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Total Employees a/	61,871	57,871	61,514	61,857	65,885	69,130	70,633
Civil Service b/	17,015	16,558	16,004	15,526	16,638	16,597	16,521
Military	16,556	14,962	13,522	12,220	11,043	10,623	10,499
Police	7,338	7,183	7,617	8,379	9,118	9,339	9,445
Teachers	20,962	19,168	24,372	25,733	29,086	32,571	34,168
Total Employees (%)	100	100	100	100	100	100	100
Civil Service b/	28	29	26	25	25	24	23
Military	27	26	22	20	17	15	15
Police	12	12	12	14	14	14	13
Teachers	34	33	40	42	44	47	48
Wage Bill (Le Blns) c/	145.0	160.5	183.8	229.9	274.7	295.9	333.6
Civil Service b/	66.1	68.3	75.8	97.8	118.5	130.3	152.4
Military	23.6	26.1	27.3	34.0	32.8	34.1	39.5
Police	12.0	13.7	15.9	20.6	25.0	26.6	28.0
Teachers	43.2	52.4	64.8	77.5	98.3	104.9	113.6
Wage Bill (%)	100	100	100	100	100	100	100
Civil Service b/	46	43	41	43	43	44	46
Military	16	16	15	15	12	12	12
Police	8	9	9	9	9	9	8
Teachers	30	33	35	34	36	35	34

a. Excludes subvented agencies and a small number people hired directly by local councils.

b. Includes the judicial sector.

c. Totals differ slightly from fiscal tables in Chapter 1 and from 2008 civil service verification exercise.

Sources: Accountant-General's Department for all categories except the military which come from the Budget Estimates for selected years and interpolated in other years.

1. Evolution of Public Service Composition

5.14 The composition of the public service reflects the post-conflict transition towards peace-time requirements. The number of people in military service declined from 16,556 in 2002 to 10,499 in 2008 while the number of police grew from 7,338 to 9,455 in 2008. Their shares in the wage bill in 2008 were 12 percent and 8 percent respectively (see Table 5.3). The military is to be reduced still more to 8,500, possibly as early as 2010, while 1,000 more police are to be recruited in 2010.¹²⁷ These changes are consistent with Government policy and targets. It is worth noting that the target of 8,500 will leave Sierra Leone with armed forces well above regional averages for nations at peace, whether measured as a share of population, troops per kilometer squared or troops per length of land border to be patrolled.¹²⁸ This level may be appropriate while regional tensions persist but it is recommended that the target be periodically reviewed (downward or upward) in light of changing events.

¹²⁷ November 2008 Budget Speech for the 2009 Budget.

¹²⁸ From the August 2004 Public Expenditure Review, World Bank Report No. 29075-SL.

5.15 The Ministry of Education, Youth and Sports (MEYS) employed almost 34,200 teachers in 2008, up from almost 21,000 teachers in 2002. As shown in Table 5.3, the MEYS share of the wage bill in 2008 was 34 percent, up from 30 percent in 2002. This expansion was consistent with Government policy to provide wide access to tuition-free primary schooling.¹²⁹ The number of children enrolled in primary schools doubled from just over half a million in 2001 to 1.1 million in 2003 and expanded further to 1.3 million by 2007. However, the increase of teachers did not keep pace with the expansion of the school cohort. The primary pupil/teacher ratio deteriorated from 37:1 in 2001 to 67:1 in 2005. Many of the teachers are not qualified: the share of qualified teachers fell from 63 percent in 2000/01 to 57 percent in 2003 and 40 percent in 2007.¹³⁰ Although the 2008-2010 PRSP notes that there is currently a freeze on the number of teachers pending the completion of a teacher verification exercise, there are indications that thousands more are expected to be hired. No targets are given in the PRSP for future years although it observes that a further expansion in teachers would help improve the pupil-teacher ratio. Such an expansion would, however, require careful coordination within Government and with the donor community since the wage bill consumes half of domestic revenues. Under present circumstances, a priority is to consolidate progress so far and focus on improving teacher training and the supply of teaching materials.¹³¹ Any further expansion would then need to be based on projected expansion of non-Governmental providers, including church missions and private firms, as well as the pace of increase in domestic revenue mobilization.^{132,133}

5.16 The civil service accounted for 46 percent of the wage bill and 23 percent of the public service in 2008. The number of employees had contracted between 2002 and 2005 to a low of around 15,500. Since then, it has expanded to roughly 16,500 by 2008.

5.17 The largest employer within the civil service is the Ministry of Health and Sanitation which employed approximately 6,000 people in 2009. Despite these large numbers, according to the 2008-2010 PRSP, there is a critical shortage of health professionals, especially midwives and medical officers. According to Chapter 6 of this review, there were only 200 medical officers and doctors of all kinds in 2008 against a MoHS target of 522. It also records a total of 1,107 nurses and midwives in 2008 against a target of 2,600. According to the World Health Organization database, even after counting non-Governmental providers, Sierra Leone had less than one doctor per 10,000 people in 2007 compared to the low income country average of 4 and only 5 nursing and mid-wifery staff per 10,000 people compared to the low income country average of 10. The PRSP does not indicate what would be required to reach the MDGs for Sierra Leone. In the current circumstances, however, it may be possible to make better progress by replacing some of the large volume of staff in the lower grades (see Table 5.4) with skilled medical staff. As in the education sector, any further expansion in the numbers of doctors and nurses could come from non-Governmental providers such as private firms, missions, and other NGOs (See Chapter 6 for more on the health sector).

¹²⁹ This expansion was made possible in part through the receipt of Heavily Indebted Poor Country (HIPC) resources.

¹³⁰ Education Sector Plan, 2007, Ministry of Education, Youth & Sport.

¹³¹ This option is consistent with the second PRSP which includes explicit references to teacher training and teaching materials. This option is also what was proposed in the 2004 PER.

¹³² According to the 2004 PER, roughly 10 percent of schools in 2003 were Government owned and financed (mainly secondary), 10 percent were private, and 80 percent were agency-managed/Government-assisted.

¹³³ The IFC has initiated a program of investments in private educational service providers.

Table 5.4: Distribution of Grades in Selected Ministries and Agencies in 2008

	Grades 1-5 (%)	Grades 6-10 (%)	Grades 11-14 (%)	Unclassified (%)	Total (%)
110 Office of the President	88	7	3	1	100
116 Parliament	82	12	6	0	100
118 Supreme Court	79	16	5	0	100
122 ESO/HRMO	88	10	1	1	100
123 Public Service Commission	92	8	0	0	100
129 Finance and Economic Dev.	73	20	5	2	100
301 Min. Education	52	20	4	25	100
304 Min. Health	92	5	1	2	100
401 Min. Agriculture	94	5	0	1	100
402 Min. Marine Resources	89	10	0	1	100
403 Min. Mineral Resources	70	9	0	21	100
406 Min. Power and Water	96	4	0	0	100
409 Min. Trade and Industry	86	12	2	0	100
All Others	89	8	1	2	100
Total	90	7	1	2	100

a. The percentages for grades 1-5 include daily workers (grade 25).

Source: 2008 Civil Service Verification Exercise.

2. Availability of Technically Skilled Employees

5.18 The capacity to implement policies and programs is very low. The discussion above suggests that there are critical shortages of key personnel in the education and health sectors. In fact, the problem extends across most of the public service. This is illustrated in Table 5.4. According to the data from the 2008 Civil Service Verification Exercise, 70 percent or more of the staff for the majority of MDAs were found in the low skill grades 1 through 5 (and 25). The Ministry of Education may be an exception but this cannot be verified because 25 percent of the employees were unclassified.

5.19 The consequences of this situation are apparent across many sectors, from health where the severe shortage of qualified doctors and nurses is consistent with Sierra Leone being ranked amongst the poorest performers with regard to infant and maternal mortality (see Chapter 6), to the education sector where students are unable to compete with their peers in other ECOWAS countries, or Public Financial Management (Chapter 3) where performance gains are largely the result of reliance on a "parallel civil service" comprised of highly paid local technical assistants and consultants.

5.20 Retirement may further worsen the skills shortage in the near future. Preliminary data from the 2008 verification exercise suggest that as many as 49 percent of those in grades 11-14 are eligible to retire now or will become so over the next five years (see also Table 5.7 below). Roughly 29 percent of those in grades 6-10 are eligible or soon will be, with another 20 percent of those in grades 1-5. This creates an opportunity to bring in staff with new skills even as it presents serious challenges in promotion and recruitment.

3. Changing the Composition of the Civil Service

5.21 The current composition of the civil service is far removed from norms based on international comparisons.¹³⁴ For example, a prior report identifies an international benchmark

¹³⁴ *Review of Civil Service Minimum Wage and SES*, C3, 2006.

of about 47 percent of public sector staff in technical grades 6 through 10 compared to the present share of 7 percent.¹³⁵ Improving public service delivery will require a sharp reduction in this so called “missing middle” of technically skilled employees. Yet, there is no hard and fast rule regarding the best balance of staff across different grades. The optimum is contingent on a wide range of factors specific to the national context and should be derived from a careful analysis sector by sector.¹³⁶

a. Short-run Approaches

5.22 Several approaches have been employed to compensate for the missing middle. To attract skilled staff to specific projects, donors often require the establishment of Project Implementation Units (PIUs) that pay PIU officers far more than their MDA counterparts. This approach has been ad hoc: there has not been a systematic establishment of PIUs across Government in anticipation of a particular investment portfolio.¹³⁷ Special, highly paid positions have been created to attract skilled technical staff. These are referred to as local technical assistants (LTAs). Salary “top-ups” are also provided to encourage competent senior staff to remain “on-seat.” In other cases, a professional cadre will seek to depart from the civil service and establish its own schedule of salaries and allowances.

5.23 While these approaches bring short-term gains, they do not solve the larger structural problems. The higher wages offered under these four schemes make civil service employment relatively less attractive than the alternatives. This, in turn, exacerbates the shortage of skilled technical staff and further justifies (to some) the need for such approaches. Top-ups also have the effect of establishing a de facto Senior Executive Service in an ad hoc manner and without associated performance management improvements. Finally, top-ups, when they are financed by donors, are inherently unsustainable. This forces a choice between eventual integration of the top-up staff into the public service and the termination of such staff.

5.24 A more strategic alternative is to provide the pay, conditions and management regime necessary to attract and retain high caliber staff throughout the public service. Reconciling the pay differentials created by these approaches can have a positive impact on levels of morale within the service, potentially contributing to the re-establishment of a sense of continuity and shared mission. The corollary of demonstrable change in the civil service human resource management regime should be a commitment by donors to phase out special implementation units and special salary enhancements. This may require a transition period during which funding is first placed on budget before being, effectively if not explicitly, rolled up into budget support. Assurances that program management and impact will not suffer will help motivate the needed change.

5.25 The draft, revised Civil Service Code of Conduct and Regulations provides a needed but challenging first step towards pay reform. If approved, the new Code would recognize contract employees within the civil service on adjusted, higher terms. There are two challenges associated with this strategy. One, such an approach could reduce the pressure for fundamental

¹³⁵ Ibid, page 10. Benchmark is based on data from Afghanistan, Cambodia, Pakistan, Philippines, UK, Zambia, an eastern European state, a Caribbean state, and a Middle Eastern country.

¹³⁶ Hence the emphasis on Management and Functional reviews in prior and proposed reform programs.

¹³⁷ In addition, there are often different salary levels paid between different donors for their respective PIUs.

pay reform if contract remuneration or top-ups are financed by donors without a phase-out period. Two, if the Government does not increase civil service salaries for skilled personnel and does not phase out the use of contracts and top-ups, then it will have perpetuated an inequitable system that could worsen morale. In order to avoid these risks, it is recommended that this option be temporary and firmly embedded in a more fundamental program of sequenced reform.

5.26 In this light, the reform program planned for MOFED may be instructive. MOFED is strongly affected by the LTA and top-up phenomenon and is in the lead in terms of finding a solution.¹³⁸ A strategy has been agreed with the objective of transferring LTAs into the Civil Service over the period of the next phase of the Integrated Public Financial Management Reform Project (IPFMRP). An implementation plan is currently under preparation. While the number of positions involved (45) is not significant in relation to the entire Civil Service, important precedents will be set and a model is being developed that could be applied in other MDAs. It is expected that DFID's forthcoming support to the PSRU will be phased in a similar manner, allowing for the complete transfer of the PSRU, its staff and its operating budget onto the Government Consolidated Revenue Fund by the end of the project.

5.27 The IPFMRP proposal¹³⁹ makes suggestions for the range of legal and procedural steps necessary to achieve a fundamental transition, rather than an ad hoc adding-on of staff to the existing structure. This will involve the incorporation of LTA posts into the MDA establishment, a competitive recruitment process, the approval of terms and conditions that differ substantially from those currently in place for civil servants and the integration of appropriate performance management and career development practices for this category of staff. This encompasses most of the project human resource management issues to be addressed for civil service reform generally and hence could be used as a pilot and an important capacity building opportunity, especially for the central HRM responsible institutions.

b. Systematic Recruitment of Skilled Staff

5.28 The authorities may want to begin a process of systematic recruitment rather than continuing to rely on the various short-run approaches described above. This is best accomplished by inventorying needs,¹⁴⁰ filling vacant posts, and recruiting for new posts. Such a strategy will succeed with improved conditions of service including attractive salaries and room for professional advancement. These topics are discussed below.

5.29 Current recruitment targets will not substantially reduce the missing middle of technically skilled staff in the civil service. According to data from mid-2009, there are 1,512 established posts in grades 6 through 10, of which 683 or 45 percent are unfilled (see Table 5.5).¹⁴¹ If these 683 posts were all filled, the portion of the civil service represented by grades 6-10 would increase from 7 percent of the total to 11 percent of the total – far from the international norm of 47 percent.

¹³⁸ In 2009, 45 out of 69 positions in grades 7 through 13 were filled by LTAs. Of these, only 6 are funded directly by Government.

¹³⁹ Note on Transitioning Local Technical Assistants (LTAs) to Public Service Status and Government Financing, World Bank Appraisal Mission, February 2009.

¹⁴⁰ See the numerous Management and Functional Reviews conducted for a variety of MDAs.

¹⁴¹ It is possible that some of these have, in fact, been filled but without proper records such as a copy of the letter of appointment.

5.30 Recruitment targets for skilled technical staff in each key MDA should be established before beginning a major recruitment drive. Much of the necessary analysis needed to set expanded targets has already been done in a series of 15 Management and Functional Reviews (MAFR) conducted between 2002 and 2008.¹⁴² These reviews assess the institutional strengths and weaknesses of MDAs and propose a variety of reforms ranging from organizational changes to recruitment and training. The recommendations of several reviews¹⁴³ were approved by the Cabinet under the previous Government and were scheduled to be implemented. In this context, it is commendable that the authorities are now reviewing the pace of MAFR implementation, considering the approval of the remaining MAFRs, and updating each as necessary in light of any new sector policy directives.

5.31 The large number of unfilled positions implies a need to address underlying issues. There are many possible reasons why positions in grades 6-10 may remain unfilled. There are administrative constraints. For example, within the MDAs, the authorities have observed a general lack of awareness among senior officials within some MDAs regarding the number of available posts, failure to follow required procedures, poor communications, and inadequate numbers of trained human resource officers. Beyond the MDAs, the ability to recruit could have been reduced because recruitment decisions have been concentrated into two centralized agencies (ESO/HRMO and PSC) that lack adequate capacity and funding. The recent recruitment of 15 doctors, undertaken as an emergency recruitment that bypassed normal procedures, is illustrative of the extent to which the formal machinery needs strengthening to meet development needs in a timely manner.

Table 5.5: Unfilled Posts in 2009, Grades 6-10

	Authorized Establishment	Staff in Post a/	Vacancies
110 Office of the President	17	11	6
116 Parliament	19	7	12
118 Supreme Court	0	0	0
122 ESO/HRMO	15	8	7
123 Public Service Commission	3	2	1
129 Finance and Economic Dev.	60	32	28
301 Min. Education	52	34	18
304 Min. Health	172	78	94
401 Min. Agriculture	216	116	100
402 Min. Marine Resources	30	24	6
403 Min. Mineral Resources	39	19	20
406 Min. Power and Water	83	20	63
409 Min. Trade and Industry	51	25	26
All Others	755	453	302
Total	1,512	829	683

a. The reported numbers of staff in post by MDA varies from the numbers reported by the Civil Service Verification Exercise. The largest discrepancy is for the Ministry of Health. Most other discrepancies are moderate.

Source: Public Service Commission.

5.32 There is also an issue of supply. On the one hand, there are few people in Sierra Leone who meet the criteria needed by various MDAs. The low number of university graduates may be a contributing factor. On the other hand, potential employees may have balked at the low professional salaries on offer (See section 2 below). Some observers have proposed that

¹⁴² With funding and technical assistance provided by DfID.

¹⁴³ Education, Health, Agriculture, Local Government, and Defense.

potential job applicants are put off by the perception that ethnic, party, or society affiliations are more important to career advancement than good performance.¹⁴⁴ One option that could lay some of these concerns to rest would be to launch a highly visible open competition for the vacant positions.¹⁴⁵

5.33 Vacant and new positions can be made more attractive through changes in pay and grades.¹⁴⁶ The level of remuneration may be one of key reasons why more people are not competing for and accepting Government jobs in grade 6 and above. Various prior studies have sought to verify the status of civil servant pay relative to other sectors. The greatest disparity in wages is within the middle grades according to studies by two consulting firms.¹⁴⁷ By contrast, at the lowest grades, wages are broadly comparable with those available in the general labor market. While there is a need to revalidate these conclusions through updated comparative wage rate analysis, especially to take into account the effect of inflation on real incomes at the lower grades, the analysis tends to support the broad policy prescription that the focus of wage reform should be at the level of graduate recruitment and above.

5.34 The Cabinet approved a pay reform policy in January 2007.¹⁴⁸ Following this, a pay and grading structure review was undertaken during 2008¹⁴⁹ resulting in a proposal for radical alterations with increases in base pay at all grades and the largest increase at Grade 7, considered as the graduate entry point, taking the monthly salary at this level to around 500,000 Leones (from around 223,322). This proposal had not been adopted by mid-2009 due to its cost. The budget speech for the 2010 budget does, however, propose a smaller 20 percent wage increase for almost all categories of public service workers.

5.35 Pay reform cannot be easily implemented in the absence of other reforms. The report estimates that the cost of implementing the new structure would have resulted in a *44 percent increase* in the civil service salaries budget in the first year. This substantial cost increment does not factor in any pending increase in numbers employed at the middle levels as discussed above. It is therefore clear that such a policy cannot be implemented without a decision about cost savings generated elsewhere. One option, discussed is to reduce the large number of low skill staff. Some scenarios are presented further below.

c. Facilitating Change by Promoting Career Growth

5.36 Career status can motivate staff in addition to salaries. For middle level employees with significant service years, the comparative decline and loss of status relative to peers aggravates the perceived disadvantage in terms of rewards. The greatest dissatisfaction is expressed in cases where civil servants are working alongside better remunerated project staff junior in age and status. More frustration is added where senior staff compare their inability to meet family and other obligations with the position of classmates who have joined NGOs or the

¹⁴⁴ See for example, International Crisis Group, 2008. Sierra Leone: A New Era of Reform? Africa Report No. 143.

¹⁴⁵ As proposed in a December 2007 World Bank IRCBP aide-memoire.

¹⁴⁶ All pending reform programs include an allowance for further review of pay and grading structures.

¹⁴⁷ C3, 2006. *Review of SES and Minimum Wage Proposals* and CoEn, 2008, *Draft Proposed Pay and Grading Structure Brief*.

¹⁴⁸ CoEn, 2008, Appendix 1.

¹⁴⁹ Ibid.

UN system. Such conditions are often cited as major contributory factors towards poor morale, poor performance, and encouragement of corrupt practices.

5.37 A career management policy including performance based promotions within well defined technical cadres can help.¹⁵⁰ If necessary, a transition from the technical cadre to the administrative cadre could require a satisfactory score on a civil service exam.¹⁵¹ The topic of performance based promotions is taken up in section D below because of the important role they could play in increasing internal accountability.

Box 5.1: The Pro's and Con's of Transfers in Career Building

According to the authorities, a total of 92 administrative officers in grades 7 and above were transferred from one post to another between November 2008 and June 2009. This is equivalent to 10 percent of the total number of officers currently in post. It is not unreasonable to view the judicious use of transfers as one way to ensure that promising staff are provided with a wide range of career building experiences. Yet, poorly planned transfers can reduce capacity within MDAs. Many senior administrators in Sierra Leone have complained that they have lost key staff due to transfers. The National Public Procurement Authority, for example, has repeatedly complained that people trained as procurement officers are frequently transferred, leaving MDAs with little capacity to procure properly.

It is commonly asserted that many transfers were made without any explanation and without any recourse. Going forward, the authorities may wish to consider devising a system of checks and balances that would weigh the usefulness of transfers in career building against the costs of lost skills. For example, given the importance of procurement to effective service delivery, it may make sense to create a procurement cadre within the civil service and agree to consult with NPPA in making HR decisions in respect of this new cadre.

5.38 A critical component of civil service performance is training. The Government is pursuing proposals to re-establish the Civil Service Training College and is seeking donor support for this objective. A comprehensive review including a training needs analysis conducted in 2005¹⁵² has been distilled into a Cabinet Approved Training Policy (January 2008). The recently established HRMO includes a Performance Management, Training and Development Division which is seeking to define and develop its operational remit and capacity. The model envisaged in the Training Policy and Draft Code of Conduct and Regulations is traditional in placing emphasis on the development of a national training plan, centralized training funds and the direct provision of training courses through a Government facility (the Civil Service Training College), although there is also allowance for devolved funding to MDAs and use of alternative training providers.¹⁵³

5.39 While the need to train both existing and newly recruited civil servants is indisputable, and therefore features in all pending reform program proposals, there are commentators who stress that training or other forms of capacity building alone, even when combined with pay reform, will not be sufficient to achieve the desired transformation.¹⁵⁴

¹⁵⁰ One official reported that there may be as many as 800 promotions proposed without decisions having been taken.

¹⁵¹ Lam, 2007, *Reinvigorating Civil Service Reforms in Sierra Leone*.

¹⁵² Development of a Comprehensive Training Policy for the Civil Service. Crown Agents. May 2005.

¹⁵³ An unresolved issue is who train the trainers. It may be practical to conceive of training through technical assistance or externally sourced providers.

¹⁵⁴ Lam, 2007.

Systemic reforms, addressing issues of leadership, institutional mandate, service ethos and culture are also needed to provide the context in which training and other capacity building interventions yield sustainable service impact.

d. Taxation, Retirement, or Retrenchment

5.40 Public service reform, if done well, costs money. For example, as mentioned above, implementing the proposed salary increases contained in the draft Civil Service Code would increase the civil service wage bill by 44 percent (1.2 percent of GDP annually) before existing vacancies are filled and before much needed additional technical staff are hired. A systematic training program will also require resources. These costs are surely one of the key constraints to reform. Finding donor support may be part of the answer. (See also paragraph 5.89.) Cost reductions are another option. For example, there may be scope for reducing expenditures on goods and services through more competitive procurement. Yet, the scope for large scale savings of the required magnitude is limited. This suggests that the above options need to be complemented with efforts to reduce the number of over-age and low skill workers. Thus, it is not unrealistic for the Head of the Civil Service to propose an interim target of 10,000 for the total civil service. Alternatively, if the options above are not feasible or acceptable, then it may be possible to consider the option of increased taxation. All options are explored in an illustrative scenario in sub-section 3 below.

Table 5.6: Payroll Reduction Options

	In Place Now	Proposed
<i>Remove ghosts</i>	✓	
<i>Book transfers (e.g. to local councils or autonomous agencies)</i>		
<i>Delete empty posts</i>		
<i>Enforce retirement age</i>	✓	
<i>Part-time and flexible working schemes</i>		
<i>New staff on temporary contracts</i>		
<i>Natural attrition through a recruitment freeze</i>	✓	
<i>Suspend automatic advancement</i>		✓
<i>Redeployment</i>		
<i>Voluntary redundancy</i>		✓
<i>Privatization/contracting out</i>	✓	
<i>Freeze salaries</i>		
<i>Compulsory retrenchment</i>		✓

5.41 McCourt¹⁵⁵ provides a list of generic measures that have been used in other countries to reduce payroll numbers and/or reduce staffing costs. These are set out in ascending order of political difficulty in Table 5.6. A number of these measures are already in place including a recruitment freeze (with the exception of critical skills shortages), elimination of ghost workers, and retirement of over age workers. Others are proposed by the PSRU in the context of the newly developed Program for Civil Service Reform or other programs (e.g., decentralization).

¹⁵⁵ Pay and Employment reform in Developing and Transition Societies, Willy McCourt, Aug 2000 (UNRISD Programme Paper Number 1), following Nunburg 1994.

5.42 **In contrast to the general population, the civil service is fairly old.** Only 10 percent of the basic salaries budget is accounted for by those under 35 years old, 47 percent by those between ages 36 and 50, and 42 percent for age 51 and above.¹⁵⁶ The Records Management Improvement Project (RMIP) reported 1,108 staff as overdue for retirement in June 2008. By October, the number had fallen to 959 and the number is still declining: the HRMO reported signing 50 retirement letters per week as of March 2009.

5.43 **The political cost of reform can be reduced by relying on natural attrition through a partial hiring freeze.**¹⁵⁷ Table 5.7 indicates that the number of employees in grades 1-5 could be reduced by 2,675 over a 5 year time-span by using a three part strategy: (i) retirement of already over-aged workers; (ii) continued enforcement of the retirement age of 60; and (iii) a recruitment freeze. The total would be increased to 3,028 if all grades are included.

Table 5.7: Civil Service by Retirement Eligibility

Grades	Numbers in Workforce	Eligible to Retire Now (Ages 55-59)	Eligible to Retire by 2014 (Ages 60-64)	Total (Ages 55-75)	% of Total (Ages 55-75)	Others a/
1-5 b/	13,255	874	1,801	2,675	20	10,580
6-10	995	64	224	288	29	707
11-14	134	21	44	65	49	69
Unclassified c/	369	..	..	..	..	369
Total ***	14,753	959	2,069	3,028	21	11,356

a. Excludes those where no age given as well as ages below 16 or over 75.

b. Includes 1,399 daily paid workers (grade 25).

c. Includes 355 workers with no given grade and 14 workers at grade 0.

Sources: Records Management Improvement Project and staff calculations.

5.44 **A rapid rebalancing of the civil service towards the middle grades may require measures to reduce the lower grades at rates well beyond natural attrition.** One way to achieve this is to encourage voluntary, early retirement. Another option is retrenchment, whether voluntary or involuntary.¹⁵⁸ This is taken up below.

5.45 **Cost effective sequencing and fair treatment are compatible and necessary.** The current efforts to eliminate ghost workers and to retire over age civil servants, with associated measures to greatly reduce the delays in accessing pension entitlements, should be completed before retrenchment. It would also be cost effective, and fair, to avoid retrenching workers who are capable of good performance in higher grades. In this context, it may be useful to restore the use of a civil service examination: workers who pass the exam could be retained and promoted into higher grades. Those who fail could be offered training and given another opportunity to take the exam at a later date with the proviso that a second failure would result in retrenchment. Similarly, programs focusing on voluntary retrenchment should precede any program requiring involuntary retrenchment not only because this is fair but also because it is less expensive:

¹⁵⁶ Based on gradings and nominal salaries as reported during the 2008 Civil Service Verification Exercise.

¹⁵⁷ Reid, Gary J. "Human Resource Management Issues in ECA Countries", background paper for *Eastern Europe and the Former Soviet Union Public Finance and Economic Growth: Lessons from Several High Growth Success Stories*, Poverty Reduction and Economic Growth Department, Europe and Central Asia Region (The World Bank, Washington, DC: April 2006).

¹⁵⁸ The Emergency Capacity Support Program is expected to help address this issue.

raising the expectation of retrenchment compensation can have a perverse effect as workers hang on in the hope of receiving a package of benefits.¹⁵⁹

3. Illustrative Scenario

5.46 Realistic estimates of reform costs and financing requirements can be useful in decision making. With this in mind, a scenario covering the 10 year period 2010 to 2019 is presented below. This scenario is indicative only: the time frame and general approach can be adjusted by the authorities as needed. For example, it may be advantageous to implement restructuring for a few key ministries at a time rather than all at once. Ideally, the strategy for key MDAs should also be informed by the Management and Functional Reviews. Moreover, the preliminary data used below would need to be vetted and calculations be made in finer detail, by grade, titles and specialties, and age cohorts.

5.47 In all likelihood, the transformation involved in achieving the goals set out in the PSR Strategy will require 5 to 10 years to complete. The pay and grading review that will be at the heart of the process may require, for reasons of fiscal sustainability, a phased introduction over a similar period.

5.48 Strategy and sequencing can contribute to a successful restructuring. Each successive reform creates incentives that can be used to reinforce the overall restructuring effort. Perhaps the two most important aspects of the strategy are to: (i) develop a clear vision of the desired changes with monitorable progress indicators; and (ii) implement increases in remuneration to attract and retain needed workers only *after* the majority of other workers have left the payroll. The key steps in the illustrative strategy for Sierra Leone are laid out below.

5.49 Any strategy will be helped by a clear vision of what is to be achieved and the maximum affordable cost for the wage bill and its reform. For the purposes of this scenario, it will be assumed that the main goal will be to restructure the size and composition of the civil service within a 10 year period: the size could be reduced from 17,123 employees reported in the 2009 Recurrent and Development Estimates to 10,000 employees; the share taken by grades 6-10 should increase from 7 percent in 2008 to 47 percent; and the share taken by grades 11-14 should increase from 3 percent in 2008 to 8 percent. It is assumed, for illustrative purposes, that this will be achieved in the broader context of a continued expansion in the number of teachers and police (at the same pace as the population) and a reduction in the size of the military to 8,500 by 2010 and onward. Salary grants for the universities, research institutes and other agencies are assumed to be maintained at a constant share of GDP, taken from the 2009 share of 0.6 percent. This scenario is described below and summarized in Table 5.8.

¹⁵⁹ The prior proposal to create a Senior Executive Service (SES) generated an expectation of a severance package for senior staff. An amount of 2.5 billion Leones was included in the 2009 payroll budget allocation against "severance pay for implementation of SES".

Table 5.8: Reform Scenario

	2009	2010	2011	2012	2013	2014	2015	2106	2017	2018	2019
Retirement		608	729	1,014	1,660	2,086	2,288	2,468	2,557	2,557	2,535
Military		1,491	103	144	232	291	320	345	357	357	354
Police		112	99	135	246	309	339	366	379	379	376
Teachers		285	362	505	812	1,021	1,119	1,207	1,251	1,251	1,240
Civil Service		130	165	230	370	465	510	550	570	570	565
Grades 1-5		120	150	210	330	410	450	490	510	520	530
Grades 6-10		5	10	15	30	45	50	50	50	45	30
Grades 11-14		5	5	5	10	10	10	10	10	5	5
Ghost-workers											
Dropped		6,569									
Military		1,011									
Police		1,479									
Teachers		2,423									
Civil Service		1,656									
Grades 1-5		1,490									
Grades 6-10		116									
Grades 11-14		50									
Retrenchment			1,850	3,857							
Grades 1-5			1,850	3,857							
New Hires		3,274	2,152	2,351	2,772	3,123	3,301	3,461	3,551	3,573	3,578
Military		274	103	144	232	291	320	345	357	357	354
Police		1,000	465	465	476	544	578	610	628	633	635
Teachers		2,000	1,099	1,257	1,579	1,804	1,917	2,021	2,082	2,098	2,104
Civil Service		..	485	485	485	485	485	485	485	485	485
Grades 1-5		..	..	..	..	..	..	..	..	..	..
Grades 6-10		..	439	439	439	439	439	439	439	439	439
Grades 11-14		..	46	46	46	46	46	46	46	46	46
Leone Salary											
Increases (%)											
Military		18.3	7.5	6.5	27.8	17.2	6.5	6.5	6.5	6.5	6.5
Police		18.3	7.5	6.5	27.8	17.2	6.5	6.5	6.5	6.5	6.5
Teachers		18.3	7.5	6.5	27.8	17.2	6.5	6.5	6.5	6.5	6.5
Civil Service		18.3	7.5	6.5	15.0	17.6	6.5	6.5	6.5	6.5	6.5
Grades 1-5		18.3	7.5	6.5	29.9	17.1	6.5	6.5	6.5	6.5	6.5
Grades 6-10		18.3	7.5	6.5	43.8	17.8	6.5	6.5	6.5	6.5	6.5
Grades 11-14		18.3	7.5	6.5	27.8	17.2	6.5	6.5	6.5	6.5	6.5
Workers	76,828	71,515	71,088	68,569	69,681	70,718	71,731	72,724	73,719	74,735	75,778
Military	10,728	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500
Police	11,395	10,804	11,170	11,500	11,730	11,965	12,204	12,448	12,697	12,951	13,210
Teachers	37,582	36,874	37,611	38,364	39,131	39,914	40,712	41,526	42,357	43,204	44,068
Civil Service	17,123	15,337	13,807	10,205	10,320	10,340	10,315	10,250	10,165	10,080	10,000
Grades 1-5	15,411	13,801	11,801	7,734	7,404	6,994	6,544	6,054	5,544	5,024	4,494
Grades 6-10	1,199	1,078	1,507	1,931	2,340	2,734	3,123	3,512	3,901	4,295	4,704
Grades 11-14	513	458	499	540	576	612	648	684	720	761	802
Personnel Cost											
Le Billions	400.2	453.3	490.6	511.4	659.9	788.8	863.7	945.0	1,033.6	1,131.0	1,237.8
Basic Pay	193.7	224.6	243.9	256.4	336.6	404.9	442.1	482.4	526.0	573.8	625.9
Allowances	126.3	138.1	147.0	147.6	193.0	232.2	253.2	275.8	300.2	327.0	356.2
Pensions	16.9	19.2	20.6	21.3	28.0	33.7	36.7	40.0	43.6	47.6	51.9
Social Security	21.7	24.6	26.5	27.4	35.9	43.2	47.1	51.4	56.0	61.0	66.6
Salary Grants	41.6	46.8	52.5	58.7	66.3	74.9	84.5	95.4	107.7	121.6	137.3
Personnel Cost											
As % GDP	6.2	6.3	6.0	5.6	6.4	6.8	6.6	6.4	6.2	6.0	5.8

Source: World Bank staff calculations.

5.50 The first years of restructuring would focus on creating space for more skilled staff by rapidly reducing the number of low skill staff. The first step would be to maintain the hiring freeze in grades 1 through 5 for all but the most essential staff functions such as some categories of nurses (see Chapter 6). The second step would be to eliminate ghost workers so

that they are not paid retrenchment packages or higher salaries. It is assumed this will be implemented in 2010.¹⁶⁰ Voluntary redundancies for roughly 2,000 non-essential workers in grades 1 to 5 would take place in 2012, with involuntary redundancies for approximately 4,000 non-essential workers in the same grades to follow. It is also assumed that the size of the military would be reduced to 8,500 personnel by 2010 through retirement. Establishment controls would need to be strengthened to ensure that low skill retrenched staff are not rehired at a later date. It is also assumed that, until a new policy is put in place, retrenchment packages would be consistent with Section 24 of 2002 amendment to Regulation of Wages and Industrial Relations (1971) that requires 40 days wages per years served.¹⁶¹ The cost of the assumed retrenchments is estimated at US\$10 million.

5.51 The volume of involuntary retrenchment would be a function of the desired size of the civil service and the desired pace of reform. For example, retrenchment could be avoided entirely simply by waiting long enough for the cumulative impact of scheduled retirements to reduce the number of low skilled staff. This, however, would require decades to achieve. A more rapid reform would require a larger volume of retrenchment.

5.52 The scenario assumes a 10 year time span to maximize the impact of natural attrition through retirement. Based on data from the 2008 Civil Service Verification project, the total number of civil service staff expected to retire between 2010 and 2019 is assumed to be approximately 4,000. Comparable data for the remainder of the public service (military, police, and teachers) was not available. An estimate of roughly 16,000 people can be assumed by applying the age structure of the civil service to the remainder of the public service. It is assumed that pension costs are fully covered by prior contributions to NASSIT.¹⁶² In this regard, it is critical to coordinate with NASSIT so that they are aware of the profile of obligations over the next several years.

5.53 A strong and sustained recruitment drive will be required not only to replace retired employees in grades 6 and up but also to build up their numbers to the desired targets. (In reality, some new staff in lower grades would also be required, nurses being an example.) In this case, grades 6-10 could account for 47 percent of the total while grades 11-14 would take up the remaining 8 percent. Reaching these targets would require hiring into the civil service close to 10 people every week of every year through 2019. The military, police, and Ministry of Education would also face large volumes of new hires. To achieve this scenario, the PSC and HRMO may want to plan to build up their own staff in advance and agree on the specification and approval of a substantial portion of the new posts in grades 6-10 well before hiring begins.

¹⁶⁰ These figures are calculated by subtracting the number of employees recorded in the January 2009 payroll from the number of employees recorded in the 2009 Recurrent and Development Estimates. It is assumed that the difference for the civil service is wholly attributable to a lag in implementing the recommendations of the 2008 Civil Service Verification project. These figures could be over-stated to the extent that the Recurrent and Development Estimates include expected new hires. New hires for the Police were explicitly identified and therefore are excluded.

¹⁶¹ This is a generous formula by international standards. First, it provides essentially two months' salary per year served, whereas normal practice is one month's salary is provided. Second, there is apparently no cap on the number of years that can be entered in the formula. Even the most generous programs typically cap the severance payment at 20 or 25 years of service. Many formulas cap the severance payment at somewhere in the range of 18-24 months of pay.

¹⁶² This is a simplifying assumption: in reality there is a residual number of staff who are not covered by NASSIT.

5.54 Remuneration would be substantially increased in order to help motivate the recruitment drive, beyond the initial increase already provided in 2009. These increases would be delayed, however, until 2013 and 2014 after the voluntary retrenchments are completed. The magnitude of the increase in Leone terms is roughly consistent with the pay reform program originally proposed in 2007.¹⁶³ The military, police, and teachers are assumed to receive comparable increases for reasons of equity and social stability. Basic pay and allowances are assumed to be increased by the same percentages and grow with inflation in all years.¹⁶⁴

5.55 This scenario fully achieves the goals set by the PSRU and Cabinet Secretary with regard to restructuring the civil service. The total number of civil servants is brought down to 10,000 and only 45 percent are found in the lower grades. This decrease is filled by an expanded number of teachers and police, so that the total public service in 2019 is almost the same size as it started out in 2009, though with a far more empowered composition. The wage bill remains within the desired range: falling to 5.6 percent of GDP in 2012 due to retirements and retrenchments, increasing to 6.8 percent of GDP by 2014 because of increased remuneration, and then gradually falling to 5.8 percent of GDP by 2019 again due to the cumulative impact of retirement. Moreover, the cost of the required severance packages is well within the capacity of any donor to cover, at a total of US\$10 million over two years.¹⁶⁵

5.56 While the cost of civil service reform appears to be manageable, there are additional challenges to be considered. Additional challenges are likely to be political, technical, and administrative. Some options that may help facilitate the reform process are listed below:

- The political cost can be reduced through a campaign to build a consensus throughout society that the benefits of a more capable Government far outweigh the loss of low paying jobs. A deliberately conceived “demonstration effect” of highly visible improvements in public service delivery would further help reinforce this consensus as the program proceeds.
- The technical challenge of finding thousands of new technical staff each year could be overcome by hiring internationally, by broadening eligibility to include non-Sierra Leonean applicants.¹⁶⁶ There is a precedent for this approach in Sierra Leone and around the world. For example, according to the Ministry of Health, as of 2009 the Sierra Leone Government has requested 110 doctors from Nigeria, Sudan and Cuba.¹⁶⁷ (See also Chapter 6.) Similarly, the Ministry of Mineral Resources is considering hiring a number of university graduates from Ghana. This kind of strategy should be made explicitly temporary: an exit strategy should be developed and specific measures taken to ensure knowledge transfer between the international staff/advisor and national civil servants. Moreover, the strategy can be expensive when foreign workers are provided only with the stipulation that housing and other amenities be provided for them.
- The administrative challenge could be addressed by intensifying the ongoing capacity building efforts in the HRMO and PSC. The authorities may also wish to consider the option of *decentralizing* some HR functions to the MDAs, thus reducing the load on HRMO and

¹⁶³ It becomes affordable only in the context of prior reductions in the size of the public service.

¹⁶⁴ The authorities may, if they wish, choose to monetize some or all allowances. This would not change the overall results.

¹⁶⁵ Both DfID and the EC projects in support of civil service reform include some funding for retrenchment.

¹⁶⁶ This may require an adjustment to the Code of Conduct, Regulations and Rules.

¹⁶⁷ IRIN, February 2009.

PSC. There is a precedent for doing so: the Government has successfully decentralized procurement functions by replacing central control with a clear legal and regulatory framework. The administrative requirements can also be eased through the ongoing reforms in records management and payroll controls.¹⁶⁸

Box 5.2: Concrete Strategies for Specific Groups

The authorities may want to devise different strategies for key groups within the public service. The objectives and tactics to be used for recruitment and retention would surely be different for low skill workers, teachers, nurses, accountants and other technical staff, and senior executives.

- In the case of low skilled staff, the emphasis would be on how to use a hiring freeze, retirement, and redundancies to shed a substantial share of grades 1-4 while retaining those who are good performers or have the clear potential to take on more responsibility with some training.
- For the teachers, one needs to find affordable means of motivating qualified teachers to stay within the system while motivating unqualified teachers to either seek training or drop out. More attractive career paths that reward educational qualifications may help.
- To quickly address the shortage of nurses who serve in the less remunerative lower grades it may be necessary to seek an over-supply of unqualified entrants who would receive a minimal amount of pre-defined training (particularly for basic preventative health care) while on the job prior to acceptance into nursing school. In such a scenario, a high turnover rate may be unavoidable. When shortages cannot be quickly overcome through local hiring, it may also be acceptable to temporarily hire nurses from overseas.
- For the technical staff, as well as senior executives, the main issue is how to make recruitment and retention more attractive. This is most easily achieved by redressing the substantial gaps in remuneration between what they could earn in the public service and what they could earn in the private sector. Given their smaller weight in the public service, it is possible to contemplate using pay and grading reform to achieve this.

Changes in policy may be needed to help reduce regional disparities in the distribution of teachers, nurses, and doctors. It may also help to provide a significant differential in pay for those serving in the districts, an option that the HRMO is considering. Finally, the authorities might consider increased recognition (perhaps through faster promotion) of those who have spent at least a minimum amount of time (with good performance reviews) in rural posts.

The illustrative scenario laid out in Table 5.8 in Section 3 is consistent with such strategies.

5.57 If creating fiscal space through retirement and retrenchment is not feasible or attractive, then it may be possible to consider the option of increased taxation. In such a scenario, all the recruitment targets are maintained but the strategy of shedding 5,707 low grade staff through voluntary early retirement followed by retrenchment in 2011 and 2012 would be dropped. The increased cost of maintaining a higher stock of low grade workers could instead be financed through increased taxation. In such a scenario, the total number of civil servants in 2019 would be 15,707 rather than 10,000. Of these, 65 percent (rather than 45 percent) would be found in the lower grades. The wage bill increases to a peak of 7.3 percent of GDP by 2014 before gradually falling to 6.2 percent of GDP due to natural attrition through regularly scheduled retirements. In order to finance the higher wage bill, the revenue effort would need to

¹⁶⁸ These are well described in the documentation from PFM projects supported by the World Bank, DfID, and the EC.

be increased by roughly US\$12 million annually – with the proviso that all of the increased tax effort would be allocated to the wage bill rather than other purposes such as essential drugs, textbooks, or water supplies. By contrast, at present, the increased revenues expected from the introduction of the Goods and Services Tax in 2010 would be shared across all sectors. There is some risk involved with this alternative strategy: revenues do not always materialize on time and in the quantity needed particularly in economies with a high share of informal activity as in Sierra Leone. Thus, it would be prudent to secure the increased revenues before the wage bill is increased.

C. PERFORMANCE AND ACCOUNTABILITY

5.58 If public service delivery is to improve, then accountability for results is the necessary corollary to significant pay raises. How to achieve this accountability is a complex subject that cannot be fully addressed here. Yet, the authorities are clearly focusing on the problem. This section of the chapter discusses two recent innovations that are particularly relevant.

1. Ministerial Performance Contracts

5.59 In 2008, the President required each minister to sign Performance Contracts in order to give more weight to key Government objectives. These contracts include priorities and quarterly targets for each key minister. It is anticipated that this innovative reform may be gradually extended to cover the whole of the senior civil service in grades 11 and up.¹⁶⁹ The motivational impact of these contracts could be strengthened by backing them with formal guidelines for the approval of the contracts, the conduct of the review process, and the application of sanctions in the event of poor performance. Progress reports on ministerial performance contracts have been submitted to the President's Strategy and Policy Unit but, like the contracts themselves, they had not been made public.¹⁷⁰ Thus, the motivational impact could be further strengthened by increasing the transparency associated with the performance contracts and associated outcomes. They could, for example, be published as an annex to the annual Budget Speech that is available at low cost to the public at the National Bookshop in Freetown.

2. The Code of Conduct

5.60 The revised draft Code of Conduct, Regulations and Rules (COCRR) would strengthen accountability for performance, if approved. Section 3 establishes a principle that, "in assessing officers for promotion, the criteria of *merit* shall be the over-riding consideration." This represents an important departure for a service which has historically placed seniority above performance. Section 8 defines a performance appraisal process based upon *job plans*. The concept of job plans is parallel to that of ministerial performance contracts and MDA strategic plans. As such, they are a key part of the mechanism for accountability. The job plans specifies not only functions or duties but also what an employee is expected to achieve. This last part, with its focus on results, is most important to accountability. Annual reviews of progress against job plans would then inform decisions about promotions. Section 11 of the draft

¹⁶⁹ This was proposed in the 2004 Public Expenditure Review, World Bank Report No. 29075-SL.

¹⁷⁰ This makes it difficult to verify that the contracts are well aligned with the PRSP or MDA strategic plans.

COCRR includes a number of disciplinary measures to be taken in the event of major infractions. The draft is specific that conflicts of interest and corrupt practices are not acceptable.

Box 5.3: Means of Redress

The draft Code of Conduct and Rules and Regulations of the Civil Service of Sierra Leone provides a redress mechanism for civil servants who believe their rights under the legal framework governing the management of civil servants have been abridged. The system proposed in the draft could overburden the Office of the Cabinet Secretary who would be assigned responsibility for addressing complaints. As an alternative, it may be desirable to create an independent body that satisfies at least the following requirements: (i) its core mission is providing redress; (ii) its decision-making body comprises at least three, and possibly five, members, rather than a single individual; and to reduce the potential for politicized decisions, and (iii) membership on its decision-making body would be achieved through a set of procedures designed to ensure that no sitting Government is likely to be able to appoint a majority of the members.

5.61 The draft COCRR is written as a comprehensive document. As such, it addresses many additional topics beyond the elements discussed above, many of them controversial.¹⁷¹ In order to facilitate the process of reform, the authorities may want to consider some means of adopting the most practical and least controversial portions early and independently of the more controversial aspects.

D. DECENTRALIZATION

5.62 The Local Government Act of 2004 (LGA) re-established 19 district and town councils after a period of 32 years during which Sierra Leone did not have functioning local councils (following their abolition in 1972). Significantly, the LGA also specifies a wide range of public services the functioning of which are to be progressively devolved to the district level.¹⁷² Thus, this section of the chapter focuses on how public service delivery and human resource management intersect.

5.63 The implications of the Act are almost as significant for central MDAs as they are for local authorities because these ministries must re-orientate themselves to the new paradigm. Part V, Section (3) of the Act gives some guidance in this respect, stating that "The relevant Government ministry shall, in respect of the devolved functions: (a) be responsible for policy matters; (b) provide technical guidance to the local councils; and (c) monitor the performance of the functions by the local councils."

5.64 A decentralization initiative of the extent envisaged by the Act is a key contextual factor that should be a driving force for broader civil service reform. This is a two-way relationship - not only will the absence of civil service reform act as a brake on the progress of decentralization but the need for civil service reform and the nature of this reform must be informed by the progressive devolution of functions. At the most basic level recruitment and training activities need to equip the central ministries for their new policy-making, planning, oversight and technical support functions and the local councils for delivery functions.

¹⁷¹ As a small example, Rule 5.31 would allocate two gallons of petrol per day to staff above Grade 9. One might ask why this is better than an incremental salary increase of equivalent value.

¹⁷² See Local Government Act 2004, Third Schedule. Functions devolved to Local councils. The only notable Ministries significant functions of which do not appear in the list are, Finance, Foreign Affairs and Defence

1. Capacity for Service Delivery

5.65 Decentralization is not a guarantee of better service delivery: much depends upon the number and quality of workers providing the services. At present, most of the devolved services are being provided by central MDA staff posted to the districts. These staff remains within the civil service and are subject to all of its strengths and weaknesses as described in Part B above. Only a few core employees have been directly hired by the local councils within the district Governments.

5.66 Most district Governments are doing a good job in providing most (but not all) of the services devolved to them, according to a 2007 study by the Local Government Finance Department.¹⁷³ In particular, a public service delivery survey indicated that most people perceived the quality of key public services had improved following decentralization.¹⁷⁴ While this is welcome news, there are indications that even better results could be obtained. For example, with roughly four-fifths of the population located outside Freetown, it would be reasonable to expect the majority of the non-administrative staff to also be located outside Freetown, serving the district Governments. Yet, during the 2008 civil service verification exercise, 8,380 (56 percent) of the 14,819 verification interviews conducted were held in Freetown despite the availability of 13 additional interview locations spanning the country. This implies that the majority of those interviewed lived in or near Freetown. This is confirmed in the case of the Ministry of Health. Its own survey data suggest that 64 percent of the doctors and 68 percent of the nurses and midwives work in Western Area (see also Chapter 6). Thus, there is the need for a stronger effort to bring more staff to the district level. As a first step, the authorities are encouraged to conduct a comprehensive inventory of the numbers and types of staff who have been assigned to the local Governments and assess whether the level and composition is adequate to meet local needs.

2. Incentives to Provide Public Services

5.67 The commitment of recently recruited local council employees is positive. The challenge now is to find ways to retain not only these staff, but also their energy, motivation and commitment.¹⁷⁵ In this context, some relevant issues are raised below for decentralized MDA staff and for direct hires of the local Governments.

5.68 Pay and amenities. In the case of Sierra Leone, low pay and poor amenities are constraints to the increased decentralization of staff. The issue of low pay in the technical grades is discussed in Section B above. Amenities at the district level are generally poor relative to Freetown, and certainly so relative to the OECD countries. Schools and medical clinics for the employee's children are of poor quality, roads are often impassable in the rainy season, drinking

¹⁷³ See the 2007 report by the Local Government and Finance Department of MOFED entitled "Monitoring Local Councils Finances, Budget Execution, and LGDG Project Implementation for the Period 2005, 2006, and First Quarter 2007."

¹⁷⁴ Based on a comparison of data from the National Public Services (NPS) surveys carried out in February/March 2005 and May/June 2007. See also Chapter 5 of "Decentralization, Democracy, and Development: Recent Experience from Sierra Leone," World Bank, 2009.

¹⁷⁵ The multi-donor supported Institutional Reform and Capacity Building Programme (IRCBP), now entering a second 4 year phase, has provided extensive support to the establishment of local councils, including for the recruitment and training of core council staff.

water is in short supply, and electricity is available only from expensive generators. The issue of amenities may require short-term innovative solutions such as housing and transport allowances while longer-run strategies are being pursued. It is also worth noting that employees directly hired by local Governments are subject to considerable uncertainty regarding the quarterly arrival of their paychecks. Addressing this problem would surely help make local council employment more attractive. It may also help to provide a significant differential in pay for those serving in the districts, an option that the HRMO is considering. Finally, the authorities might consider increased recognition (perhaps through faster promotion) of those who have spent at least a minimum amount of time (with good performance reviews) in rural posts.

5.69 Career opportunities and schemes of service. Career opportunities are presently not an issue related to devolution per se because so many staff remains in central MDA positions even if they are posted in the districts. It could become a problem if this staff is gradually transferred to the LCs where they serve. Career opportunities are however an issue for those who are hired directly by the LCs. At the present time, direct hires at the district level benefit from a salary scale that is slightly higher than what is available in the civil service. These employees are hired, fired, and promoted by the LCs under guidelines established by the Local Government Service Commission (LGSC) rather than the HRMO and PSC. The LGA establishes the Local Government Service Commission with wide powers: 38(1) "The Commission shall be responsible for providing, regulatory, performance management and management functions to the system of decentralized Government established under this Act."

5.70 Thus far, the Local Government Service Commission lacks the capacity to carry out its mandate. More core staff is urgently required. Moreover, the prescription that the LGSC should work closely with the PSC and HRMO (both of which are represented on the LGSC) will not increase the LGSC ability to deliver until the two latter agencies are also strengthened (neither reported having any ongoing operational contact with the LGSC).

5.71 Direct hires interviewed for this report see an integrated service as providing opportunities for career progression and predictable paychecks. The central Government could gain as well: the local staff represents a growing pool of talent and experience to draw upon for central positions. If a unified scheme of service is adopted, there may be scope for integrating the LGSC into the HRMO.¹⁷⁶

3. Managerial Authority and Accountability

5.72 Decentralized MDA staff serve two entities. District level staff of MDAs, although technically devolved to local council management, remain as centrally employed civil servants. They are therefore subject to a hybrid matrix management regime with professional and technical supervision, personnel issues and the funding of their salaries continuing to be centered in Freetown while program management and the operational budgets are devolved to the local councils. The practical operation of this system is still evolving and it is too early to judge whether it will prove to be effective in the long term.

5.73 There are practical benefits from maintaining a centralized MDA role. Three potential advantages of the matrix management arrangement include: (a) settling the financing

¹⁷⁶ This may require amending the LGA.

issue through maintaining central funding of personnel costs, (b) sustaining staff within standard public service terms and conditions, and (c) leaving professional oversight with MDAs with higher level technical expertise. Additionally, the inclusion of these staff in the Civil Service facilitates transfer between councils, through normal posting procedures, and can act as a safeguard against the risk of local corruption.

5.74 Retaining the centralized MDA role can also be problematic. The realization of the matrix benefits described above is dependent upon the MDAs actually possessing the necessary expertise and the willingness of the MDAs and Local Governments to collaborate together in the effective management of human resources for improved public service delivery. There are some problems in this regard. See Box 5.3 for an example drawn from the education sector.

Box 5.4: Primary School Teachers

The appointment of primary school teachers is to be made on the recommendation of the school principle and the school board. Yet, the appointment remains subject to central approval by the Minister of Education. In practice, this approval can take several months. Once the person is employed, he or she may feel mixed loyalty to the school management and to the Ministry. Moreover, he or she becomes subject to many irregularities in payroll management.

- (i) there are multiple schools using the same pay voucher
- (ii) some teachers are receiving salaries but they are not teaching
- (iii) teachers are sometimes mis-categorized, e.g. teachers in tertiary institutions are categorized under basic education
- (iv) there are some duplications of data input
- (v) some teachers are working in schools that have not been approved and are therefore not on the payroll
- (vi) other teachers have not been approved to be on the payroll even though they are teaching in MEYS approved schools.

The transfer of basic education management to Local Councils makes it imperative that a discussion on how teachers are recruited, deployed, managed, and paid take place before a coherent teacher management system is set up.

5.75 An appropriate balance between accountability to MDAs and accountability to LCs needs to be struck. Perhaps the most fundamental objective of the Local Government Act (LGA) of 2004 was to enhance the responsiveness of public service delivery to the needs and demands of the people. The Local Councils are the primary vehicle mandated for that purpose under that LGA. In this context, the LCs must necessarily be granted a significantly enhanced voice in the management of decentralized staff even if they remain within the central administration civil service. For example, LC officials could play a formal role in the selection, promotion, transfer, and sanctioning of MDA staff subject to established due process including repeal and redress. The shared managerial accountabilities between each parent Ministry and each Local Council could be explicit through letters of deployment.

E. OPPORTUNITIES TO FACILITATE PUBLIC SECTOR REFORM

1. Policy Framework and Strategy

5.76 **An over-arching policy framework or strategy can be used to build a winning public sector reform coalition and define stakeholder roles.** Building a winning coalition is easier to achieve when the merits of all the elements of a strategy are clear to the key stakeholders, with something to be gained by all, and with each element linked to and supportive of other elements in the policy.

5.77 **A draft Public Sector Reform Strategy now exists that contains much of the needed elements for success.**¹⁷⁷ In particular, it lays out a comprehensive and well articulated strategy with internally consistent and mutually supportive elements. The strategy is also clear on the importance and necessity of good, two-way communications with all stakeholders. The strategy is less clear, however, with regard to institutional aspects.

2. Institutional Issues

5.78 **The present formulation of the reform program is based upon the concept of a centrally administered civil service.** To work well, centralized models require clearly defined roles and authorities, good information to act upon, and an adequate capacity to act as needed. There are opportunities to improve on each.

5.79 **Clearly defined roles and jurisdiction.** The current system is generally well designed, though, in practice, there are some *over-lapping responsibilities* that lead to confusion. In the recent past, both the Minister of Presidential Affairs and the Cabinet Secretary had been advising the President on public service affairs and leading policy initiatives. The draft Civil Service Law, if adopted, would clarify their respective roles. The Minister would essentially lead public sector policy while the Cabinet Secretary would lead the reform program and coordinate and supervise the work of all administrative heads of ministries and departments in the civil service. To this end, the draft Law states that neither the Minister of Presidential Affairs, nor any other minister shall have the power to personally recruit, appoint, discipline or dismiss individual civil servants.

5.80 **The Public Service Commission (PSC) is constitutionally mandated with respect to issues relating to the recruitment, regrading, transfer, discipline, dismissal and other public service related matters.** The implementation of these decisions is the mandate of the Establishment Secretary's Office, now transformed into the HRMO. Yet, PSC guidance often concerned decisions about specific individuals rather than issues of policy. The constitution does not prohibit this, nor is there anything inherently wrong with the practice other than the fact that it over-laps the role of the HRMO. The draft Civil Service Law, if adopted, is clear that the

¹⁷⁷ PSRU, November 2008. Public Sector Reform Strategy: From Fire-fighting to Effective Coordination.

HRMO is responsible for the administration of all human resource management policies, under the regulatory guidance of the PSC.¹⁷⁸

5.81 Good information. There is no robust consolidated personnel information database covering the entire public service that would allow for policy planning, scenario testing and the prior consideration of trade-offs between broadly defined categories or, through allowing realistic medium term manpower budgeting to take place, between personnel and other expenditures¹⁷⁹ (see Annex 1). The information base on which policy analysis and planning for the sector relies is partial, fragmented and unreliable. It is notable that the military has been able to enter into a deliberate, well planned and accurately costed program of "rightsizing" partly as a result of having a usable database including numbers, ages and ranks of all staff. A similar, reliable database for the civil service (and teachers) would greatly facilitate medium term manpower planning including the development of alternative, costed, reform scenarios and the inclusion of the financial consequences of reform into the medium term expenditure framework. This in turn would greatly facilitate planning of non-personnel related expenditures.

5.82 Verification processes for both the civil service (undertaken) and teachers (underway) should improve the situation. The reconciliation of the results of these exercises with payroll systems and their integration into budgetary projections are fundamental to the establishment of a sound sector development program and will require close collaboration between MOFED and HRMO. Support to the HRMO in this regard is being provided through the RMIP.

5.83 It will be useful to develop a performance monitoring framework that is reasonably standard and capable of assessing progress.¹⁸⁰ Standard indicators might relate to both performance and procedural aspects such as the completeness and validation of personnel records, the rules governing the civil service, equity and objectivity in recruitment or promotion decisions and external safeguards with respect to human resource policies and practice. It is recommended that such a performance assessment framework be jointly developed during further civil service reform program development and validation.

5.84 The centralized model also works best when capacity is amplified by consultation. The quality of the civil service would benefit from more frequent consultations between PSC, HRMO, and the MDAs. For example, officers interviewed for this report indicated that key staff are often transferred without their knowledge, often resulting in lost capacity. Others reported that they were unable to gain access to needed skills because they could not get new positions established. As noted in Chapter 3, the budget process is one opportunity for such consultation¹⁸¹ but there is no reason why consultation could not also be a continuous process of two-way communication.

5.85 Capacity strengthening. Building a new civil service will require much of the PSC and HRMO. It is imperative, therefore, to ensure these two agencies are well prepared to take on the

¹⁷⁸ A new EC project is designed to enable the PSC and HRMO to produce and validate a nationally owned policy and strategy for civil service reform. It is envisaged that the HRMO will lead the implementation including the formulation of a credible medium-term budget for the wage bill.

¹⁷⁹ There is an intention to strengthen the Human Capital Accountability module of IFMIS under the IPFMR Project.

¹⁸⁰ Assistance in this work is expected from the Emergency Capacity Support Program.

¹⁸¹ Strengthening annual manpower hearings is intended in IPFMR Project.

necessary burdens. In this regard, there is an urgent need to fully staff the HRMO.¹⁸² Many positions remained unfilled at the time of this writing. Several officials interviewed for this report indicated that it would also be helpful to further strengthen the staff of the PSC, noting that it often lacks capacity to operate on a timely manner.

5.86 In the short term, a surge of human resource management capacity is required in the principal institutions of the HRMO and the PSC. This capacity surge will help get the reform program up and running and then ensure its sustainability over time. In principle, this will require a combination of short-term reliance on LTAs and a longer-term program of "learning by doing." In practice, unless the process of skills transfer is prioritized and closely managed and monitored, the HRMO and PSC (and therefore the civil service as a whole) will become dependent on high cost LTAs. An exit strategy for LTAs, and the transition of contract civil servants onto standard civil service contracts (as pay and grading reform takes place) must therefore be explicitly designed into any program formulation.

5.87 The draft Civil Service Law provides an additional option that may help relieve some of the pressure on the PSC and HRMO. The Law specifies that the PSC may delegate responsibilities to the HRMO which may, in turn, delegate them to the MDAs. Delegation of basic HRM functions to the MDAs, under appropriate regulatory guidance from the HRMO (subject to PSC review) could allow HRMO to focus more on regulation, planning, monitoring, records keeping, and training policies. It is notable in this regard that the EC is proposing to fund the placement of HR officers in 5 MDAs.

3. Consensus Building

5.88 There is a need to replace a fragmented, largely donor driven approach with a coherent, policy driven approach. This can best be achieved through a broad, consultative process of policy development that engages politicians, civil society, the private sector, service users and civil servants. A clear, concise and widely disseminated policy can then be implemented through a program of change that is supported by a range of Government and donor funded interventions. While these specific interventions will undoubtedly encompass much of what has already been proposed in recent years, the difference will be the presentation of activities as mechanisms in support of one consistent policy rather than stand alone interventions.

5.89 The elements of the reform program can be re-framed as a sector support program to attract donor financing after agreement is achieved. The Government and donors can work together to establish three key pre-conditions to enable the development of a coordinated, multi-donor, sector-wide approach (SWAP). These include:

- Clearly defined institutional leadership, as discussed above.
- Clearly defined financing requirements.
- A coherent Medium Term Policy

In this context, it is recommended that a two- or three-day workshop, involving a wide span of representation, be convened, and tentatively called a Consultative Conference on Civil Service Reform. The objective of the workshop would be to discuss and validate a framework (basic principles and core strategic objectives) of a Civil Service Reform Policy.

¹⁸² A similar need exists for the Local Government Service Commission.

Appendix 5.1: Reform Program Components

There are many proposals pending relating to some aspect of public service reform. These range from proposals that target the Civil Service¹⁸³ reform agenda as a whole to those that focus on specific ministries or sectors but with significant HRM implications. As at March 2009 the following proposals, all of which are characteristically still in draft, have a civil service scope.

- (a) Government of Sierra Leone. Public Sector Reform Unit. Public Sector Reform Programme. Volume 2. Civil Service Reform Programme. December 2008 Draft.
- (b) Government of Sierra Leone. Public Sector Reform Project. Coordinating and Managing Public Sector Reforms. Reforming the Civil Service. February 2009 Draft.
- (c) UNDP. Public Sector Capacity Development Framework. July 2008 Draft.
- (d) European Commission. Project Identification Fiche for Support to the Civil Service Reform Programme,¹⁸⁴ January 2009 and March 2009 Drafts.
- (e) UK Department for International Development (DFID). Civil Service Reform Programme Memorandum, March 2009 (very early draft).

These proposals are intentionally largely overlapping. Document (b) is the specific Government's proposal to donors intended to implement the reform program described in Document (a). Document (c) was one of the precursors of the consultancy exercise that resulted in the production of Document (a), which largely incorporates its recommendations. The EC and DFID have made a specific commitment to supporting civil service reform within their joint country strategy. Documents (d) and (e) are hence intended to operationalize this commitment in a coordinated manner, taking into account the Government's proposals and, in the case of DFID, building on the prior support to public service reform provided since 2002 through the Governance Reform Secretariat Public Sector Reform Program.

The matrix below facilitates an analysis of the common elements across these draft documents (derived from the draft logical framework contained in each).¹⁸⁵ The specific elements have been regrouped under 5 broad headings. Documents (a) and (b) are similar in content.

¹⁸³ the mission is not aware of any proposal the scope of which is the entire public service.

¹⁸⁴ there are two versions of this document, one (Jan. 2009) outlining a sectoral support programme, the other (March 2009) proposing a more limited project approach focussed on capacity building of HRMO, PSC and targeted ministries.

¹⁸⁵ logframe not yet prepared for DFID draft civil service reform programme memorandum.

Table 5A.1: Program Elements

	GOSL Program Document and GOSL Project Document	UNDP	EC (project version)	DFID
1. Policy Development and Reform Management				
Civil Service Reform Visioning/ Policy Development	X		X	X
Reform coordination and management processes	X		X	X
Capacity Building of PSRU	X	X (described as PSRD)		X
Gender mainstreaming	X		X	X
Anti-Corruption Elements	X		X	
Service delivery innovations (e.g. scorecards, public/private partnerships, re-engineering)	X	X		
2. HRM Specific Capacity Building				
Capacity Building of PSC	X		X	
Capacity Building HRMO	X	X focus on training dept, plus middle level unit	X	X
HR officers in MDAs		X focus on training	X	
3. Recruitment/Retention/Rebalancing				
Senior Level Salary Enhancement	X		X	
Middle Level Recruitment Programme	X	X	X	
"Rightsizing"	X		X	X (staff rationalization)
Diaspora Programme	X	X (ongoing)		
Pay and Grading Review	X		X	
Performance Management System	X	X (RBM)	X	
Visioning exercises and further Management and Functional reviews at MDA level.	X	X focus on growth sectors	X	X
4. Civil Service Human Resource Development				
Develop national Capacity Development Policy, Annual Capacity Building conference		X, X also national training policy		
Training courses	X - short term	X - medium term plan	X	
Civil Service Training College	X	X, X also a National Capacity Building Facility		
Masters programme for mid level staff	X			
5. ICT and PFM				
Records Management Improvement (continuation)	X	X Personnel info systems	X	X
PFM support	X		*	*
MDA internal Audits expanded	X		*	*
Asset Management Practices improved	X		*	*
* PFM aspects addressed independently through IPFMRP				

As stated above, each of these proposals is a draft and there is an ongoing process of dialogue between Government and donors around each one. In addition, there are proposals under development with a sectoral perspective which impact on civil service reform (e.g. IPFMP and IRCBP next phases). The cursory analysis of program elements presented in the table is intended only to verify that a full range of technical interventions to address the civil service reform issues identified in Section B are already "on the table." There is therefore considerable potential for a further process through which elements of these proposals are realigned, supplemented and harmonized in support of a medium term sectoral development policy and plan for the Civil Service.

Appendix 5A.2: Data Constraints

The difficulty of obtaining consistent time series data regarding public sector human resource numbers and costs is a symptom of the lack of capacity of key institutions. While the Public Service Commission is formally responsible for recruitment of all civil servants,¹⁸⁶ it did not (as of early 2009) maintain a comprehensive database of posts advertised, numbers of applicants, numbers recruited or any other consolidated data that could inform the study. The HRMO maintains files for each civil servant but also found it difficult to provide consolidated information within a tight timeframe. Many records are also incomplete. Data used in support of this review comes from four main sources: (a) published payroll budgets produced by the Budget Bureau in MOFED, (b) actual payroll expenditures as reported by the Accountant General Department, (c) the preliminary results of the Civil Service Verification Project undertaken during 2008, and (d) prior studies and reports. None of these sources are able to provide a robust time series covering the period of the PER (2002-2008).

It is reported that most MDAs are not aware of the numbers of their own employees.¹⁸⁷ At present, there are major explainable and unexplainable discrepancies. For example, MOFED used a total of 17,123 for the civil service workforce for 2009 while the January 2009 Payroll used a total of 16,081 (MDAs only). Both of those sources are higher than the preliminary results of the Civil Service Verification project that reported 15,467 as the number of civil servants entered on the October 2008 payroll and 15,501 as the number of interviews conducted through the process.

Some of the anomalies arise from variations in categorization (for example whether daily paid employees are included or excluded) but they also reflect both a weakness in systems of records management and a tendency for information collected by one agency to stay with that agency. Fortunately, while there is not absolute consistency between the various figures used in the analysis, the data is considered sufficient to support key conclusions and arguments.

The database arising from the 2008 Civil Service Verification Exercise (supported by the Records Management Improvement Project) does not include levels of civil servant educational achievement or qualifications. Severe shortages of critical skills are reported on a ministry by ministry basis. While various restructuring proposals have been incorporated in Management and Functional Reviews conducted over the period 2002 -2008 the information database needed to conduct rational human resource planning and to prioritize recruitment across the service as a whole is not available in a consolidated form. In the absence of this information (informing either the demand or the supply side of the HR equation) the response is necessarily ad hoc and in response to perceived emergencies rather than a planned and phased approach to the development of the service.

¹⁸⁶ Notwithstanding the recent delegation of responsibility for Grades 1-5 to the HRMO.

¹⁸⁷ Verbal report by the Director-General of the HRMO to a civil servants forum in December 2008.

6. THE HEALTH SECTOR

There is an urgent need to reform health care finance if Sierra Leone's health outcomes are to improve: child and maternal mortality rates remain among the worst in the world. The main problem is traceable to a poorly designed system of health sector financing that leads to low and erratic domestic resource availability (especially with regard to primary health care), leakages, and off-budget spending (including for staffing). Overall sector financing has been falling in per-capita terms even though donor financing has increasingly replaced domestic public financing. In addition, high out-of-pocket costs and poor quality services have reduced household demand for Government provided health care with the result that many facilities are under-utilized. The impact on health outcomes has been mixed.

Options for improving health finance include replacing fees with higher budgetary allocations or subsidized insurance, replacing revolving funds with transparent budgetary transfers to facilities (thus empowering Community Health Boards and Hospital Boards), improving staffing through recruitments coupled with civil service reform efforts to all performance based incentives, and further encouraging the private sector's and NGOs' involvement in the management of health facilities.

A. INTRODUCTION

6.1 Sierra Leone is an outlier among developing nations with some of the world's poorest mortality rates for infants, children, and mothers. This is the consequence of the prolonged collapse of the state that began in the 1980s and continued through the war years. Policy decisions taken during these years tended to worsen an already difficult situation. Despite these difficulties, some progress has been made since the end of the war but much more is needed.

6.2 The chapter explores options for improving the level, effectiveness and efficiency of health sector expenditures in the following manner. Section B helps explain the depth of today's challenges and provides some explanations of how the situation became so dire. Section C describes what the Government intends to achieve and how. Section D examines the level and composition of health spending, noting that the overall provision of public resources for the sector has declined. Section E discusses a number of key issues including low utilization of facilities, high out-of-pocket costs, low quality of services, and the role that the present health sector financing policy plays in generating these results. Policy options for addressing the issues raised are provided throughout the chapter. Section F lays out options for reforming the system of health care finance.

B. HEALTH OUTCOMES

6.3 Sierra Leone has long had some of the worst health indicators in the world. According to World Health Organization (WHO) data, the average life expectancy for Sierra Leoneans in the early 1980s was 42 years. This was the lowest outcome in the world, shared by Afghanistan and Ethiopia. Life expectancy worsened to 38 years by 1990 and stayed at that level through 2000, still the lowest in the world. By 2007, life expectancy in Sierra Leone had

improved to 41 years but the rest of the world had improved as well so that Sierra Leone's outcome remains the lowest in the world. A new Demographic and Health Survey from 2008 provides an alternative estimate of 47 years—as compared to 52 years for the Africa region and 57 years for low income countries (see Table 6.1).

Table 6.1: Selected Health Indicators 1990-2008

	WHO (1990)	MICS2 (2000)	MICS3 (2005)	WHO (2007)	Preliminary DHS (2008)	Average Low Income WHO (2005-07)
Life expectancy at birth	39 years	n/a	n/a	41 years	47 years	57 years
Infant mortality rate						
0 - 4 years prior to survey	..	..	..	..	89/1,000	..
5 - 9 years	..	..	..	..	132/1,000	..
10-14 years	169/1,000	170/1,000	158/1,000	155/1,000	120/1,000	80/1,000
Under five mortality rate						
0 - 4 years prior to survey	..	..	..	..	140/1,000	..
5 - 9 years	..	..	..	..	195/1,000	..
10-14 years	290/1,000	286/1,000	267/1,000	262/1,000	190/1,000	126 /1000
Maternal mortality rate	n/a	1,800	n/a	2,100/100,000	857/100,000	650/100,000
Fertility rate per woman	6.5	n/a	n/a	6.5	5.1	4.2
Youth dependency ratio	0.71	n/a	0.78	0.75	n/a	0.64
Stunting %	..	34	40	..	36.4	

Sources: MICS (2000), MICS (2005), DHS (2008), and World Health Statistics, WHO (2009).

6.4 Infant, child and maternal mortality remain significantly high. According to an estimate from the third Multiple Indicators Cluster Survey (MICS3) for 2005, the infant mortality rate was 158 deaths for every 1,000 live births. The new DHS estimates per 1,000 live births are 132 for those born 5-9 years before 2008 and 89 for those born 0-4 years before 2008. By contrast, WHO reports an average of 80 deaths per 1,000 births for low income countries and 88/1,000 deaths for the African region. Deaths for children under 5 years of age are also high. The MICS3 estimate for 2005 was 267 deaths for every 1,000 live births while the DHS estimates are 195 for those born 5-9 years before 2008 and 140 for those born 0-4 years before 2008. For comparison, WHO reports an average of 126 deaths per 1,000 births for low income countries and 145/1,000 deaths for the African Region. Estimates of maternal mortality vary widely from an extreme of 2,100 deaths per 100,000 births (WHO) to a low of 857 deaths per 100,000 births (DHS). What is certain is that the maternal mortality rate is too high: the low income average per 100,000 births is 650 deaths while the African average is 900 deaths. The high mortality rates leading to higher than average births per mother and thus high dependency ratios.¹⁸⁸ The ramifications go beyond the quality of life: countries with high dependency ratios typically have lower savings rates (see Appendix 6.1).

6.5 Most premature deaths in Sierra Leone have been associated with communicable diseases. According to WHO data for 2004, 83 percent of all premature deaths were attributable to communicable diseases. Chief among these are pneumonia, diarrhea, and malaria. Rural populations, and females within the rural population, have the highest incidence of these diseases. Non-communicable diseases like diabetes, cancers and cardio-vascular diseases accounted for 11 percent of premature deaths. These are beginning to account for a significant proportion of deaths among the adult population. Injuries accounted for the remaining 6 percent.

¹⁸⁸ According to Chapter One of the World Development Report 2007, Sierra Leone is in a small, unique group of countries that continue to display high or rising dependency ratios.

Box 6.1: Can Mortality Rates be Compared Across Time?

Comparisons across time from the MICS and DHS reports point to an improvement but this information is not conclusive. The two surveys use different methodologies and different sample designs. According to a recent jointly produced paper from WHO, UNICEF, and the World Bank, there are two approaches to calculating infant and under-five mortality rates. Direct methods require each child's date of birth, survival status, and date or age at death. This information can come from vital registration systems or household surveys that collect complete birth histories. Indirect methods require less detailed information that is available in censuses and general surveys, including the total number of children a woman has ever borne, the number who survive and the woman's age (or the number of years since she first gave birth). However, indirect methods require model life tables to adjust the data for the age pattern of mortality in the general population. Yet, these tables are derived largely from European rather than African experience. Different data sources and calculation methods can therefore often yield widely differing estimates of infant and child mortality for a given time and place.

Source: UNICEF, WHO, The World Bank and UN Population Division, 'Levels and Trends of Child Mortality in 2006: Estimates Developed by the Inter-agency Group for Child Mortality Estimation', New York, 2007.

6.6 Outcomes in other sectors have not sustained improvements in health outcomes. According to the PRSP-2, as much as 46 percent of all premature child deaths can be attributed to malnutrition. Malnutrition is a multi-sector phenomenon that can result from any or all of the following causes: low food production, poor food storage, poor nutritional content in available foods, ineffective transportation networks, or low purchasing power within families and between countries. Children in Sierra Leone are generally malnourished. According to DHS estimates, 21 percent of children under age 5 in 2008 were found to be underweight or too thin for their age while 34 percent were stunted or too short for their age and 10 percent were wasted or too thin for their height. Access to clean water (53 percent in 2006) and access to safe sanitation (11 percent in 2006) are major factors affecting the health status of the Sierra Leone population. Finally, many studies suggest that access to education by young women is one of the stronger predictors of health outcomes. For example, women with a secondary education tend to employ better nutrition, and make more use of contraception, and use health facilities more than those with less education. In Sierra Leone, there is room for improvement: according the UN Human Development Report, the female literacy rate was 27 percent between 1997 and 2007.

6.7 Sierra Leone's poor health outcomes are the legacy of a series of multiple crises that began decades ago: a shrinking economy, poor policies, and war. The economy reached its peak output in 1982 and collapsed between 1983 and 1988 as a consequence of inappropriate macroeconomic policies. By 1988, real GDP had fallen 16 percent below the 1982 value. This was accompanied by a significant reduction of public expenditures as a share of GDP. In 1982, total spending was the equivalent of roughly 25 percent of GDP. By 1988, it had fallen to approximately 16 percent of GDP. This was followed by a reduction in the share of the budget spent on health from close to 8 percent in 1982 to approximately 3 percent in 1988 where it remained for several years. (The average for the African region in that period was 8 percent.) In other words, the public health sector received a shrinking share of a shrinking budget. Making matters worse, according to a 1993 World Bank report, the Government used the civil service in this period of collapse as a safety net, vastly expanding the number of daily and temporary workers to the point where the Ministry of Health was forced to reduce spending on essential

personnel, drugs, medical supplies, and fuel.¹⁸⁹ Wages were so low that doctors frequently performed private medicine within public facilities. Official fees for services tended to drive away the poor and almost all staff demanded gratuities for services, whether for medical procedures, provision of drugs, or admission to facilities. Poor governance led to considerable waste, further exacerbating the situation. In addition, the distribution of services was strongly biased in favor of Freetown to the disadvantage of the rest of the population.¹⁹⁰ The civil war significantly worsened health outcomes as services collapsed and more trained health workers fled the country. Thus, by the time the war ended in January 2002, about 75 percent of the country's health care facilities were not functional, either because of destroyed buildings, vandalized equipment and supplies, or lack of staff.

6.8 Access to health facilities has improved since the end of the war. According to the PRSP-2, by end of December 2007, 867 PHUs and three tertiary hospitals had been rehabilitated. Well over half (62 percent) of households had access to a Government clinic within 60 minutes. This represents a significant increase from 2005 when it was only 48 percent and 2007 when it was 53 percent (see Table 6.2). There have been some slippages as well. For example, the percent of clinics that were open fell from 88 percent in 2006 (already low) to 82 percent in 2008.¹⁹¹ In addition, patients continue to face shortages of qualified health care staff despite progress made in filling health positions (see also section E.3.a on Human Resource Management.)

Table 6.2: Access to Government Health Care Providers

Time to Government clinic/hospital	percent of households		
	2005	2007	2008
One hour or less	48	53	62
Between 1 and 2 hr	18	24	22
Over 2 hours	33	21	14
None nearby	1	2	2

Source: IRCBP 2008 National Public Services Survey.

6.9 There has been mixed progress¹⁹² in the coverage of health services critical to reducing child and maternal mortality, as shown in Table 6.3. New vaccines like pentavalent and yellow fever were introduced in the health system. Vaccine potency in PHUs has greatly improved in the EPI program due to the solarization of the cold chain and the training of staff on cold chain management. Vaccinations for neonatal tetanus toxoid, and for childhood diphtheria, pertussis, and tetanus (DPT3) both improved. The share of households using insecticide treated bednets (ITNs) for children and pregnant mothers increased sharply after wide donor sponsored ITN distributions in 2006. The share of children with diarrhea that were given oral rehydration therapy (ORT) increased to 68 percent in 2008 from 60 percent in 2005.

6.10 There have been some reversals as well, if the data are correct and comparable.¹⁹³ Vaccination coverage for tuberculosis (BCG), measles, and polio all fell in 2008 relative to 2005

¹⁸⁹ World Bank Report No. 11371-SL.

¹⁹⁰ This was also observed in the 1994 PER, World Bank Report No. 12618-SL.

¹⁹¹ National Public Services Survey.

¹⁹² The trends reported here are derived from primary source documents. They differ in some cases from trends reported in the PRSP-2 which did not cite its sources.

¹⁹³ The DHS estimates for 2008 may or may not be directly comparable to the MICS2 and MIC3 estimates for reasons of sample size and design and methodological differences.

outcomes. Thus, the share of children who received all key vaccinations also fell, from 54 percent in 2005 to 40 percent in 2008.¹⁹⁴ In addition, the share of children that were given anti-malarial drugs within 24 hours of the development of malarial fever also fell, from 45 percent in 2005 to 15 percent in 2008. It is also worth noting that the number of births with skilled health workers in attendance remained in the 42-43 percent range, with especially low coverage of 33 percent in rural areas. By contrast, according to WHO data, the African average is 55 percent. In fact, according to MOHS sources, the majority of births, especially in the rural areas are attended by so called “traditional birth attendants,” most with little or no training.

Table 6.3: Trends in Health Inputs, 2000-2008

	2000	2005	2008		
			Total	Urban	Rural
Maternal and New-born Health					
Skilled antenatal care	68	81	87	94	84
Skill birth attendance (%)	42	43	42	67	33
Neonatal Tetanus Toxoid (%; 2 doses)	58	75	78	87	75
Pregnant women sleeping under ITN's (%)	..	..	28	22	30
Diarrhea					
Children with diarrhea given ORT (%)	86	60	68	78	65
Vaccination, Children 12-23 months					
Vaccination Coverage, all vaccinations (%) a/	..	54	40	40	40
Vaccination Coverage, BCG (Tuberculosis) (%)	..	86	82	89	80
Measles (%)	..	77	60	65	58
Polio (%; 3 doses)	..	65	50	54	48
DPT3 Coverage (%) b/	46	56	60	70	57
Malaria					
ITN Household Usage (%)	2	5	37	37	37
Children sleeping under ITN's (%)	2	5	26	30	24
Children given anti-malarials, 1day of fever (%)	..	45	15	18	14

a. Includes BCG, measles, 3 doses of DPT, and polio.

b. The DPT vaccine in Sierra Leone has five-components: diphtheria, pertussis, tetanus, hepatitis B and Haemophilus influenzae type b.

Sources: MICS2 for 2000, MICS3 for 2005, DHS for 2008.

6.11 The rate of coverage remains too low for most services, even where there has been improvement. In general, because these are preventative interventions, the authorities should aim for coverage rates approaching at least three quarters of the population, if not more. Yet, as Table 6.3 shows, most services reach far less. In response, the authorities and their donor partners may want to consider directing additional resources to these critical activities. If additional resources are not available, it may be justifiable to redirect resources from curative and elective programs in the hospitals, on the grounds that PHC can reduce the demand for curative and elective services which generally take place at the secondary and tertiary levels.

6.12 There was marked improvement in the HIV/AIDS program implementation according to PRSP-2. By the end of 2005, there were only 20 Voluntary and Confidential Counseling and Testing sites in the country but by the end of 2007 a total of 82 sites had been established. With regard to “Prevention of Mother-To-Child Transmission” sites, there were only 18 sites nationwide in 2005, but by the end of 2007 Prevention of Mother-To-Child Transmission sites had increased to 163. The prevalence among antenatal clinic attendants had risen from 3.5 percent in 2005 to 4.4 percent in 2007. Service delivery points that provide Sexually Transmitted Infection services according to national guidelines were 765 in 2005. By

¹⁹⁴ These include BCG, measles, 3 doses of DPT, and polio.

end of 2007, Sexually Transmitted Infection service provision sites had increased to 850. Furthermore by 2007, the number of people receiving Anti-Retroviral Therapy had increased to 2,649 and condom distribution stood at 950,000.

C. GOVERNMENT POLICY

6.13 National priorities are well matched to ongoing challenges but the approach to sector financing needs to be revisited. Current health sector policy documents place emphasis on primary health care (PHC) and increased coverage through decentralization. Public health services are funded primarily through donor support, budgetary contributions, and “out-of-pocket” fees paid by individuals to the facilities providing their care. As will be discussed in Section IV and beyond, this approach is not working well.

1. Coverage and Priorities

6.14 The strategic priorities identified for the health sector in PRSP-2 are consistent with the 2002 National Health Policy (NHP). The Government health sector policy is officially set out in the 2002 National Health Policy.¹⁹⁵ The policy goals are appropriate and shaped by post-conflict priorities, focusing mainly on reducing the incidence of communicable diseases through emphasis on primary health care and rebuilding the health system after years of war. The 2002 policy and some of the supporting sector strategies and plans are discussed below.

6.15 The health service organization in Sierra Leone is based on the primary health care concept which was started in the 1980s. The public health delivery system comprises three levels: (i) peripheral health units (referred to here as PHUs or clinics) for first line primary health care; (ii) district hospitals for secondary care; and (iii) regional/national hospitals for tertiary care. Following the Local Government Act (2004), many aspects of primary health care delivery have been devolved to the Local Governments with secondary health care expected to follow soon.

6.16 The majority of health facilities are provided by the Government. In 2009, there were 1,029 facilities, of which 915 belong to the Government. These are appropriately decentralized (851 are located outside the Western Area) and aim predominantly at primary care (874 out of 915). The 49 mission and 17 NGO facilities are well decentralized while just under half of the 48 private facilities (mainly clinics) are located outside the Western Area. Traditional healers and traditional birth attendants are reported to be providing a significant amount of health care.

6.17 The 2002 National Health Policy explicitly recognizes the constraints of an aid dependent, poorly staffed, and poorly managed sector. The policy sought to conserve scarce resources by minimizing the duplication of, and better regulating the provision of, services already offered by missions, NGOs, and private firms. At the same time, the policy sought an increase in the level of support from international partners for development activities and for the operating costs of the health sector. Staff shortages and regional disparities were acknowledged

¹⁹⁵ Technical policies exist for a number of these health priorities, which set specific objectives, targets, strategies and where appropriate treatment protocols. In August 2002, these were policies on Environmental Health, Immunization, Drugs, Health Education, Malaria and HIV/AIDS (draft) and a national strategy for the Development of Prosthetics and Orthotics Services.

and were to be remedied through the development of a manpower plan, increased recruitment (including expatriates who meet quality standards), training, incentive payments for hardship posts, and performance based promotions. Capital expenditures would be focused mainly on rehabilitating the network and reducing regional disparities in coverage. The policy also initiated a process of decentralized control, removing the MOHS from the direct provision of some services and positioning the sector for the expected decentralization process that began in 2004. Efforts would be made to improve sector monitoring and evaluation, including the introduction of a management information system.

Table 6.4: Millennium Development Goals and RCH Strategic Plan Targets

	1990 Estimated Actual	2005 Estimated Actual	2008 Estimated Actual	2010 RCH Target	2015 MDG Target
Reduce by two thirds, between 1990 and 2015, the under-five mortality rate (deaths per 1,000 live births)	290 (WHO)	267 (MICS3)	140 (DHS) 262 (WHO)	186	97
Reduce by three quarters the maternal mortality ratio (deaths per 100,000 live births)	..	2,100 (WHO)	857 (DHS)	1,470	525
Have halted by 2015 and begun to reverse the spread of HIV/AIDS (percent of population ages 15-49)		1.6 (WHO)	1.5 (DHS)	1.7 (WHO)	< 1.6
Have halted by 2015 and begun to reverse the incidence of malaria (children with fever receiving anti-malarial drugs)		45 (MICS3) 52 (WHO)	30.1		> 45
Have halted by 2015 and begun to reverse the incidence of tuberculosis (per 100,000 people)		509 (WHO)	574		< 509

6.18 The Reproductive and Child Health (RCH) strategic plan addresses Sierra Leone's outlier status on these indicators. This plan was endorsed by the President in February 2008 and is supported by development partners in the sector. The goal is to reduce maternal, under-five and infant mortality rates by 30 percent of the 2005 values by 2010. These goals are supportive of the MDG targets set for 2015. These objectives are to be achieved by significantly increasing the numbers of Maternal and Child Health Aides, State Enrolled Community Health Nurses (SECHNs) and Community Health Officers (CHOs); ensuring facilities have essential equipment and are functioning efficiently; increasing the utilization of RCH services; ensuring that appropriate laws, regulations, rules and guidelines are developed and enforced; contributing to better monitoring and evaluation; ensuring effective governance and management across the health system; and ensuring adequate coordination of work at all levels of the health system.

Box 6.2: Do RCH Targets Need to be Revised?

Two of three RCH targets may have been met and exceeded two years early -- if the DHS data can be compared to MICS data (See Box 6.3). The 2008 DHS estimate of 89/1,000 for infant mortality is 44 percent less than the 2005 MICS estimate of 158/1,000. The 2008 DHS estimate of 140/1,000 for under 5 mortality is 48 percent less than the 2005 MICS estimate of 267/1,000. The third target, for maternal mortality would also have been exceeded: The 2008 DHS estimate of 857/100,000 for maternal mortality is 59 percent less than the WHO estimate of 2,100/100,000. If RCH targets have been met, then it would be sensible to revise them with the goal of further progress.

6.19 To work well, the 2002 National Health Plan and RCH Strategic Plan need to be accompanied by fundamental reforms to reduce out-of-pocket costs, improve sector management, and strengthen human resource management through civil service reforms. These topics are discussed in sections 6.E and 6.F below.

6.20 Decentralization of services is a key feature of the national health policy. Following the Local Government Act, the GOSL embarked on a decentralization program with responsibility for most basic human services handed to the Local Councils (LCs). These include primary and secondary health care. Three district level tertiary hospitals (Bo, Makeni and Kenema Government Hospitals) remain under the control and budget of the MOHS.¹⁹⁶ As will be discussed below, the decentralization process has started well with room for additional improvements, notably with regard to (i) the adequacy and timing of central Government transfers; and (ii) the degree to which decision making has been devolved notably with regard to control over health care workers.

2. Health Sector Financing

6.21 Public health services are funded from various sources: primarily through donor support, budgetary contributions, and “out-of-pocket” fees paid by individuals to the facilities providing their care. According to Section 10 of the 2002 National Health Policy (NHP), the Government will work, within the constraints of the economy and other competing priorities, to increase the finance available to the health sector to a level commensurate with other countries in a similar economic condition. The HIPC initiative provides an important mechanism whereby Government commitments to the health sector can be increased. The Ministry of Health and Sanitation is charged with responsibility for the co-ordination of external financing to the health sector.

6.22 There are currently a number of schemes operating at different institutions to charge for drugs, supplies, and services. These have arisen as a result of the Bamako Initiative (see Box 6.3) and various complementary cost recovery schemes. According to the 2002 NHP, the Ministry of Health and Sanitation is expected to review such schemes and develop a unified charging system consistent with its principle of equity. This will include mechanisms for exemptions for vulnerable groups and for those conditions which, on public health grounds, warrant exemptions. Government was also to develop options to exempt school-going children, under fives, pregnant women, lactating mothers up to 12 months duration and citizens over 65 years in age in the development of the unified charging scheme. The charging policy was also to take account of the services provided by NGOs and the church-related sector. In addition, the Ministry of Health and Sanitation was, in the medium-term, to investigate the possibility of a national health insurance scheme.

6.23 With the benefit of hindsight, the financing policy did not achieve its objectives. On the one hand, reliance on external donors for substantial support would seem to be a good way to augment the Government’s weak revenue effort of only 11 percent of GDP. Yet, as Chapter 1 demonstrated, external aid is inherently unpredictable and volatile. This adversely affects the ability to implement programs. (See also section 6.D below on budget execution.) On the other hand, out-of-pocket payments from households represent a weak and price elastic revenue base.

¹⁹⁶ See section V.B below: it appears that this should be amended to five hospitals.

As will be discussed below, this puts the Government in a quandary: every Leone in fees will tend to reduce the demand for services (see section 6.E), all the more so when quality is low, and yet exemptions will reduce needed revenues. In addition, and perhaps as a consequence of this quandary, the Government has yet to develop of a unified, equitable system.

Box 6.3: Cost Recovery and the Bamako Initiative

In 1987, African Health Ministers attending the 37th regional meeting of the World Health Organization (WHO) in Bamako, Mali, addressed the health care crisis by embracing a new strategy intended to accelerate primary health care, particularly for children and women in their regions.

The strategy, known as “The Bamako Initiative”, seeks to use the sale of essential drugs as an entry point in PHC through Maternal and Child Health (MCH) posts and other Peripheral Health Units at district and peripheral levels. The major advantages of user fees and co-payments were thought to include regular cash revenue for facilities and incentives for staff through performance based payments.

Following successful implementation of the Essential Drugs Cost-Recovery program in 1986/1987, the MOHS began the process of incorporating this strategy into its policies. A committee of experts was appointed to prepare a program proposal for the implementation of MCH/PHC according to the Bamako Initiative strategy phased towards a national coverage. Such a proposal was finalized in December 1988, and was presented for donor funding in 1989. Initial funding and implementation began in mid-1990. A key element of the proposal was to establish a 180 percent mark-up on the cost price of essential drugs as a target to attain in order to cover the cost of other MCH/PHC activities and achieve self-sustainability at the community level.

6.24 The exemption of women and children from all fees will require supporting policy changes if the health system is to be financially sustainable. In November 2009, the Government officially announced women and children would be exempt from fees (a restatement of the 2002 NHP). This change is likely to increase demand for health services. At the same time, it will undercut the resource base and compensating measures will be needed. Options are discussed in sections below.

6.25 The intention to establish a National Health Insurance scheme is included in the 2002 National Health Policy and the PRSP-2. According to discussions with health sector authorities, the current thinking is that national insurance could help address the problem posed by out-of-pocket payments. Neither document provides specific details about the scope of coverage to be provided (neither by services nor by type of provider), nor the means of financing such a scheme. It will be important to get more specific as the dialog within Government continues. For more on this topic, see section 6.F below.

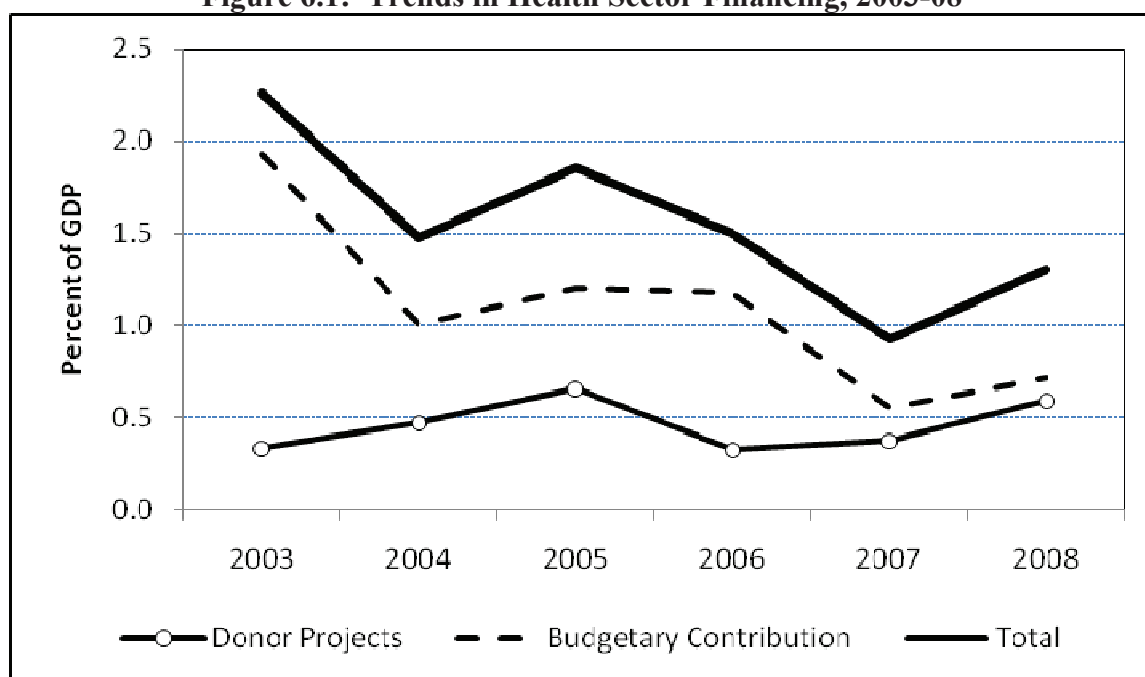
D. HEALTH SECTOR EXPENDITURES

6.26 Health spending was boosted as a result of debt relief in 2002 and 2003 but declined afterwards. In fact, total spending has been falling as a share of GDP despite rising donor project disbursements and it remains below the regional average. Relatively more seems to be spent on health care workers than on the resources they need to deliver services, particularly for PHC. These and other observations are discussed below.

1. Trends in the Level of Health Sector Expenditures

6.27 **Financing for the public health sector substantially increased in 2002 and 2003** as a consequence of debt relief from the Heavily Indebted Poor Countries (HIPC) Initiative.¹⁹⁷ When the HIPC Decision Point was reached in 2002, substantial debt relief was pledged on the condition that the authorities would direct the additional resources to poverty reducing programs, including those in the health sector. This was achieved through the use of a supplemental budget in 2002 which increased the level of non-wage, non-interest (primary) spending in the recurrent budget and the domestic portion of the development budget. This can be seen in Table 6.5 where the share of the budget allocated to the health sector (excluding donor financing) increased from 6.4 percent in 2001 to 9.2 percent in 2002 and 10.5 percent in 2003. This allowed spending to increase to 2.3 percent of GDP (US\$4.3 per capita).

Figure 6.1: Trends in Health Sector Financing, 2003-08



6.28 **Financing for the public health sector in Sierra Leone has declined since 2004 even as donor aid increased.** As shown in Table 6.5, total public health expenditures have declined as a share of the national budget, as a share of GDP, and in terms of US\$ per capita. Expenditures (excluding donor financing) fell from 10.5 percent of the budget in 2003 to 5.4 percent of the budget in 2008. Expenditures expressed as a share of GDP fell from 1.9 percent in 2003 to 0.7 percent in 2008. Spending expressed in US dollars fell from US\$3.7 per capita in 2003 to US\$2.4 per capita in 2008 with some ups and downs during this period. At the same time, donor project disbursements increased from an estimated US\$3.3 million in 2003 to an estimated US\$11.6 million in 2008. This allowed total spending, including donor financing, to

¹⁹⁷ Interim debt relief was provided from 2002 through 2006 when the HIPC Completion Point was reached. At that point, permanent debt relief was provided. This was augmented by the Multilateral Debt Relief Initiative. Taken together, total relief is the equivalent of US\$1.6 billion over 30 years.

reach US\$4.3 per capita in 2008, the same level that was achieved in 2003. In essence, donor aid did not provide additional resources to Government resources but rather substituted for it. This can be seen graphically in Figure 6.1 where total sector financing is falling as a share of GDP and the contribution from donor projects is rising.

Table 6.5: Public Health Sector Financing, 2001-08

In Millions of Leones	2001	2002	2003	2004	2005	2006	2007	2008
Actual Expenditures a/	..	..	52,543	42,776	65,227	63,229	46,131	76,672
A. Domestic	23,565	33,806	44,794	29,106	42,221	49,454	27,620	41,942
B. Donor Financing b/	..	..	7,749	13,670	23,006	13,775	18,512	34,730
Donor Project Disbursements								
As % Expenditure	..	..	14.8	32.0	35.3	21.8	40.1	45.3
In US\$ Millions	..	..	3.3	5.1	8.0	4.7	6.2	11.6
Domestic Health Expenditures								
As % Total Budget	6.4	9.2	10.5	6.4	8.1	7.9	4.8	5.4
As % GDP	1.5	1.7	1.9	1.0	1.2	1.2	0.6	0.7
In US\$/Capita	2.5	3.3	3.7	2.0	2.6	2.9	1.6	2.4
Total Health Expenditures								
As % GDP	..	..	2.3	1.5	1.9	1.5	0.9	1.3
In US\$/Capita	..	..	4.3	2.9	4.0	3.7	2.6	4.3

a. Excludes revenue collected and retained by public facilities.

b. Development budget contains both recurrent and capital expenditures.

Sources: Ministry of Finance and Economic Development and staff calculations.

6.29 Public expenditures on health care are well below international standards. Total spending, including donor project disbursements, fell from 2.3 percent of GDP in 2003 to 1.3 percent of GDP by 2008. By contrast, according to WHO estimates, the regional average for Africa was 2.6 percent of GDP in 2006. Sierra Leone's total might be somewhat higher if one could compensate for the lack of information about how much is spent from fees levied by various health facilities, incomplete information on donor project disbursements, and NGOs financing.

6.30 Public spending on health is low because of falling budgetary allocations, donor shortfalls, and poor budget execution. The trends above describe actual spending outcomes. In fact, the budget allocations meant for the health sector were higher than what was actually spent. As documented in Chapter 2, MOHS substantially¹⁹⁸ under-spent its allocations in 6 out of 8 years between 2001 and 2008. This can also be seen in Table 6.6. Transfers to the Local Councils, including those meant for the health sector, were also below target in every year since they began (except for 2006). This has adversely affected the ability of the Local Councils to implement their budgets as planned. If the budgeted allocations in 2008 had been fully spent, and if all expected donor aid had been disbursed, then spending would have been US\$5/capita rather than US\$4.3/capita. An even better outcome could have been achieved if the budgetary share in 2008 (7.6 percent) had been as high as the peak share (12.3 percent) allocated in 2003. Had that been done, then spending in 2008 would have been US\$7.2/capita. For more on how the system of health care financing influences the outcomes described above, see Section 6.E.

¹⁹⁸ Substantial under-spending is defined here as deviations in excess of 5 percent of the allocated amount.

Table 6.6: Public Health Sector Allocations, 2001-2008

In Millions of Leones	2001	2002	2003	2004	2005	2006	2007	2008
Budgetary Allocations a/	70,247	67,334	77,716	85,832	87,853	88,083	114,949	88,217
A. Domestic	23,937	41,586	50,794	48,262	47,083	56,723	68,939	65,212
1. MOHS	23,937	41,586	50,794	48,262	38,557	47,601	58,239	47,192
2. Transfers to Local Councils b/	0	0	0	0	8,526	9,123	10,701	18,021
B. Donor Financing	46,310	25,748	26,922	37,570	40,770	31,360	46,010	23,005
Dom. Expend. as % Allocations	98	81	88	60	90	87	40	64
MOHS	98	81	88	60	99	85	44	59
Transfers to Local Councils	..	..	..	..	45	100	20	79
Domestic Health Allocations								
As % Total Budget	6.3	11.0	12.3	10.3	9.0	9.2	9.3	7.6
As % GDP	1.5	2.1	2.2	1.7	1.3	1.3	1.4	1.1
In US\$/Capita	2.6	4.0	4.2	3.3	2.9	3.3	3.9	3.7
Total Health Allocations								
As % GDP	4.4	3.4	3.3	3.0	2.5	2.1	2.3	1.5
In US\$/Capita (actual allocations)	7.5	6.5	6.4	5.9	5.4	5.2	6.6	5.0
In US\$/Capita (12.3% allocation)	..	..	..	6.5	6.5	6.3	7.9	7.2

a. Excludes revenue collected and retained by public facilities.

b. Transfers to Local Councils are a proxy for actual spending. 2007 and 2008 data are from MOHS.

Sources: Ministry of Finance and Economic Development and staff calculations.

Box 6.4: How Much Spending Is Enough?

The WHO Commission on Macroeconomics and Health (CMH) estimated in 2001 that a basic package of essential health services would cost \$34 per capita. In the same year, African leaders meeting in Abuja pledged to devote 15 percent of government budgets to health (the so-called "Abuja target"). In fact, very few governments, whether in rich or poor countries, spend such a large share on health. Even if all governments were able to meet the Abuja target, this would allow only five countries to also meet the CMH target. Analysts have since questioned whether the \$34 figure is appropriate in the African context. This suggests that it may be more important to focus on how to make the best use of the resources that are available. In this context, perhaps the most important elements for success are empowering providers to use what they have as they see fit and holding them accountable for results, both to the communities they serve and to the Government that funds them.

Source: Summarized from USAID, 2008, *Innovations for Health Financing in Sub-Saharan Africa: A Roundtable Discussion*, December.

2. Composition of Expenditures

6.31 **The composition of healthcare public spending is examined here from two angles, by object code, and by program.** Both approaches reveal useful information. The object code data reveal a situation where spending on health care workers appears to be increasing as a share of health expenditure while spending on the inputs needed for service delivery is falling in absolute terms. The program code data show that expenditure reductions in 2008 feel disproportionately on service delivery rather than administration, with PHC and support services taking the largest hits. The data also raise questions on how much spending authority has actually been devolved to the Local Councils and Hospital Boards.

a. Spending by Object Code

6.32 Spending on personnel remained constant as a share of GDP between 2006 and 2008 but increased as a share of the health budget. Personnel spending was the equivalent of 0.3 percent of GDP in each of the years between 2006 and 2008. The share of personnel spending increased, however, from 28 percent of the total in 2006 to 36 percent of the total in 2008 (as shown in Table 6.7) because spending on goods and services fell. Indeed, the high share shown for personnel in 2007 is the result of compressed spending on goods and services that year in response to severe resource shortfalls.

Table 6.7: Composition of Public Health Expenditures by Object Code, 2006-08

	In Millions of Leones			As Shares of Total		
	2006	2007	2008	2006	2007	2008
Personnel	13,634	14,391	16,470	27.6	52.1	35.6
A. Salaries	6,642	7,527	8,802	13.4	27.3	19.0
B. Allowances	6,304	6,510	6,927	12.7	23.6	15.0
1. Medical	1,079	1,472	1,530	2.2	5.3	3.3
2. Other	5,225	5,038	5,397	10.6	18.2	11.7
C. Other	688	354	741	1.4	1.3	1.6
Goods and Services a/	26,504	11,037	14,650	53.6	40.0	31.6
A. Service Delivery	19,886	8,209	11,309	40.2	29.7	24.4
2324 Diets and Feeding	3,560	4,903	3,671	7.2	17.8	7.9
2325 Drugs and Medical Supplies	9,253	0	1,660	18.7	0.0	3.6
2292 Misc. Operational Expenses	3,303	2,772	2,716	6.7	10.0	5.9
All Other	3,770	534	3,262	7.6	1.9	7.0
B. Administration	5,332	2,344	2,335	10.8	8.5	5.0
2241 Office and General	1,294	167	437	2.6	0.6	0.9
All Other	4,038	2,177	1,898	8.2	7.9	4.1
C. Maintenance (2261-64)	217	45	241	0.4	0.2	0.5
D. Staff Development (2311-13)	1,068	590	765	2.2	2.1	1.7
E. Other b/	0	-151	0	0.0	-0.5	0.0
Domestic Development	200	0	914	0.4	0.0	2.0
Transfers to Local Councils	9,116	2,191	14,273	18.4	7.9	30.8
GRAND TOTAL a/	49,454	27,620	46,307	100.0	100.0	100.0
GDP Shares (%)	1.2	0.6	0.8			
Personnel	0.3	0.3	0.3			
Goods and Services	0.6	0.2	0.2			
o/w Service Delivery	0.5	0.2	0.2			
Domestic Development	0.0	0.0	0.0			
Transfers to Local Councils	0.2	0.0	0.2			

a. Data for 2008 do not match the official estimate provided by the Accountant-General's Department.

b. The negative number in 2007 is a reversal of entry.

Sources: IFMIS and staff calculations.

6.33 Spending on service delivery by MOHS contracted sharply between 2006 and 2008. Service delivery expenditures fell in absolute terms from Le 19.8 billion in 2006 (0.5 percent of GDP) to Le 8.2 billion in 2007 (0.2 percent of GDP). Such spending increased to Le 11.3 billion in 2008 but this was not enough to exceed 0.2 percent of GDP, as shown in Table 6.7. It is striking to see that spending on essential drugs was zero in 2007 and only Le 1.6 billion in 2008 compared to Le 9.2 billion in 2006. Administrative expenses fell from Le5.3 billion in 2006 to Le2.3 billion in 2008.

6.34 **Spending on the maintenance of buildings, equipment, and vehicles was very small,** accounting for an average of only 0.4 percent of total spending between 2006 and 2008. By contrast, spending on staff development (training) took a fairly substantial share of around 2 percent whereas most other MDAs displayed lower shares for this category.

6.35 **Expanded spending by the Local Councils partially compensated for the service delivery losses within MOHS.** This spending increased from Le 9.1 billion in 2006 to Le 14.3 billion in 2008 or 31 percent of the total. This increase, while very welcome, was not enough to maintain a steady level of health expenditures in terms of GDP shares or US dollars per capita. As shown in Table 6.5 above, total spending (excluding donor financing) fell from 1.2 percent of GDP in 2006 to 0.8 percent of GDP in 2008.¹⁹⁹ Spending expressed in US dollars fell from US\$2.9/capita in 2006 to US\$2.4/capita in 2008.

b. Spending by Program within the Ministry of Health and Sanitation

6.36 **Programs directly related to service delivery were meant to absorb 64 percent of the MOHS budget in 2008.** Within this total, the largest portion (28 percent of total allocations) was allocated to primary health care, as shown in Table 6.8. The next largest program expenditures were for tertiary health care (13 percent), support services (11 percent), and secondary health services (9 percent). Administrative spending was meant to consume the remaining 36 percent of the MOHS budget. This would include the Administrative Division and the Human Resource Management Department, excluding the 5 training schools administered by that department.

6.37 **The recorded execution of the 2008 budget by program codes appears to include many mis-classified expenditures.** As shown in Table 6.8, these may be as much as 19 percent of the total and are confined to salaries and benefits. Similar mis-classifications were observed in the expenditure data 2006 and 2007. In addition, there appeared to be substantial mistakes in the coding of budgetary allocations in 2006.

6.38 **Goods and services for administrative purposes were protected at the expense of service delivery, with primary health care being the least protected.** Total spending on goods and services was reduced by Le 12.5 billion relative to the approved allocation of Le 27.0 billion, leaving Le 14.5 billion actually spent. Spending on administrative programs was reduced by Le 1.3 billion while spending on service delivery was reduced by Le 11.2 billion. Within service delivery, spending on primary health care was reduced by Le 5.2 billion while tertiary services and support services expenditures were reduced by Le 2.5 billion and Le 2.4 billion respectively. In this context, it should be noted again that the under-spending on primary health care was not adequately compensated by increased spending at the Local Government level.

6.39 **None of the hospitals spent anything on maintenance in 2008.** This was observed by examining spending by object codes within program codes. The Revised Health Services Cost Recovery Policy Guidelines for Sierra Leone indicate that “minor maintenance and repairs” would be paid from revenues raised by each facility from cost recovery and fees for services. The policy is clear that cost recovery and fees are not to pay for all maintenance. Thus, the

¹⁹⁹ This share is 0.7 percent of GDP in Table 6.5. As noted above, this discrepancy has not been resolved.

absence of spending for more substantial maintenance is striking, especially when many observers have noted the poor condition of many public facilities.

Table 6.8: Composition of Public Health Expenditures, 2008

	Salaries	Allowances	Goods	Develop.	Total	Total %
Budget Allocation Shares						
Administration	7,657	2,716	5,167	1,420	16,960	35.9
304-00 Administrative Division	5,594	721	3,627	1,420	11,361	24.1
304-10 Human Resource Mng.	2,064	1,995	1,541	0	5,599	11.9
Service Delivery	4,127	4,246	21,859	0	30,232	64.1
304-10 HR Training Schools	633	553	119	0	1,304	2.8
304-04 District PHU's	204	234	0	0	438	0.9
304-20 Primary Health Care	3,290	3,460	6,260	0	13,009	27.6
304-40 Secondary Health Services	0	0	4,397	0	4,397	9.3
304-50 Tertiary Health Services	0	0	6,119	0	6,119	13.0
304-60 Support Services	0	0	4,964	0	4,964	10.5
GRAND TOTAL	11,784	6,962	27,026	1,420	47,192	
Percent of Total (%)	25.0	14.8	57.3	3.0	100.0	
Actual Expenditure Shares						
Administration	2,060	936	3,892	914	7,802	24.5
304-00 Administrative Division	1,406	732	2,610	914	5,662	17.8
304-10 Human Resource Mng.	654	204	1,282	0	2,140	6.7
Service Delivery	3,889	3,376	10,664	0	17,929	56.4
304-10 HR Training Schools	2,132	1,765	43	0	3,940	12.4
304-04 District PHU's	195	137	0	0	333	1.0
304-20 Primary Health Care	135	139	1,027	0	1,301	4.1
304-40 Secondary Health Services	997	1,018	3,440	0	5,455	17.1
304-50 Tertiary Health Services	420	310	3,594	0	4,324	13.6
304-60 Support Services	10	6	2,559	0	2,576	8.1
Misclassified	3,517	2,563	0	0	6,081	19.1
304-01 Misclassified	57	48	0	0	106	0.3
304-02 Misclassified	20	18	0	0	38	0.1
304-03 Misclassified	3,440	2,497	0	0	5,937	18.7
GRAND TOTAL	9,467	6,875	14,556	914	31,811	
Percent of Total (%)	29.8	21.6	45.8	2.9	100.0	
Discrepancies						
Administration	-5,597	-1,780	-1,275	-506	-9,158	-11.4
304-00 Administrative Division	-4,187	11	-1,016	-506	-5,699	-6.3
304-10 Human Resource Management	-1,410	-1,791	-259	0	-3,459	-5.1
Service Delivery	-237	-870	-11,195	0	-12,303	-7.7
304-10 HR Training Schools	1,499	1,212	-76	0	2,635	9.6
304-04 District PHU's	-9	-96	0	0	-105	0.1
304-20 Primary Health Care	-3,155	-3,321	-5,233	0	-11,708	-23.5
304-40 Secondary Health Services	997	1,018	-957	0	1,058	7.8
304-50 Tertiary Health Services	420	310	-2,525	0	-1,795	0.6
304-60 Support Services	10	6	-2,404	0	-2,388	-2.4
Misclassified	3,517	2,563	0	0	6,081	19.1
304-01 Misclassified	57	48	0	0	106	0.3
304-02 Misclassified	20	18	0	0	38	0.1
304-03 Misclassified	3,440	2,497	0	0	5,937	18.7
GRAND TOTAL	-2,317	-87	-12,471	-506	-15,381	
Percent of Total (%)	4.8	6.9	-11.5	-0.1	0.0	

Sources: IFMIS and World Bank staff calculations.

6.40 MOHS continues to administer substantial spending for primary and secondary health care despite mandated devolution. The data show that MOHS continued to allocate funds to PHC activities such as maternal and child health, reproductive health, health education, malaria protection, onchocerciasis, tuberculosis, and sexually transmitted diseases. MOHS is also administering all personnel spending for the 18 secondary level hospitals as well as the procurement of goods and services for 5 of these hospitals (Magburaka, Kabala, Bo, Kenema, and Makeni).

6.41 **MOHS is administering most aspects of most hospital budgets.** This practice appears to be inconsistent with two aspects of the Hospital Boards Act (2003). Sections 13 and 14 of the Act confer decision making authority to the boards in respect of fees to be charged for services, personnel management, the provision and maintenance of equipment and so on. Section 20 is clear that the activities of a hospital board shall be financed through Parliamentary appropriations, fees charged for services, and gifts and donations. Taken together, these requirements would seem to imply a system where boards should be able to set their own budgets and receive allocations independently of MOHS. The authorities may wish to review how the Act is to be implemented.

E. KEY ISSUES

6.42 **There are several reasons why health outcomes have not improved significantly.** Health facility usage has been low because individuals and households have not found the quality of health care provision good enough to warrant its cost. Staffing is inadequate, there are regional inequities, drugs are in short supply, buildings, equipment, and vehicles are poorly maintained, and supporting infrastructure is weak. These topics are discussed immediately below. The way that the system of health care financing contributes to these problems, and options for improving the system, is discussed in Section 6.F.

1. Low Utilization of Health Services

6.43 **Health service utilization is low.** According to household survey data, on average, people in Sierra Leone seek services from health care providers only once every two years. Public hospital bed occupancy is low and some facilities are almost empty (see Table 6.9). There are notable exceptions with hospitals in Freetown, particularly referral centers such as Connaught, reporting high occupancy levels. The hospitals have relatively better access to resources such as basic blood bank and better trained staff, although many still lack basic amenities.

Table 6.9: Utilization Statistics for Selected Hospitals in 2007

	Level	Beds	Admissions	Occupancy (%)
Bo *	Secondary	450	..	11
Bonthe	Secondary	60	44	2
Kabala (Koinadugu)	Secondary	100	787	20
Kingharman Road	Secondary	25	636	44
Lumley Gov't Hospital	Secondary	35	122	6
Magburaka (Tonkolili)	Secondary	300	..	73
Makeni (Bombali) *	Secondary	62	..	61
Port Loko	Secondary	75	312	11
Rokupa Gov't Hospital	Secondary	45	1,428	49
Connaught	Tertiary	83	1,931	90
Ola During Children's Hospital	Tertiary	124	3,273	56
PCM Hospital	Tertiary	130	2,076	59

* Not devolved.

6.44 **Low occupancy means public funds are not efficiency spent.** If the average occupancy rate for the secondary hospitals is 30 percent, and Le 5.5 billion was actually spent on them in 2008, then Le 3.3 billion (roughly US\$1 million) was not being used as intended. Similar calculations apply for the tertiary hospitals.

6.45 **There are two reasons for low utilization: high costs and poor quality.** Focus group discussions indicate that high “out-of-pocket” costs often scare people away from using a clinic or hospital. Yet, people also indicated that they avoid going to Government clinics because they are “very dirty”, “sometimes there are not enough drugs” and charges are not predictable. In other words, people are looking for good value for their money.²⁰⁰ When they find it, they are willing to pay fairly high fees. For example, the mission facility at Lunsar asks all non-emergency inpatients to deposit Le 150,000 at the beginning of their stay. Out of this amount, standardized charges and bed charges are deducted. Yet, this facility is well utilized. The hospital stands in stark contrast to the Government facility at Port Loko (20 minutes away by road) where beds are almost empty. The issues of high costs and poor quality are discussed in the next two sections below.

2. Out Of Pocket Funding of Public Health Care

6.46 **Individuals and families face several costs when they seek public health care.** These costs include officially sanctioned cost recovery fees for drugs and other medical supplies, officially sanctioned service charges, and informal gratuities demanded by various health care workers. Health consumers encounter fees for essential drugs most frequently in Government facilities. Sierra Leonean health consumers were polled on out-of-pocket costs as part of a 2006 Service Delivery Perception Survey. The data in Table 6.10 show that Government facilities were reported to be charging for essential drugs whereas the private, mission, and NGO facilities charged only for non-essential drugs.

Table 6.10: Consumers Who Reported Charges for Various Drugs and Services

	Admission Fees	Outreach Fees	Drugs	DPT Vaccines	BCG vaccines	Measles	Polio
CHC	13.0	13.0	80.4	4.3	4.3	6.5	4.3
CHP	19.5	12.2	82.9	22.0	22.0	19.5	14.6
MCHP	25.0	8.3	83.3	16.7	20.8	20.8	8.3
Gov't Hospital	62.5	6.3	81.3	12.5	12.5	12.5	6.3
Private	54.5	0	72.7	0	0	0	0
Mission	63.2	21.1	73.7	0	0	0	0
NGO	0	0	83.3	0	0	0	0

Source: SDPS Data.

6.47 **Individuals and families often choose not to use health services because of high “out-of-pocket” costs.** A study conducted by Medicins Sans Frontieres in 2005 found that cost was overwhelmingly considered to be the main barrier stopping people using health services, cited by more than 70 percent in paying areas (Latreille, Coppens, Philips, van Herp, Bachy, & Ponsar, 2006). Financing barriers dominate all other reasons including availability of drugs and quality of drugs by a substantial margin. Similarly, the 2007 Core Welfare Indicators Questionnaire (CWIQ) survey found that the main reason for not consulting a health provider when displaying one or more of a number of symptoms of sickness (e.g., fever, accident, abdominal pain) was cost of care. This, mentioned by between 59 and 76 percent of respondents, compared to the second most important identified factor which is distance, mentioned by between 14 and 22 percent (Statistics Sierra Leone/UNICEF, 2007). Overall, 67 percent of those not seeking care when needed appear to have been deterred by reason of cost.

²⁰⁰ Latreille, Coppens, Philips, van Herp, Bachy, & Ponsar, 2006.

6.48 **Comparison of expenditure on primary care services with total contacts suggests that spending per contact amounted to around Le 6,000 (based on the amount spent by Government (MOHS and Councils in 2006).** This excludes any spending made by users on services. PHU practice varies, but many charge Le 1,000 for adults and Le 500 for children plus the cost of medicines. These figures suggest that spending per contact could easily amount to more than Le 7-8,000 once the costs of medicines are included. Cost studies of PHUs (with EU external TA)²⁰¹ estimate the cost per contact to be around Le 22,000 while Medicins Sans Frontieres ‘free care’ clinics in Bo are estimated to cost around 7,000 per contact.²⁰²

6.49 **Cost recovery fees favor the wealthy.** Table 6.11 shows a tabulation of reasons why people, both healthy and ill, chose not to seek health care in 2007. As expected, most people chose not to pursue health care with the belief that there was no need to do. For those who did perceive a need, however, cost, distance, and other factors become relevant. Those in the least poor expenditure quintile (Q5) cited cost 11 percent of the time. By contrast, those in the poorest quintile (Q1) cited cost 23 percent of the time. Thus, it would be reasonable to infer to reducing the cost would increase demand. Box 6.5 illustrates such an outcome in Uganda. Distance to health facilities was an issue for the poor, mainly rural populations, though less frequently cited.

Table 6.11: Reasons for Not Seeking Medical Care

	Urban	Rural	Expenditure Quintiles				
			Q1	Q2	Q3	Q4	Q5
No need	78	69	67	70	71	75	80
Too expensive	10	20	23	19	15	14	11
Too far	1	6	7	6	4	2	1
Other	11	5	3	5	10	9	8

Source: 2007 Core Welfare Indicators Questionnaire and World Bank, 2009, *Poverty Diagnostic*.

Box 6.5: Consequences of Removing User Fees in Uganda, Part 1

Consumer demand for healthcare is price elastic. Uganda introduced user fees on a nationwide basis in 1993. Although revenue from user fees was relatively low (generally less than 5 percent of health care expenditure), it was an important source of funds for supplementing health workers’ salaries, maintaining health facilities, and purchasing additional drugs. However, the use of health care services declined dramatically and there were growing concerns about the impact of user fees on the 46 percent of the Ugandan population who live on less than US\$ 1 per day. In March 2001, user fees were abolished at public sector facilities, except for patients in private wards. There was an immediate, dramatic surge in the use of health services. One study of 78 health facilities in 10 districts compared data for eight months before and 12 months after the removal of fees and found that the mean monthly number of new visits had increased by 53 percent and repeat visits by 24 percent. Two years after the abolition of fees, use of services had increased by 77 percent. A review of household survey data over time showed that the poor in particular had benefited from removal of the fees. Box 6.8 shows, however, that the move to free health care in Uganda had some unexpected negative aspects as well. The lessons learned from the Uganda experience, both positive and negative can be useful in informing the design of reforms in Sierra Leone.

With permission, McIntyre, 2007, *Learning from Experience: Health Care Financing in Low and Middle-Income Countries*, Global Forum for Health Research, Geneva.

6.50 **Many PHUs operate informal cost-recovery systems because the formal cost recovery system, which relies on the sale of drugs and other medical supplies, has broken down.** Most facilities have not received drugs from public sources since 2006 and rely on local purchase or consignments from donors such as UNICEF or non-Government organizations. According to the Anti-Corruption Commission (ACC), the amounts received are often less than

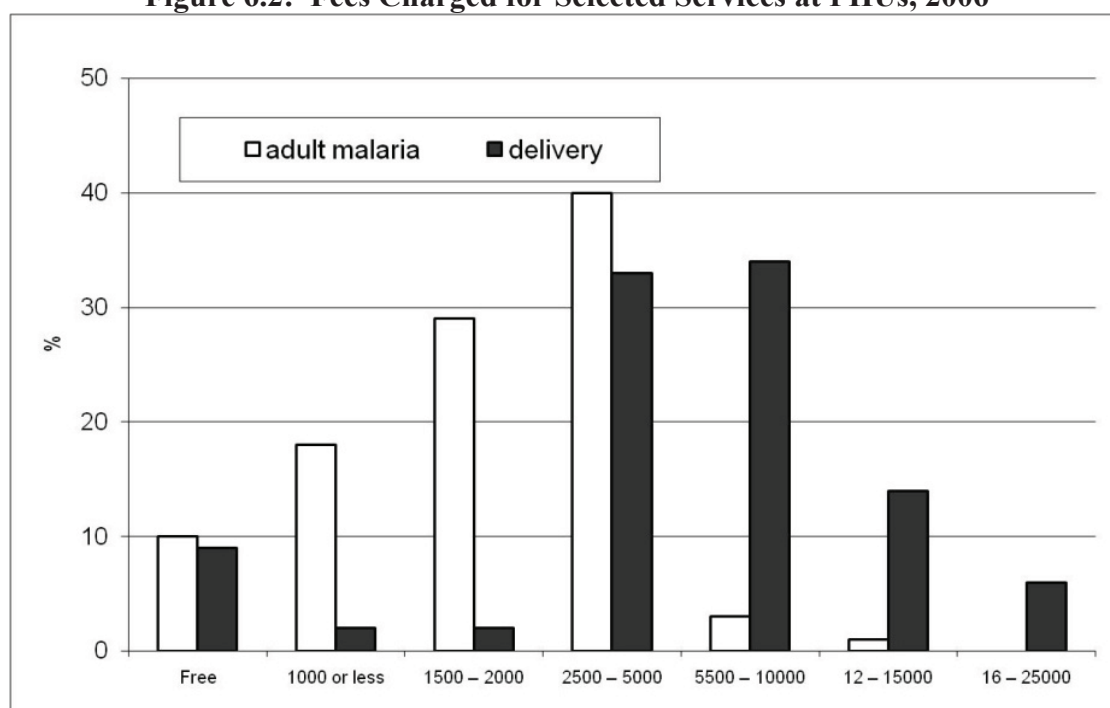
²⁰¹ Cost sheets supplied by Dr Henri Conte, Conseil Sante, EU support to the MOHS.

²⁰² Cost sheets supplied for two health centres (Godama and Jembe, Bo) by MSF Belgium.

what was procured, however, as drugs are diverted into private pharmacies. As a consequence, the official cost-recovery in most facilities is not operational, although PHUs continue to operate their own version of cost-recovery through purchases from private outlets that are sold to patients (with mark-ups).

6.51 Inadequate and absent salaries often motivate the levying of informal fees, even for groups that ought to be exempt from paying fees. Health facility staff in Sierra Leone operates under severe constraints. Many of them are unpaid. For example, an October 2009 World Bank mission found that 45 percent of PHU staff in Pujehun District, and 25 percent of PHU staff in Bo District, were not on the Government payroll. Facility staff receives inadequate operating budgets and are expected to run their facilities from the profit they make on drug sales—even though drugs are under-supplied. Salaries and allowances are fairly low as well, and often in arrears by many months, with many workers reluctant to serve in areas without the amenities of Freetown. These pressures tend to motivate charging of informal fees.

Figure 6.2: Fees Charged for Selected Services at PHUs, 2006



Source: IRCBP, 2007. (As reported by providers.)

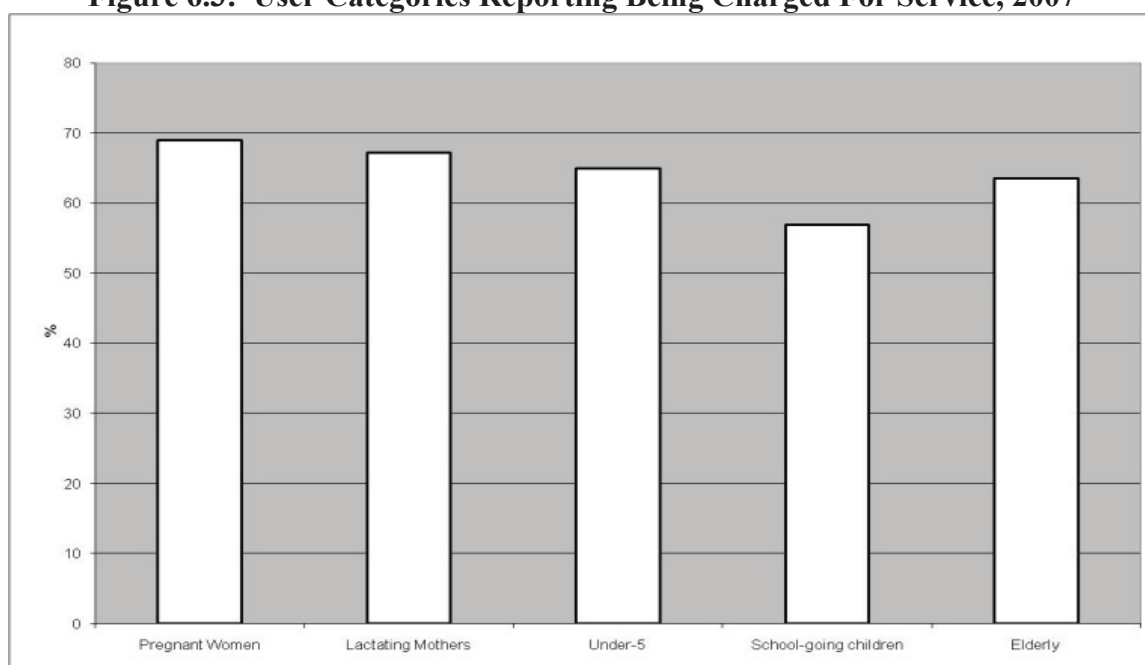
6.52 There is no uniform schedule of service charges for the nation even though policy guidelines aim at one. Charges therefore vary considerably across the country. This can be seen in Figure 6.2 for anti-malarial treatments and child delivery services. For example, roughly 40 percent of all fees paid out-of-pocket in 2006 for anti-malarial treatments were between Le2,500 and Le5,000 but 30 percent of the facilities charged less, between Le1,500 and Le2,000. The Revised Health Services Cost Recovery Policy Guidelines for Sierra Leone issued by MOHS in 2006 asserts that “the tariff for services will be determined and issued by the MOHS annually, in consultation with representatives of Local Councils and Hospital Boards.” Yet, by 2009, there was no improvement. The ACC reported there was no uniformity in prices. This

adds considerable uncertainty to family decision making when deciding whether or not to pursue health care.

6.53 There is a policy on exemptions for the vulnerable. Recognizing that cost recovery can impede access of those most in need but least able to afford care, the Government in 2002 introduced an exemption policy whereby certain vulnerable groups and conditions were to enjoy services without paying for it. These included children under five, pregnant women, the destitute, and conditions such as TB, HIV and other priority diseases. In practice however, it appears that districts and communities have considerable discretion over those that receive exemption.

6.54 Exemptions for the vulnerable are not well respected. At PHU level, health care users who should be exempt reported charges ranging from on average Le 2,800 for a child contact, 3,400 for a family planning contact and 12,500 for the delivery of a child.²⁰³ The incidence of improper non-exemption is quite high, starting from approximately 55 percent of school-going children to almost 70 percent of pregnant women (see Figure 6.3).

Figure 6.3: User Categories Reporting Being Charged For Service, 2007



Source: IRCBP, 2007. (As reported by patients.)

6.55 In November 2009, the exemption structure was broadened and simplified to require free health care services to pregnant women and children under five years of age.²⁰⁴ This is a quite large share of the total population, roughly 60 percent. This policy therefore represents a significant move away from cost recovery as a source of health care financing. Informal fees, however, are likely to continue until the underlying problems of inadequate budgetary support and low (or absent) wages are resolved.

²⁰³ 2008 MoHS Health Facility Survey.

²⁰⁴ Announced in the November 2009 Consultative Group meeting in London.

3. Quality of Health Services

6.56 **Key reasons for the low quality of health services in Sierra Leone include:** (1) inadequate staffing, (2) regional inequities in spending and staffing, (3) shortages of essential drugs and other medical supplies, (4) poor facilities maintenance, and (5) insufficient supporting infrastructure. These topics are discussed below.

a. Human Resource Management and Civil Service Reform

6.57 **Sierra Leone is experiencing major shortages of skilled health workers.** Staff shortages ranging between 20 percent and 100 percent are adversely affecting the quality of services provided. Out of 6,030 health workers, there are about 2,435 health professionals of all categories (see Table 6.12), the rest are non-technical staff such as porters, securities, drivers and cleaners. In fact, if measured by grade level, 92 percent of all MOHS workers are assigned to grades 1-5 (see also Chapter 5 on the subject of public service and skills gaps).

6.58 **Health care staffing is low by international standards.** According to the WHO database, Sierra Leone had less than one doctor per 10,000 people in 2007 compared to the low income country average of 4, and only 5 nursing and mid-wifery staff per 10,000 people compared to the low income country average of 10. The PRSP does not indicate what level and composition of staffing would be required to reach the MDGs for Sierra Leone. According to WHO calculations in the 2006 World Health Report, however, countries with a density of fewer than 2.3 physicians, nurses and midwives per 1,000 population generally fail to achieve a targeted 80 percent coverage rate for skilled birth attendance and child immunization. Applying this ratio to an estimated population of 5.7 million people in 2008 produces a benchmark of roughly 13,000 skilled staff rather than the actual total of 2,345 or the target of 6,089 reported in Table 6.12 which would be sufficient only to match the African average of 55 percent coverage rate for skilled birth attendance.²⁰⁵ Some caution is needed here, however, because the calculations do not account for the number of skilled staff working for non-Government health care providers. This number was not available at the time of the review.

6.59 **It may be possible to make progress by aggressively hiring more skilled staff** such as midwives, nurses, nurse anesthetists and doctors, replacing some of the large volume of staff in the lower grades. Yet, MOHS staff report that the process of getting new posts approved and recruiting new staff is burdensome. The recruitment processes can take from a few months to a year or more, sometimes leading to the migration of some health professionals before they are considered for an interview. Addressing these issues will require supporting reforms aimed at recruitment, retention, and training (See Chapter 5 for more information on public service reform).

6.60 **Potential entrants are discouraged by a number of issues that are best addressed through civil service reform** (see Chapter 5), including low salaries, limited amenities in rural posts, limited access to opportunities for professional development, and poor career progression. The disparity between salaries paid and what could be earned in other sectors is particularly noticeable at higher skill levels. A comparison between payments by some faith based hospitals and the public sector found there is a 4 to 7 fold difference between the salaries of faith based

²⁰⁵ Based on chart provided in WHO Spotlight Issue 6, November 2008.

medical and senior medical officers and their public sector equals. Other disincentives include a shortage of equipment and supplies to work with, poor facilities with inadequate or total lack of water supply, energy, communications, transport, and staff accommodation. As a consequence, according to MOHS data from 2006 and 2007, attrition rates for many positions are fairly high (5 to 20 percent) so that new hires only compensate for those leaving. In addition, the several training schools run by MOHS are constrained by under-staffing, poor infrastructure, and inadequate learning and teaching materials. These schools therefore turn away some applicants for simple lack of capacity to accommodate them.

Table 6.12: Health Professionals By Category And Region, End-2008

	Total	Western Area		Total	Shortfall	
	Number	Number	Percent	Needed	Number	Percent
DOCTORS AND OFFICERS	200	167	84	522	322	62
Medical Officers	115	97	84	150	35	23
Pharmacist	33	32	97	52	19	37
Public health	24	15	63	30	6	20
Dentists	6	4	67	30	24	80
Surgery/Surgeons	5	3	60	26	21	81
Obstetrician/Gynecologist	5	4	80	26	21	81
Physician	3	3	100	26	23	88
Pediatrician	2	2	100	30	28	93
Clinical Pharmacologist	1	1	100	24	23	96
Ear Nose Throat	1	1	100	8	7	88
Ophthalmologist	1	1	100	22	21	95
Hematologist	1	1	100	6	5	83
Anesthesiologist	1	1	100	12	11	92
Radiologist	1	1	100	30	29	97
Dermatologist	1	1	100	6	5	83
Others	0	0	..	44	44	100
NURSES	1,017	547	54	2,600	1,583	61
State Enrolled Community Health Nurses	635	425	67	1,500	865	58
Staff Registered Nurse	245	0	0	600	355	59
Midwives (Practicing)	95	95	100	300	205	68
Nurse Anesthetist	20	15	75	34	14	41
Ophthalmic Nurses	20	10	50	30	10	33
Intensive Care Unit nurses	2	2	100	20	18	90
Pediatric Nurses	0	0		72	72	100
Peri-operative Nurses	0	0		44	44	100
OTHERS	1,218	407	33	2,967	1,749	59
Community Health Aids (14 graduates)	-	-		300	300	100
Maternal and Child Health Aides	825	225	27	1,500	675	45
Environmental Health Officer	135	45	33	300	165	55
Community Health Officers	132	50	38	300	168	56
Pharmacy Technicians	80	62	78	300	220	73
Vector Controllers	30	16	53	75	45	60
Lab. Technician	14	8	57	150	136	91
Cataract Surgeons	2	1	50	12	10	83
Refractionist	0	0		30	30	100
TOTAL	2,435	1,121	46	6,089	3,654	60

Source: MoHS National Health Sector Strategic Plan 2009.

6.61 The Ministry has developed a human resource strategy in order to deal with the challenges identified above. One of the strategies is the establishment of the health service commission which will take health workers out of the civil service system and provide them with the opportunity to seek improved conditions of service and incentives for good performance. This proposal is also consistent with a proposed move to Performance Based Financing (PBF). This topic is described more in Section F. A concept paper has been submitted for consideration by the Cabinet. The cost of the strategy is estimated at US\$322 million over the next several years. In addition, DfID has made a commitment to use part of their contribution to the Reproductive and Child Health Strategy to address some of the human resource challenges.

6.62 The proposal to take health workers out of the civil service needs careful review. On the one hand, such a move could be justified on the grounds that independently determined conditions of service would facilitate the motivation and management of the large number of health workers and their geographic distribution—as had been argued for the military, police, and teachers. Yet, it is not clear that this approach has led to good results. Each of these three groups continue to press for higher wages while staff shortages remain within the police and teachers. The transition could create tensions as well. On the one hand, Vujicic (2009) notes that delinking from the civil service can induce insecurity about job stability and remuneration. On the other hand, there is a risk that offering special treatment to one group could create tensions with staff in the MDAs that remain in the civil service.

6.63 Cross country experience shows that many countries do place health care professionals, and doctors in particular, under a different labor regime than the civil service--when higher performance standards and accountability are likely, such as under a PBF system. The productivity of service delivery professionals is easier to measure than many other kinds of public servants. This makes it easier to link pay to performance, particularly when there is a competing private sector labor market. The difficult issue is actually holding those employees (and the organizational units within which they work) accountable for performance, including holding them to account for behaving ethically (e.g., not embezzling funds, soliciting bribes). If this accountability is unlikely to be achievable, then the risks can be reduced by keeping health care workers within the public administration, which allows more ready enforcement of standard bureaucratic checks on the exercise of managerial discretion.

6.64 Dealing with low salaries, staff amenities, and the skills shortages will require a comprehensive approach. Increasing salaries and allowances is not an affordable solution without compensating reductions elsewhere. Given the need to maintain and expand PHC services, perhaps the most viable means of hiring more skilled staff would be to reduce the large number of low skill staff with both MOHS and the various health facilities around the country. If skilled staff are needed before they can be found and trained locally, then it may also be justified to contemplate bringing in temporary help from abroad. These approaches are explored in detail in Chapter 5.

b. Regional Inequities

6.65 The skilled health workers who are available tend to serve mostly in the two Western Area districts. As seen in Table 6.12, the Western Area contains 84 percent of all doctors and medical officers and all of the midwives. The result is that most health facilities are served by Maternal and Child Health (MCH) Aides and by auxiliary female nurses trained to provide midwifery and basic child health services at the community level. This, in turn, accounts for the low share of births attended by skilled medical staff as reported in Table 6.3 above. One of the reasons for this outcome is inadequate compensation for the lack of amenities available in Freetown (or other cities around the world). The Western Area clearly acts as a referral center for the rest of the nation; nevertheless this distribution is somewhat self-reinforcing: patients are unlikely to present for treatment if qualified staff are not present outside the Western Area districts. This, in turn, creates more demand for staff within Western Area facilities.

6.66 More progress is also needed in securing local control over health workers. The central Government still retains full control over all hiring and firing of staff (see also Chapter 5

on Public Service Reform.) Moreover, MOHS District Health Management Teams play a far larger role than Local Council officials in managing devolved budgets and supervising health care. In such circumstances, the Government is missing an opportunity to exploit the advantage the Local Councils have in terms of their knowledge of local needs and conditions.

6.67 The regional distribution of health expenditures remains unequal. The distribution of expenditures made through transfers to the Local Councils is determined according to a fairly equitable formula. This spending, however, is only 31 percent of total core health sector spending. A review of expenditures for 2008 showed that 48 percent of all MOHS spending was allocated to headquarters functions and another 26 percent to the two Western Area districts that contain only one-fifth of the population. This leaves only 26 percent for all other districts.

c. Shortages of Drugs and Other Critical Supplies

6.68 Although there are many medical supplies that are not well provided, this report will focus on two critical issues: essential drugs and blood supplies.

6.69 A severe leakage of drugs was noticed between Central Medical Stores and district level facilities as part of the 2004 Annual Public Expenditure Tracking Studies, conducted by the Ministry of Finance. Large volumes of drugs procured by the Government or on behalf of the Government by donors such as UNICEF ended up for sale in private pharmacies. This led to outsourcing part of the distribution of drugs to contractors in 2004 and fully in 2005. Contractors now distribute most drugs directly to district stores based on contracts developed by the MOHS and overseen by CMS.

6.70 Problems of leakages, poor quality, and overall drug availability persist. Government procured drugs continue to be found for sale by private merchants. A survey conducted in 2007 of a sample of essential drugs found that only 37 percent of PHUs had all items in stock.²⁰⁶ As a consequence many PHUs had to buy from private markets. In addition, a report by the ACC (2009) found that drugs were poorly handled and many were past their expiration date.

6.71 UNICEF will procure on behalf of the Government in 2010 and 2011 to resolve the problem of drug shortages in the short-run. Procurement capacity will presumably be built in MOHS and the district facilities during this period. In the medium-term, one option is to establish a National Pharmaceutical and Procurement Unit to serve as a national warehouse for drugs and other commodities. This proposal would seem to put a new name on the Central Medical Stores without any changes in the incentive system that is presently generating such poor results.

6.72 There is effectively no blood bank system in Sierra Leone according to Amnesty International (2009), “even though an estimated 80 per cent of women and children suffer from anemia due to high rates of malnutrition and malaria. If a patient needs blood, her friends or relatives must donate it, either to be given to the patient, if compatible, or to replace blood of the appropriate type taken from hospital stocks. The problem is that people are generally reluctant to donate blood, in part because of widely held misconceptions that it is dangerous to do so. No incentives are provided, and as a result there are few blood donors. In addition, few hospitals

²⁰⁶ IRCBP, 2007.

have functioning storage facilities for blood. Even the Princess Christian Maternity Hospital, the main referral maternity hospital in the country, does not have a functioning blood bank. As a result, many women die because they cannot get a blood transfusion.” The Government does have a National Blood Transfusion Strategic Plan. The authorities may now want to consider supporting their plan with a program of investments in infrastructure and training, backed by a communications campaign and incentives in order to collect the necessary blood donations.

d. Maintenance

6.73 Facilities, equipment, and vehicles are poorly maintained. Poorly maintained facilities have been cited in consumer surveys as one of the reasons why people choose not to utilize Government health facilities. Another issue is poor maintenance of vehicles, notably for ambulances. As noted by the ACC (2009), the utilization and maintenance of hospital ambulances have not been satisfactory in most Government hospitals in the country. The Magburaka Government Hospital, for instance, had on a number of occasions made requisition for the procurement of fuel and maintenance of a hospital ambulance that has been permanently grounded for years. Each ambulance that is not operational represents a denial of service to patients who cannot be transported in safety from PHC facilities to secondary or tertiary facilities as needed, thus contributing to the nation’s high mortality rates.

Box 6.6: Maintenance Constraints

Maintenance of the health facilities and equipment continue to be unimpressive. The situation is further compounded by poor financing of the maintenance budget in the hospitals. On average, less than 0.5 % of the approved budget for the MOHS in the FY2005/06 was spent on maintenance at the three hospitals. There are very few trained technicians, and no specialist maintenance technicians neither in the health facilities nor in the Ministry of Health and Sanitation. At appraisal, it was expected that trained Hospital Managers under the project will lead the management team in the tertiary hospitals rehabilitated under the project. However, the hospitals are still managed by medical officers untrained in hospital management. Overall record keeping is weak, and contact with MOH&S is ad hoc. Delays in addressing these issues may compromise the sustainability of project gains.

Source: AfDB 2007. Project Completion Report, Sierra Leone Rehabilitation of Health Services Project.

6.74 This situation is the result of inadequate funding as noted in section 6.D above. It is also the result of a general lack of knowledge about the stock of assets held by the Government and the resources needed to maintain them. This point was made in Chapter 2. As observed by the AfDB in Box 6.6, the situation is compounded by a lack of staff adequately trained to provide needed maintenance.

6.75 To improve on maintenance, the authorities are encouraged to consider the following options: (i) complete an inventory of health sector assets (buildings, equipment, and vehicles) and use this information to develop a comprehensive maintenance program; (ii) either contract with competent firms to implement the maintenance program or assign staff to these tasks; and (iii) allocate sufficient recurrent budgetary provisions for maintenance. These actions need to be taken at all levels of the system: MoHS, Hospital Boards, and the Local Councils. Chapter 2 includes some rules of thumb for the financing requirements associated with

maintenance. These can be modified as needed for the health sector, noting that the particular nature of the sector's specialized equipment would tend to require more rather than less funding.

e. Supporting Infrastructure

6.76 **Many facilities continue lack electricity and water** according to PRSP-2. According to the Preliminary DHS Report (2008), only 10 per cent of hospitals and Community Health Centers have a reliable electricity supply, limiting their capacity to provide 24-hour emergency obstetric care. Patients often report having to pay for the fuel to run a generator if they need an operation. In addition, the general lack of communications equipment leads to a breakdown in the system, effectively denying both health care workers and their patient's access to specialized information available at the secondary and tertiary levels. Routine hospital equipment is in short supply as is compressed oxygen.

6.77 **The overall conclusion of this section is that the expansion in the number of health facilities has outstripped the capacity of the Government to support their operational requirements in terms of supplies, skilled staffing, and infrastructure.** With limited resources, the Government may want to consider ensuring that the most needed facilities are adequately supported while closing those that cannot be properly supported, at least temporarily. As a way to ensure that physical access to health care is not reduced, the authorities may also wish to consider encouraging the private sector, missions, and NGOs to take over managing those facilities that they cannot directly support.

F. REFORM OF HEALTH CARE FINANCING

6.78 **Many of the problems described in the sections above can be traced to the Government policy on health sector financing.** On the one hand, low, declining, and erratic budgetary inflows (including from donors) contribute to the poor quality of services. On the other hand, the policy requiring facilities to obtain a substantial share of their funding from cost recovery and fees for services has created a number of distorted incentives that undermine the Government's objectives for service provision and improved outcomes. Worse, the two approaches interact in a way that tends to promote under-spending.

1. Budget Execution

6.79 **The consequences of poor budget execution are serious, especially for primary health care.** As noted in section D above, budgetary allocations to MOHS and Local Councils health programs have typically been under-spent by an average of 77 and 61 percent respectively, with the majority of the losses accruing to primary health care. Other consequences of under-spending include a general shortfall in drugs, inadequate dietary supplies for health facilities and inability to pay for cleaning services. When a program or department is also funded from external sources, this donor funding then substitutes for the domestic funding. Activities that do not receive any donor funding, or do not benefit from adequate donor supervision, simply do not get implemented.

6.80 **MOHS officials have suggested that overly bureaucratic requirements and procedures are largely to blame for the under-spending.** On the one hand, MOHS has a complex budget with 75 programs under 9 departments. On the other hand, MOHS (like most

other MDAs) finds the paperwork required for spending authorizations using the so called PETS forms (see Chapter 3) to be burdensome. Within this process there are delays, sometime substantial, at both the MOHS and at the MOFED. It is not uncommon for PETS forms to disappear within along the approval system either within the MOHS or MOFED. When that happens the unit is requested to prepare another form with consequent delays. Also, there is usually no guarantee that PETS forms approved at the Ministry are honored by MOFED.

6.81 The bureaucracy involved in procurement of bulk items like drugs, equipment and other services may be another cause of under-spending. Usually these procurements go through a lengthy process, and are then sent to the National Public Procurement Authority (NPPA) for endorsement before certification for payment by MOFED. This endorsement process usually takes a very long time and it is not a requirement under the Public Procurement Act (2004).

6.82 To resolve these issues, MOHS, MOFED, and NPPA could find ways to simplify the expenditure control procedures. In particular, the authorities could consider providing quarterly bulk grants to MOHS facilities as is done for LCs. Doing so would have the additional benefit of re-empowering the Hospital Boards which would be entrusted with making the best use of the funds received. The authorities could also build capacity within MOHS and MOFED to process spending requests on a timely basis. Finally, MOHS need not seek NPPA endorsement of its procurements: the procurement regulations require only that each MDA conduct its procurements in compliance with the procedures set out in the law.

6.83 Bureaucratic burdens may be the smaller part of a bigger problem. It is especially noteworthy that many other ministries tend to execute more of their budget allocations than MOHS even though they face the same problems involved with PETS forms and procurement. One might claim that that the complex nature of the MOHS budget is the problem. Yet, the Ministry of Education has a highly parallel structure with many departments and employees and it performs better than MOHS. In fact, as will be discussed below, there may be incentives for MOFED to hold back resources from MOHS and the Local Councils.

2. Cost Recovery and Fees for Service

6.84 Revenues from cost recovery and service charges are important to facilities since they represent one of the largest cash sources available. According to MOHS officials, in some years, notably 2007 and the early part of 2008, they provided the only stable resource flow of any type. It is expected that these revenues would be used primarily for incentives to staff, facilities maintenance and repairs, transportation of staff and patients, and the general support of health programs.²⁰⁷

6.85 The revenues generated by the health facilities are meant to be deposited in revolving drugs funds maintained by each facility. In 2002, a policy was developed that aimed for 80 percent cost recovery, 10 percent of which was to be returned to the treasury. The recovery target was revised in 2006 downwards to 40 percent with 10 percent to be forwarded to the treasury. Recently, some district assemblies have been discussing returning some revenue to the local councils.

²⁰⁷ MOHS 2006. *Revised Health Services Cost Recovery Policy Guidelines for Sierra Leone*.

6.86 The use of cost recovery and service charges leads to inadequate resources. The main reasons are briefly summarized here:

- First and foremost, as discussed in section 6.B, consumer demand for healthcare is price elastic, meaning that each Leone required for out-of-pocket payments from households will reduce the demand for health services, to the detriment of national policy objectives. This puts the Government in a quandary: introducing exemptions will increase demand and promote policy but this will also reduce needed revenues.
- Second, it is difficult to collect fees for drugs and services when the drugs and services cannot be provided due to shortfalls in budgetary and donor resources. The cost recovery system is essentially held hostage to the budgetary system.
- Third, the system creates a constant temptation for leakages because of the private gains to be had from selling subsidized drugs at street market prices. This contributes to the lack of drugs for resale by health facilities.
- Finally, according to some MOFED officials, it makes sense to restrict funds meant for health facilities because there is a mistaken belief that they have access to adequate revenues collected from cost recovery and fees for services. This occurs because MOFED have no systematic access to information about the running costs of more than 1,000 health facilities nor the revenues and balances available to these facilities. This issue is explored below.

6.87 The total amount of revenue generated annually by cost recovery and service charges is unknown. There is no systematic reporting of such revenues in the public accounts of the Government. A study by *Medicins Sans Frontieres* put the average consumer cost at Government health centers at around Le 8,700. This would give total revenue of Le 11.3 billion (US\$3.8 million) for PHUs based on 1.3 million PHU contacts recorded by the Health Management Information System in 2006. This is roughly 100 percent of the Government budget allocation for the district PHUs. Information gathered by the Accountant-General's Department suggests that Connaught Hospital collects roughly Le 3 million in revenues per week, or about 7 percent of their budgetary allocation.

6.88 The amount of revenue needed is currently unknown but can be calculated. There is no systematic reporting in the public accounts of the Government on recurrent operating costs of health facilities, whether managed by MOHS or by the Local Councils. The amount of revenue needed would depend upon total running costs, less contributions from donors, less budgetary resources received from the central Government and Local Councils. Some of this uncertainty can be removed, even if facility records are poor, by making estimates based on observed unit costs and reasonable targets for service delivery. As a general prerequisite to reform, it would be very important to better assess actual fees collected and actual needs, per facility.

6.89 There is little transparency associated with the management of the revolving funds. MOFED is unable to monitor the revolving funds since they lie in individual facility bank accounts outside the consolidated revenue fund and the budget. The 2006 policy guidelines do require some fiduciary arrangements but these are all internal to each facility: there is no provision for external accountability beyond the requirement that quarterly reports shall be sent to the Local Councils and Hospital Boards – a requirement that is generally ignored.²⁰⁸ This lack

²⁰⁸ AfDB 2007, Project Completion Report.

of transparency invites abuse. According to the ACC, some hospitals do not fully utilize the balances available to them, while other hospitals use such funds without regard for procurement procedures. In some cases, basic fiduciary requirements are not met. The Port Loko Government Hospital, for example, did not have a bank account or safe to keep the hospital generated funds.

6.90 The current system is not self-regulating with regard to health care employment. The fact that facilities are required to collect fees to supplement their budgets, combined with the freedom to set fees independently of any national guidelines, has allowed facilities to employ workers outside the budget and without scrutiny. These workers do not need to meet minimal skills requirements and their employers do feel an obligation to maintain the civil service wage schedule of wage rates and allowances.

6.91 The analysis above suggests that there is a vicious cycle in which cost recovery fees are inadequate due to exemptions and a lack of drugs and services, while drugs and services are in short supply due to inadequate funding which is a consequence of a mistaken assumption that cost recovery revenues are adequate. In addition, the current cost recovery system is also incompatible with the 2007 Amendment to the Hospital Boards Act. The amendment requires that all revenues from cost recovery and service fees collected by hospitals shall be remitted to the consolidated revenue fund, thus under-cutting one of the pillars of the healthcare financing policy.

3. Alternative Financing Schemes

6.92 There are feasible alternatives to the present system.²⁰⁹ One option would be to move towards free health care (starting with PHC), abandoning most or all of the cost recovery system and replace it with a higher share of Government funding through the direct transfer of budgetary resources to the health sector. The other option is to transfer resources indirectly through the implementation of a comprehensive health insurance scheme. There are two main approaches to providing such comprehensive coverage: it can be done through a National Health Insurance Scheme (NHI) or through a network of Community Based Health Insurance (CBHI) schemes. The key point is that both options, free health care or comprehensive insurance, overcome the cost barriers faced by households.²¹⁰ In fact, in November 2009, the Government announced that it intended to begin providing free health care to pregnant women, lactating women, and children under 5 years of age. The intended launch date for this new policy is April 27, 2010.

6.93 It will be very important to better understand the resource requirements of the hospitals and clinics before making large changes: as noted above, fees for services have been portrayed by MOHS staff as both large and unquantified. Good intentioned efforts to remove fees for service without adequate compensation from other sources could cause real harm.

²⁰⁹ This section relies extensively on McIntyre, 2007.

²¹⁰ The ILO plans to provide some support to develop insurance options both for the formal and informal sector.

a. Ensuring Adequate Financing

6.94 Increased Government transfers directly to the health sector could be achieved in three ways: (i) by increasing the health share of the budget at the expense of other MDAs; (ii) by increased donor support; and/or (iii) by increased taxation.

6.95 Taxation is the preferred medium-term option because of its stability and predictability. Citizens may accept and even embrace a health tax if it can be made more equitable and less expensive than the high informal out-of-pocket expenses they are already paying. In the case of Ghana (see Box 6.7), a special tax was raised specifically for health services.

6.96 Both the Government and the donors could consider redirecting resources from other uses. The Government could, for example, consider some small reallocations away from defense spending (see Chapter 2) in favor of health care. The donors could consider reallocating resources as well. If the move towards free health care for basic services is judged sufficiently robust, with no problems in meeting increased demand, then there would be less need for NGOs to provide such services, focusing only on the more remote locations, thus allowing donors to redirect some of the support for health NGOs into the budget. Putting more donor resources through the budget would be beneficial to the extent that transparency and accountability are increased and providers feel more accountable to the Government than the donors.

6.97 In the short-run, increased donor resources would be needed until tax revenues can be increased. This was the approach used in Ghana (see Box 6.7). Donors may want to consider the use of general budget support, sector budget support (the so called sector-wide approach or SWAP), or increased project support.

6.98 Some caution maybe called for in the case of pooled donor funds. The MOH in Ghana was observed to be consistently under-spending its HIPC funds and to a lesser extent its budget because donor funds were pooled in a fund that was very easy for them to access. They did not have to go through normal Government procedures. When some donors pulled out of the pool, they found that the MOH became more engaged in the dialogue with the MOF. One way to avoid such an outcome could be to require substantial matching funds from the Government on an ongoing basis.

b. Direct Transfers to the Health Sector

6.99 Funds can be transferred directly to each health facility in block grants or indirectly through health insurance payments. The use of block grants would reduce the bureaucratic burdens on MOHS, MOFED, and the Local Councils. In the case of the local councils, these grants should be treated as statutory transfers in the spirit of the 2004 Local Government Act. Moreover, the distribution of the grants across Councils could be revisited to help reduce regional inequalities in health care provision.

c. National Health Insurance

6.100 Some countries rely on National Health Insurance (NHI) schemes to finance their health sectors. In these schemes, the insurance premiums are the equivalent of a new tax on households. As suggested above, these are more likely to be embraced if they are perceived as

being more equitable and less expensive than current out-of-pocket payments. For example, according to WHO, mandatory participation in mutual health insurance schemes and public subsidies for the poor have led to considerable improvement in public health and health care in Rwanda, but even at US\$2 a year, the price for some members of the population remains prohibitively high.²¹¹

6.101 Introducing an NHI scheme will have implementation challenges. Such systems necessarily require a new layer of bureaucracy to administer the arbitrage of premium payments into the system with payments for services going out of the system. This may not be viable in low capacity environments such as Sierra Leone. In particular, it could be difficult to collect premiums from the vast majority of citizens who do not participate in the formal sector: most NHI systems collect premiums as a share of salary paychecks. There is also a risk that NHI could also make it easier for patients to utilize private providers, making it harder for the public sector to sustain its operations.

6.102 The implementation of NHI can take many years, even in middle income countries. As reported in McIntyre (2007), mandatory insurance was introduced in Costa Rica in late 1941. The scheme initially covered only sickness and maternity care for low-income workers living in the national and provincial capitals. Coverage was gradually extended to workers in rural areas and the income threshold for membership was raised. By 1961, 18 percent of the population was covered. In 1961, legislation was introduced to make membership compulsory for all, with the aim of attaining universal coverage within 10 years. Progress was slower than anticipated: 45 percent of the population was covered by 1971 and 75 percent by 1981. By 2007, 90 percent of the population was covered.

d. Community Based Health Insurance

6.103 Informal insurance methods such as community based health insurance (pooled funds) could, in theory, be formalized and expanded to cover a larger share of medical costs. These pooling schemes exist within communities or organizations, most often in rural areas or the informal populations within urban areas. Members typically agree to make small, periodic payments to their insurance fund. This approach, however, is limited by the impoverished nature of the population that employs such schemes: they cannot be relied upon to raise substantial revenues by themselves. Subsidies would be required as would the introduction of new bureaucratic structures to administer them.

6.104 There are hybrid versions of community based health insurance that may prove viable with the passage of time. One such scheme in Ghana combines elements of taxation with decentralization and CBHI. This is documented in Box 6.7. Some caution is warranted, however, in the design of any health financing reform, regardless of the form it may take. A few related points are taken up below.

6.105 The scope of removal of cost recovery and service charges should not be absolute. It would make sense to continue such charges for low priority services as a means of regulating demand. It would also make sense to continue such charges for elective procedures which are not deemed priorities. Thus, in general, the authorities might consider that PHC services would

²¹¹ WHO Bulletin, Volume 11, 2008.

be largely free while selected services at the secondary and tertiary levels would continue to attract user fees. Note also, that it does not make sense to provide free services to women and children while excluding men – men can play a significant role in reducing the spread of disease if encouraged to utilize PHC services.

Box 6.7: Mandatory Health Insurance in Ghana

While a growing number of African countries are considering or are in the early stages of introducing mandatory health insurance, the Ghanaian Government has made the boldest moves in this direction of any African country to date. It has explicitly committed itself to achieving universal coverage under a NHI scheme, but it recognizes that the extension of coverage will have to be gradual. The aim is to enroll about 60% of Ghana residents within 10 years of starting mandatory health insurance.

The basis of the NHI system will be a Mutual Health Insurance Scheme (MHIS) – a form of CBHI – in each district. The NHI Act, passed in 2003, requires every Ghanaian citizen to join either a district MHIS or a private mutual or commercial insurance scheme. However, Government subsidies will only be given to a district MHIS, thereby creating a strong incentive for people not to opt out of the integrated NHI system by purchasing coverage from a private insurance organization. Formal sector employees will be covered through payroll-deducted contributions to the Social Security and National Insurance Trust (SSNIT) fund. Those outside the formal sector are expected to make direct contributions to their district MHIS: contributions have been set at approximately the equivalent in Ghanaian cedis of US\$8 per adult per annum for the low-income groups, US\$20 for middle-income groups and US\$53 for high-income groups. All adults of a household are expected to become MHIS members, each in his or her own right and each paying the required contribution for his or her own coverage and that of dependent children under 18. The National Health Insurance Fund (NHIF) will fully subsidize the contributions of the indigent.

The NHIF will be funded from a 2.5% sales tax levied on almost all goods and services; a 2.5% payroll deduction for formal sector employees as part of their contribution to the SSNIT fund; and Government allocations from such sources as general tax revenue. The NHIF will allocate to each district MHIS the funds acquired from the SSNIT payroll contributions made by formal sector workers. It will partially subsidize contributions from low-income households and fully subsidize contributions from the indigent. It will also fulfill a risk equalization and reinsurance function. A relatively large proportion of funds for MHIS in poor rural areas will probably be channelled from the NHIF, since most MHIS members would require partially or fully subsidized membership.

Initially, many donors were doubtful about the feasibility of an ambitious restructuring of health care financing but they have since committed themselves to supporting its completion. There are, nevertheless, concerns about the affordability of the NHI, particularly because of the comprehensive benefit package it will offer. Its sustainability will depend very much on the extent to which fully contributing informal sector members can be enrolled and on its long-term ability to garner high levels of general tax and donor funding support.

With permission, from McIntyre, 2007., *Learning from Experience: Health Care Financing in Low and Middle-Income Countries*, Global Forum for Health Research, Geneva.

6.106 To avoid unintended consequences, the removal of cost recovery and service charges should be accompanied by compensating flows from other resources. The removal of such fees and charges could create an increased workload that cannot be sustained without additional financing or a reduction in quality - and reduced morale (see Box 6.8 for an example from Uganda). To counter such effects, the authorities may want to consider accompanying any elimination of cost recovery fees and service charges with an increase in the number of workers and an increase in wage rates. As noted above, the demand for services could also be regulated through the continued application of user fees for low priority and non-essential services.

Box 6.8: Consequences of Removing User Fees in Uganda, Part 2

Box 6.5 showed how the removal of user fees helped to dramatically increase the demand for healthcare in Uganda. A number of studies have suggested that the sustained increases in the use of health services and the positive outcomes of these increases could not have been achieved without an influx of funding for public sector health services.

Of particular importance was the proactive provision of a US\$ 5.5 million buffer fund by the Ministry of Health (MoH) to offset the potential shortage of drugs likely to result from loss of fee revenue combined with increased service use. In addition, the move away from donor funds for projects to donor sector-wide approach (SWAp) support to the MoH doubled the Ministry budget in real terms between 1999–2000 and 2002–2003. The Ministry controls the allocation of SWAp resources and has directed additional resources preferentially to primary health care services, with district budgets increasing seven-fold on average since 1999–2000. Thus, the removal of user fees combined with increased Government funding contributed to the positive changes in patterns of health service use.

Fee removal, however, also had negative effects. A decline occurred in staff morale, related to the fact that revenue from user fees had previously been used to supplement staff salaries and also to the fact that workload increased by about 47 percent. In some instances, users of public health services had to pay informal or “under-the-table” fees to enable health workers to maintain their previous income levels. In addition, despite increased public funding of health services, drug stock-outs occurred, forcing public sector services to purchase prescribed medicine from private outlets. As a result of informal fees and informal payments for medicines, the incidence of catastrophic health care payments by the poor did not decline dramatically following the removal of user fees. Moreover, health workers and members of health facility management committees also noted a decline in the maintenance, including the cleanliness, of health facilities.

Overall, access to health care has undoubtedly improved, particularly for the poorest groups. However, further efforts are required to address the problems posed by informal fees and a fall in staff morale. Fee removal clearly calls for careful planning, adequate resources and a good relationship with front-line health workers (see Gilson and McIntyre, 2005, for a more detailed discussion of these issues).

With permission, from McIntyre, 2007., *Learning from Experience: Health Care Financing in Low and Middle-Income Countries*, Global Forum for Health Research, Geneva.

6.107 The probability of success will be increased when effective accountability has been established not only between health care providers and communities but also between health care providers and health care financiers. This subject is taken up below.

*e. Linking Financing to Results*²¹²

6.108 It will be important to better link results to financing, given Sierra Leone’s very poor health outcomes, regardless of whether block grants or insurance is to be used. Hospital Boards and Community Health Boards need to be held accountable to health care financiers (Government and donors) for making the best use of the resources received. Introducing a scorecard system with targets mutually agreed between facilities and their communities might be one way to achieve this. The so called Performance Based Financing approach is one way this could be done. Performance Based Financing (PBF) or Results Based Financing has proved to be a viable approach in many countries. The PBF approach can be summarized as the transfer of money or material goods to a service provider conditional upon the provider taking an agreed measurable action or achieving a predetermined outcome based

²¹² This section of the reports draws on the following sources: Basinga, Gertler, Binagwaho, Soucat, Sturdy, and Vermeersch, 2009, *Impact of Performance Based Financing in Rwanda: Health Facility Level Analysis*; Eichler and Levine, 2009, *Performance Incentives for Global Health: Potential and Pitfalls*; Eldridge and Palmer, 2008, *Performance-Based Payment: Some Reflections on the Discourse, Evidence and Unanswered Questions*; and Loevinsohn, 2008, *Performance Based Contracting – a Toolkit*.

performance target. Higher incentive payments are warranted for services that are more important in terms of leading to better health outcomes and where more provider effort is necessary to improve those services.

6.109 There are several different ways PBF can be implemented. The most appropriate model for Sierra Leone will need to be determined with care following consultations with a wide range of stakeholders including households, community leaders, Government health staff, and NGOs (including missions). Several options are described below:

- **Government facilities are the service providers:** In this option, one could choose to link facility's performance to the total transfers to facilities or limit the link to transfers for staff remuneration. Linking staff remuneration (perhaps via the size of the annual pay raise or the size of an annual bonus) is likely to get better results since staff would more directly feel the impact of the performance. If staff remuneration is tied to performance, however, then it will be necessary to either *amend the civil service laws* to allow such a mechanism or *remove the health care cadre from the civil service*. These options are currently under discussion. In addition, one can choose to provide free health care or continue to charge fees for services or some mix of free services. As noted elsewhere in this chapter, the Government has announced that most but not all PHC services will be offered free. The Government and/or its donor partners will need to provide additional resources to the health sector to the extent that some fee income can no longer be collected. In addition, if household demand is not to be diminished in the face of continued fees for services, it may be necessary to introduce subsidized insurance for the poor. (If so, there is a further opportunity to motivate good health outcomes by offering households discounts on insurance for easily verifiable good behavior such as annual check-ups, immunization, female schooling, and so on.)
- **Non-Government Organizations (including missions) are the service providers:** The Government solicits bids from qualified potential providers, selects those that offer the best combination of coverage and quality, and all parties agree that payments to the providers will be dependent upon the degree to which agreed performance targets are met (by applying a penalty for under-performing or granting a bonus for meeting or exceeding targets). The NGOs will need to charge fees for services unless they are fully subsidized. If so, households may be reluctant to use health services without access to subsidized insurance. Examples can be found in Afghanistan and Haiti and a new program is beginning in Liberia. This approach would *change the nature of health care procurement*, requiring the contract management for service providers while eliminating the need for a Government role in the direct procurement of drugs or other medical supplies.
- **Mixed providers:** Government facilities and NGOs (including missions) could all operate in parallel provided that all are allowed to charge comparable fees for services. Subsidized insurance may be necessary if the poor are unable to pay the necessary fees.
- **Private providers:** There is room for private providers in any of the models described above. The viability of private providers will be improved to the extent that Government providers continue to charge fees for service for tertiary and specialized care. Making all health care free would tend to crowd out the private sector unless most households find that the quality of publicly provided services is not acceptable.

6.110 Several key factors for successfully implementing PBF in the developing country context are suggested in the literature. These include the need for: (1) strong political and management support; (2) room for change and innovation to maximize efficiencies; (3) autonomy for the service providers; and (4) a strong health information system that provides valid and reliable figures. The last two items are discussed in more detail below. Box 6.9 provides additional guidance on what to avoid.

6.111 PBF will be successful only when the provider(s) have adequate autonomy in how they use their resources. This has the implication that the Government would withdraw from the direct procurement of drugs and other medical supplies, focusing only on regulation of quality. It would also imply that the Government would make only single line item transfers to each service provider or, at most, one performance based transfer for staff remuneration and one transfer for all other expenses.

Box 6.9: The Seven Worst Mistakes in Performance Incentives

- Failing to consult with stakeholders on the design of incentives, to maximize support and minimize resistance.
- Failing to adequately explain rules (or having rules that are too complex).
- Introducing too much or too little financial risk.
- Using an unclear definition of performance indicators and targets, too many performance indicators and targets, and unreachable targets for improvement.
- Tying the hands of managers so that they are not able to respond fully to the new incentives.
- Paying too little attention to systems and capacities needed to administer programs.
- Failing to monitor unintended consequences, evaluate, learn, and revise.

From Eichler and Levine (2009).

6.112 Accountability for results needs to be established not only between the service providers and the financiers, but also between communities and the Government and between communities and the providers. Well designed contracts between the Government and health service providers may help motivate better results but they should also be reached in consultation with the stakeholders in the communities they serve in a transparent manner if trust is to be maintained. Similarly, communities and their Local Councils and Chiefdoms are often in a position to help the efficient operation of health facilities through maintenance of local infrastructure and other means. Clarity and agreement on obligations of this kind can contribute to success.

6.113 PBF will be successful only when there is an adequate and objective system of monitoring the agreed performance indicators. Linking payment to performance may be a mixed blessing with respect to information systems and how information is used. Managers may be motivated to strengthen the system to track progress toward targets and to identify problems early. However, an incentive may lead to falsifying data to earn the reward, which implies that all systems need a process to validate data as well as to provide sanctions for misreporting. To ensure that information on supply-side performance is valid, programs rely either on independent verification through empirical surveys such as MICS and DHS (expensive), health services user's surveys (subjective), facility surveys, extraction from medical records, and assessments from stakeholders' or providers' self-reported statistics combined with random audits and penalties for identified discrepancies. Independent verification has the merit of not being

influenced by the provider incentive and is especially useful in the early stages of a program, when independent assessments of impact can contribute to a decision about whether to scale up and institutionalize the approach.

6.114 The specific design of performance indicators has consequences. Most fundamentally, the authorities need to be attentive and ensure that the incentives do not result in unintended outcomes, especially when dealing with sensitive issues such as reproductive health and family planning services. PBF is more likely to be successful for activities that are under the control of providers. Overuse of PBF in inappropriate settings may have the effect of discouraging providers from working in the most deprived areas due to concerns that targets will be difficult to reach. In one example, it is easier to meet performance targets such as adequately filled posts in relatively accessible and secure districts of Afghanistan than in those that are more remote. Conversely, facilities with stronger systems or staff will have an easier time reaching targets and thus benefit more from the performance payments than those that do not, possibly generating resentment throughout the system. Some health outcomes take longer than others to achieve. Improvements in immunization rates can be achieved quickly while achieving changes in prenatal and postnatal care take longer. This suggests that some PBF bonuses might be short-run while others might be medium-term in nature. There can also be challenges of attribution since many health outcomes depend upon improved water, nutrition, education, or income. Finally, it is important to periodically review the choice of indicators to reflect changing country needs.

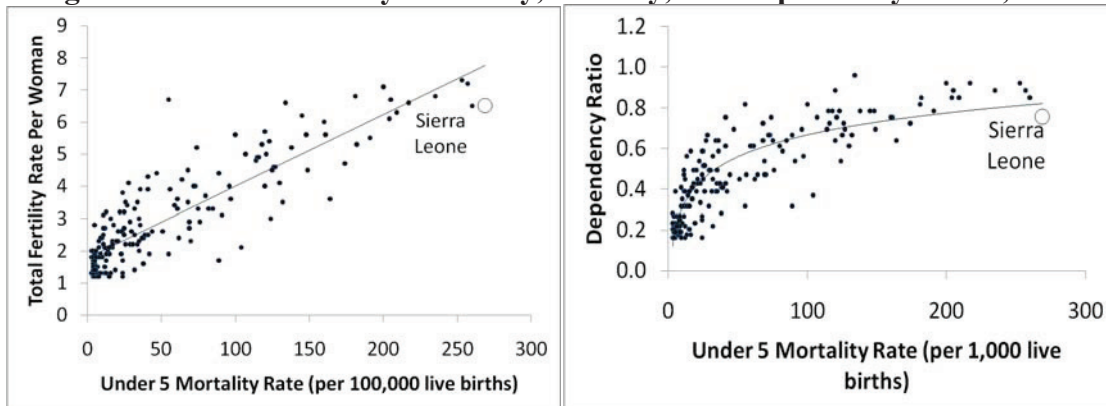
Appendix 6.1: Health Outcomes and Development

Good health outcomes can support growth and development. Developing countries undergoing a demographic transition to a lower share of dependant youths often witness a transitory increase in their savings rates. This transition happens as birth rates slow, following a reduction in death rates, thus allowing the working population to grow faster than the dependent population. The transition can have a high pay-off in terms of savings. In Thailand, for example, the move from a youth dependency ratio¹ of 0.80 in 1970 to 0.35 by 1995 allowed the private savings rate to increase by 7 percentage points to 28 percent.

In Sierra Leone, the average woman will have between 5 and 6.5 children compared to the low income average of 4.2 children. (The higher estimate is from the 2005 MICS3 while the lower estimate is from the 2008 DHS.) Family size tends to be smaller in countries with low child mortality rates. Families with high child mortality tend to over-compensate with higher than average births per mother. This relationship, and Sierra Leone's extreme position within it, can be seen in Figure 6.1. Sierra Leone's high fertility rate leads to a high child dependency ratio of around 0.75 that is considerably above the low income average of 0.64 for 2007. (Calculated as the number of children below 15 years divided by the number of adults.)

On average, a 3.5 percentage point decrease in the youth dependency ratio is associated with a one percentage point gain in the private savings rate. Bringing the dependency ratio for Sierra Leone down to the low income country average of 0.64 could increase private savings by 3 percentage points of GDP. This would make a major contribution to the future growth and development of the nation.

Figure 6.4: Cross-country Mortality, Fertility, and Dependency Ratios, 2006



Bloom, Canning, and Sevilla, 2001. *Economic Growth and the Demographic Transition*.
World Bank, 1999. *Policy and Research Bulletin*.

7. THE ROAD SECTOR

In its PRSP-2, the Government has set out ambitious goals for improvements in road quality to be achieved by 2014. Road rehabilitation and maintenance are critical for the facilitation of economic activity and investment in Sierra Leone and it is commendable that the Government intends to pursue them aggressively. These goals, however, need to be set in the light of existing road traffic, public resource constraints, affordability of long-term requirements, and the implementation capacity of the Sierra Leone Road Authority (SLRA). In this respect, the chapter presents a series of recommendations to better prioritize the targeted road quality improvement goals and enhance the sector agency's effectiveness through institutional and policy reform actions. It presents an optimal scenario for road network improvements based on the Road Network Evaluation Tools model that suggests that the optimal expenditures are roughly one third of the expenditures targeted by the authorities. It also identifies opportunities to reduce the administrative expense of the SLRA which, at 29 percent of revenues, largely exceeds the share needed by comparable and well administered road authorities elsewhere (5 percent). Implementation capacity, procurement, and contract management all need to be strengthened to improve on the current low utilization of donor funds. Efforts to improve the capacity of domestic contractors and enacting legislation for public-private-partnerships would also be needed to increase the ability to achieve ambitious road quality improvement goals. Sector roles and responsibilities would also need to be clarified to enhance accountability and oversight of existing sector agencies while Local Councils would need to be empowered to manage their local roads. Accountability also needs to be improved by enhancing the transparency and comprehensiveness of the information available to the public concerning road sector plans, expenditures, and outcomes.

A. GOVERNMENT OBJECTIVES

7.1 The aftermath of civil war required an emphasis on reconstruction and rehabilitation after years of neglect. As the security situation stabilized in 2001, a number of the original projects in the Ten Year Transport Sector Investment Plan (1995) were resumed. Project priorities were reoriented towards emergency rehabilitation and reconstruction of the core road network and restoration of the port and airport facilities which had been badly damaged during the war years. In 2002, the Government adopted the National Transport Strategy and Investment Plan (NTSIP), 2003-2007, which updated the 1995 prioritized plan for immediate and longer term investments, and also spelled out the key transport sector policy reforms and strategies in support of the national reconstruction and poverty reduction program of the Government. The NTSIP informed the PRSP-1 (2005-07) goals for the road sector: (i) to improve rural access through a focus on feeder roads; and (ii) improve the urban road network to address congestion problems in Freetown and provide for some of the urgent needs of the major townships.

7.2 The facilitation of economic activity and investment through road rehabilitation and new construction is one of the four key priorities in the PRSP-2. The Government intends to develop and implement projects that focus on the rehabilitation of 2,055 km of feeder roads and 160 km of roads in major provincial towns. To facilitate the movement of people, goods and

services, the Government will also rehabilitate and construct highways between the major urban centers as well as highways between Sierra Leone and neighboring countries. The construction of a ring road in Freetown is to be pursued along with the possibility of constructing a road that will connect all the major cities. It is noteworthy that the PRSP-2 provides a detailed list of proposed road sector projects in contrast to the PRSP-1 which lacked such a list.

7.3 The prioritization of road network improvements, and the ambitious targets set for these improvements, could have a substantial impact on the composition of Government expenditures. As indicated later in the chapter, the share of budgetary allocations directed to the road sector is expected to become the single largest expenditure item over the period 2010-12 (see Figure 7.1), exceeding education which has historically been the largest expenditure item.²¹³

B. CURRENT STATUS OF THE ROAD SECTOR

7.4 There has not been much change in the road network length or design since the early 1990s. The road network of Sierra Leone consists of approximately 11,555 km of roads, a gain of 216 km over the estimated total in 1992. About 1,433 km are paved, 5,970 km are gravel roads, and 4,152 km are feeder and village access roads (see Table 7.1). These numbers are not precise: road lengths and conditions have not been systematically measured for many years²¹⁴ and, for some road categories, there is more than one estimate. This can be seen in Table 7.1 as well. For example, the PRSP-2 figure for feeder road length in 2008 is smaller than the length reported for 1992. In another example, the 2008 estimates reported by the Sierra Leone Road Authority (SLRA) for paved and gravel roads in its 2009-12 Strategy and Investment Plan exceed the estimates published in PRSP-2.

Table 7.1: Selected Road Statistics from 1992 and 2008

	1992	2008	
	WB	PRSP-2	SLRA
Road Length (Kilometers)			
Paved	1,262	1,262	1,433
Gravel	5,822	5,886	5,970
Feeder Roads	4,254	4,152	4,152
Total	11,339	11,300	11,555
Paved (%)	11	11	12
Acceptable Quality (%) a/	42	52	53

a. Acceptable is defined as any SLRA quality designation better than “poor.”

Sources: The 1992 data are from World Bank Report 11175-SL. The 2008 estimates are from Table 9 of PRSP-2 and from the Sierra Leone Road Authority Strategy and Investment Plan, 2009 -2012.

7.5 Road density, a measure of road accessibility, is below the SSA average. With an estimated population of 5.7 million (July 2009), Sierra Leone has a total road density of 2.0 km per thousand people and 158-161 km per 1,000 square kilometers of land. On both counts, Sierra Leone is below the SSA average of 3.6 km per thousand persons and 204 kilometers of road per thousand square kilometers of land area (see Table 7.2). It also does less well when comparing the density of paved roads. Sierra Leone’s paved road length of 0.22 km per thousand people is about one fourth the SSA average of 0.79 kilometers per thousand persons.

²¹³ Excepting 2008 and 2009 when fuel for emergency power generation took primacy.

²¹⁴ The last comprehensive road inventory was conducted in 1995.

7.6 Sierra Leone has done a reasonably good job of keeping the bulk of its main roads in good or fair condition. According to Table 7.1, the portion of the road network in good or fair condition increased from 42 percent in 1992 to 53 percent in 2008. This was achieved largely through rehabilitation projects made necessary by years of neglect before and during the war. This outcome, however, is less than the median value of 66 percent for a sample of 19 African countries.²¹⁵

Table 7.2: Selected Road Indicators, 2008

	Sierra Leone	Sub-Saharan Africa
Road Density		
Km/1,000 people	2.0	3.6
Km/Km ²	158-161	204
Road Quality (% paved)	11-12	25
Road Density (paved)		
Km/1,000 people	0.22	0.79

Sources: World Bank and staff calculations.

Box 7.1: The Potential Rural Access Indicator

Another measure of the adequacy of the rural network is the rural access indicator (RAI) which is defined as the proportion of population within two kilometers walking distance of an all-season road. This number cannot be calculated because the actual condition of the paved and unpaved network and the location of houses is not available. An alternative is the *potential* RAI, that is the percentage of rural population that live within two kilometers of the current road network regardless of its condition. This number is about 40 percent for Sierra Leone. If we extend the distance that people may walk to a road to 5 kilometers, then the share of population with access increases to about 73 percent.

7.7 Most Sierra Leoneans rate the quality of their roads as poor or very poor. In 2008, a large sample of citizens rated the quality of the roads near their communities.²¹⁶ Most rated their roads as poor (33 percent) or very poor (38 percent). The perceived quality of roads clearly diminishes as community size decreases from urban towns to small rural villages (see Table 7.3).

7.8 Access to all season roads, is especially important for Sierra Leone which receives an unusually heavy amount of rain compared to other countries.²¹⁷ The local climate affects what constitutes an all season road. In low rainfall areas, well compacted earth roads could provide all season access whereas, in areas of heavy rainfall, drainage is a particularly important issue whether roads are paved or unpaved. Sealed sections are needed where the slopes are steep. The design parameters chosen will depend, however, on additional information about traffic levels and maintenance resources.

7.9 Seventy-one percent of these roads were reported by residents to be passable all year, leaving 29 percent periodically isolated during the rainy season. This represents a

²¹⁵ AICD: Road Review, 2008. Note: A comparison with post-conflict countries is not made here since the Government of Sierra Leone aspires to a higher level of achievement. In addition, making inter-regional comparisons of road condition is difficult because of potential differences in road classification, condition measurement procedures and dates of measurement.

²¹⁶ Report on the IRCBP 2008 National Public Services Survey, Institutional Reform and Capacity Building Project Evaluations Unit, December 2009.

²¹⁷ According to UN statistics, Sierra Leone receives the third largest amount of annual precipitation (2,946 mm) in a sample of 95 countries with an average of 963 mm per year.

sizable improvement over 2005 when only 56 percent of the roads were perceived as passable all year. This improvement in perceived quality is consistent with the improved quality of gravel and feeder roads reported in Table 7.1 and reflects the efforts by local communities to maintain their local roads.

Table 7.3: Quality of Roads

	Percent of Households				
	Freetown	Large Town	Small Town	Village	Total
Very Good (reasonably smooth tarmac)	40	14	13	3	12
Good (rough tarmac)	29	43	16	10	17
Poor (reasonably smooth unpaved)	22	35	43	35	33
Very Poor (rough unpaved)	9	9	27	53	38

Source: Report on the IRCBP 2008 National Public Services Survey.

7.10 There may also be some overstatement of the degree of improvement. The first time the IRCBP survey was used in 2005, 66 percent of households reported they were within 30 minutes walking time from a motorable road compared to 77 percent by 2008 – even though no new roads had been built. One explanation may be that the repeated use of the survey (2005, 2007, and 2008) had made people more aware of their circumstances even though there was only moderate improvement in the quality of some road segments over time.

7.11 The consequence of poor road quality is higher transport costs. For roads, it is possible to estimate the financial penalty associated with under maintenance. At a typical discount rate of 12 percent, every US\$1 that goes unspent on road maintenance leaves the roads entity with a financial liability of US\$4 for rehabilitation (Nogales 2009), and imposes an even higher cost on the economy if the higher costs incurred by vehicles owners using poorly maintained roads are also taken into account. A 1992 project document estimated that the country is incurring costs in vehicle operation of about US\$35 million equivalent annually which could be saved if roads were maintained in good condition.²¹⁸

C. ROAD SECTOR MANAGEMENT AND FINANCING

7.12 The poor condition of the road network at the start of the war may be attributed to the lack of professional capacity within the sector and as well the uncertain and insufficient funds being directed to maintenance. The management of the road sector was the responsibility of the former Department of Works (DOW) within the Ministry of Works and Technical Maintenance (MWTC) until 1993. The DOW did not have a strong capacity for implementation: road works were carried out by a staff of over 12,000 employed directly by DOW.²¹⁹ The financial situation reflected the overall poor economic conditions in the country immediately prior to the war that began in 1991 -- per capita incomes in Sierra Leone had been falling since 1982 and public expenditures had collapsed along with the tax base. As the war deepened, economic activity was further weakened and most road projects were either scaled back or abandoned.

²¹⁸ World Bank Report No. 11175-SL.

²¹⁹ According to Word Bank Report No. 11371-SL, many qualified staff left the DOW due to years of insufficient Government support.

7.13 The road sector was restructured in 1993 in conformance with the emerging best practice at the time. In 1989, the Government initiated an economic reforms package to start addressing decades of economic mismanagement in the country which included neglect and depreciation of the road network assets of Sierra Leone. Reform of the road sector was informed by emerging best practice and led to the creation of the SLRA that would contract out road work rather than manage its own staff. The SLRA was to be an autonomous, commercially oriented agency with substantially reduced staff and professional management responsible for the planning, development and maintenance of all roads in Sierra Leone, and overseen by the MWTC. SLRA was given the authority to hire and fire staff, set salaries higher than civil service pay scales, sign and award contracts, and receive the bulk of its funds for road maintenance from the Road Fund. The SLRA was also allowed to delegate part of its responsibilities for rural networks to local governments. Formal responsibility for the road network was devolved to SLRA from the DOW in 1993.

7.14 Overall sector management was thus transferred to the SLRA while Government involvement was reoriented towards providing policy guidance and a clear legal framework, -- and away from the direct execution of civil works. The role of the Government was re-defined towards: (i) regulation – setting up and enforcing a clear set of standards and regulations relating to environment, safety, and rules of competition for service providers; (ii) sector coordination, policy formulation and planning; and (iii) monitoring and oversight of the sector. Road construction and maintenance was to be contracted out to private operators with quality control and oversight provided by SLRA. These changes were reiterated in the 2002 and 2008 Assignment of Responsibilities to Ministers which delegates policy making to the Ministry of Works, Housing, and Infrastructure (MoW) and places the SLRA under MoW supervision.²²⁰

7.15 Road sector financing was restructured as well. The Government recognized the need for reliable and timely funding for maintenance of the core road network and to safeguard the country's biggest assets. In response, a Road Fund was established by a Cabinet decision, in 1989, to finance road maintenance through various user fees. This was subsequently incorporated into law as part of the Sierra Leone Road Authority Act of 1992 which established both the road authority and stipulated creation of the Road Fund to be administered by the SLRA for the collection of road user charges such as the fuel levy, vehicle licensing and registration fees and any other user charges that may be allocated to the fund by law. The revenues collected were to be used to finance routine, periodic and emergency road maintenance.

7.16 The results of the sector restructuring have been less positive than expected. Implementation of the Road Sector Strategic and Investment Plan (2003-2007) for both core roads and feeder roads is significantly delayed. An Action Plan for SLRA Restructuring, December 2005, indicated that just under 2,000 km of the core network would be rehabilitated and in maintainable condition by 2009. Within the period 2004 to 2009, SLRA planned to rehabilitate/construct a total of 600 km of Class A roads and 1,400 km of rural/feeder roads funded by the EU, World Bank, IDB, IFAD, and AfDB throughout the country. An average of 120 km of roads were planned to be rehabilitated every year over this period.

²²⁰ It is interesting to note that the numerous road projects listed underneath the MoW in the budget are actually administered by the SLRA.

7.17 As against a target of 600 km for core Class A roads, the rehabilitation of less than 300 km was completed in the last 5 years (e.g. less than 60 km per year). In the case of feeder roads, implementation is significantly behind schedule as well. For example, on the EU funded feeder roads project less than 20 percent of the work had been completed by September 2009 even though over 70 percent of the time allocated for constructing the roads has elapsed, and at this pace, EU funded feeder roads works would be completed in 2012. Concerns with contractor supervision and performance have also led KfW to cancel funding for some 24 projects scheduled for 2010.

7.18 Poor sector performance can be traced to a variety of factors including (i) sector governance; (ii) transparency in expenditures and outcomes; (iii) the internal governance of SLRA; and (iv) the capacity of private sector contractors. These issues are explored below.

1. Sector Governance

7.19 Roles and responsibilities for road sector governance have become confused over the last several years to the point where implementing agencies act largely on their own. Responsibility for road sector policy has long been assigned to the Ministry of Works. Yet, several additional entities have taken roles in the road sector following the conclusion of the war. These include the National Commission for Social Action, the Ministry of Agriculture, Forestry, and Food Security, the National Commission for Privatization, and the Local Councils. As will be discussed below, this has led to a situation where implementing agencies plan and implement road maintenance work and some projects on their own. The status of the road network could be improved through better coordination and collaboration between these actors.

7.20 The National Commission for Social Action (NaCSA) was established as a "Social Fund" in November 2001 by an Act of Parliament as the successor to the National Commission for Reconstruction, Resettlement and Rehabilitation (NCRRR). NCRRR was a ministerial-level Government commission that coordinated post-conflict humanitarian, relief and reconstruction assistance and provided oversight to donor-funded projects, including those financed by the World Bank, African Development Bank (AfDB), Islamic Development Bank (IDB) and United Nations Development Program (UNDP). NACSA is responsible both for completing the remaining tasks of the NCRRR in the areas of humanitarian co-ordination, reconstruction, resettlement and rehabilitation (RRR) and helping to assure a transition from relief to sustained economic growth and development. The "Social Fund" approach addresses the need to build durable human and technical capacity rapidly in one entity that can then provide effective assistance in multiple sectors in a post-conflict environment marked by extensive physical, institutional and psycho-social damage, weak and destroyed Government infrastructure and capacity, and the need to re-establish governance in large parts of the country. NaCSA is active in many sectors and manages feeder roads rehabilitation within the community public works infrastructure projects supported by donors.

7.21 The Ministry of Agriculture, Forestry and Food Security (MAFFS) clearly has a stake in the road sector because roads do facilitate the movement of farm produce to market and inputs to farmers. In this regard, MAFFS has in its investment portfolio several projects that include the rehabilitation and maintenance of various feeder roads. Yet, neither the 2002 Assignment of Responsibilities to Ministers nor the 2008 Assignment of Responsibilities to Ministers indicate any formal road sector role for MAFFS. At a minimum, the authorities may

wish to consider amending the Assignment of Responsibilities to require periodic consultation and coordination with MoW and the Local Councils to ensure that agricultural interests are being adequately addressed.

7.22 The National Commission for Privatization (NCP) has substantial powers conferred to it by its establishing Act. Section III.10 of the NCP Act (2002) states that the Commission “is to serve as the policy and decision making body with regard to the divestiture and reform of public enterprises; to transfer the management of all public enterprises to the Commission; and remove the interference in the management of public enterprises from the line Ministries thereby ensuring transparency, corporate governance and avoidance of conflict of interest in the affairs of public enterprises.” The First Schedule in the Act specifies SLRA as one of the public enterprises to be managed by the NCP. Road sector agencies are typically overseen by the Ministry of Works, as has been the case in Sierra Leone prior to the creation of the NCP. However, the inclusion of SLRA amongst the public enterprises placed under the NCP created both an overlap of the responsibilities of the MOW and NCP, and to some extent a vacuum in the oversight of SLRA.

7.23 The NCP Act created two kinds of confusion. First, as the SLRA was not up for divestiture, it has never been clear why it was included in the list of PEs to be divested. The planned divestiture of the Mechanical Service Unit (MSU), an arm of SLRA, and the parallel, planned reform of SLRA may have led to SLRA itself being brought under the NCP umbrella. Second, Section III.10 (3) of the NCP Act directs ministers to clear with the NCP any proposed changes to sector policy before presenting these for Cabinet review and decision. This possibly well intentioned requirement confounds the role of sector ministries in policy making and oversight, and bestows an informal “super-ministry” status on the NCP. Reporting lines from SLRA upwards have thus been blurred. The MOW, constrained by the NCP Act, has been increasingly vocal about its lack of independence and a well defined role in sector management. At the same time, the NCP has never been adequately staffed to fulfill all of the functions assigned to it under its establishing Act.

7.24 The net result is that neither the MOW nor the NCP have been effectively in charge of the road sector. Instead, SLRA has been driving the annual road sector plans, budgets, expenditures and the road fund, with little or no oversight. There is little consistent monitoring of SLRA’s financial and physical performance by Government entities or accountability on the part of SLRA to its final clients, road users, or to their elected representatives. While sectoral reforms are planned – separation and independence of the Road Fund, and re-organization of SLRA, clarity in the roles and responsibilities of the NCP vis-à-vis the sector ministries as regards the portfolio of public enterprises they oversee remains to be addressed. In response, the authorities may want to consider clarifying the NCP Act in a way that returns policy making and regulation to line ministries while ensuring that parastatal assets are well maintained for any eventual commercialization or privatization.

7.25 The planned devolution of feeder roads to Local Councils will bring more stakeholders into the sector. The Local Government Act of 2004 devolves the responsibility for maintaining feeder roads from SLRA to the Local Councils. This brings more players to the road sector: the Ministry of Internal Affairs and Local Government, as the umbrella ministry of the Local Councils, and the Local Councils themselves.

7.26 The transfer of responsibility for feeder roads to the Local Councils is behind schedule. The Local Government Act (2004) set the completion date at January 2009 for the transfer of responsibility. As of December 2009, this had not been implemented. This is explained partly by the ongoing rehabilitation of the feeder roads under the responsibility of SLRA, the completion of which is linked to the handover of roads to the Councils. The rationale behind linking the transfer of roads to their rehabilitation was to ensure that the Local Councils receive roads that are in maintainable condition. Yet, as suggested in Section B above, the rehabilitation process has been slower than expected. There is a general absence of information from SLRA and agreement on a timetable for the transfer of feeder road responsibilities. The participation of the Local Councils in the rehabilitation process thus far appears to be limited to agreeing to the prioritization of road rehabilitation undertaken by SLRA rather than the full technical, procurement and implementation cycle. An area where Council participation is critical is in the choice of technology for rehabilitation -- Councils are likely to select technologies that offer the possibility of labor based maintenance with its employment generating benefits. The limited involvement of the Councils also restricts learning by doing and slows considerably the capacity building process at the district level.

7.27 Local Councils are unable to exercise local oversight for road rehabilitation and maintenance. SLRA helps select feeder roads for improvement and then it is solely responsible for surveying current conditions, designing and costing improvements, qualifying and contracting, supervising and monitoring progress. This renders the Councils unable to provide local oversight because they are not aware of the contract conditions nor the implementation schedule agreed.

7.28 In this situation, the Government may wish to initiate the transfer of feeder roads without waiting on the rehabilitation works to be completed by SLRA. There is ample evidence that the Local Councils are willing to take on the responsibility: Local Councils have spent a significant share of their discretionary funding in these areas. Twenty-eight percent of discretionary funds from 2004 to 2008 were spent on roads and transport and 13 percent on markets, all of which are key to increasing the efficiency of the agriculture sector.²²¹

7.29 Such a transfer would need to be made with deliberate care for financing, definition of roles and responsibilities, and capacity building. If the Local Councils are to assume more responsibility for the procurement of road maintenance services, then they will need access to an adequate and secure source of domestic funds, possibly the Road Fund itself. Donors would need to adjust as well, finding ways to channel funds for road work implemented under the direction of the Local Councils.²²² The transfer would need to be accompanied by a categorized inventory of roads by district, and an agreement on the level and manner of technical support to be provided by SLRA district engineers to the Councils. It may also be appropriate to assign, or even transfer, some SLRA technical staff to the Councils in order to ensure that they have adequate capacity.

7.30 Some support for the Local Councils is already available. An important part of the IDP Feeder Roads Project is to use the Design and Supervision consultants to provide support

²²¹ National Public Services Survey, 2008. See also Chapter 4, Section C.3.

²²² Chapter 6 brings out some lessons from the health sector where considerable harm was done by allowing funds to be accessed outside of a publicly monitorable budget process.

and training to the Councils to ensure they have the capability to manage the future maintenance of the rehabilitated roads, and to bring sections of roads not being improved through the project up to standard. Other rural roads projects financed by various donors are also designed to facilitate the transfer of competence to Councils. All this is at risk, however, if there are no specific road maintenance staff in the Local Councils to receive information and training.

2. Transparency in Expenditures and Outcomes

7.31 The ability of policy makers to monitor progress and hold the implementing agencies responsible for results is constrained by inadequate expenditure information. The publicly available data on the level and composition of spending on the road sector are poor in quality and limited in detail. This hampers the ability of the Budget Bureau and the Office of the Auditor-General to assess the adequacy and efficiency of resources allocated to the road sector.

7.32 MOFED does publish budgetary allocations to the Ministry of Works and Infrastructure for road projects in the development budget but actual spending is limited to domestic contributions: actual spending by donors is incomplete. In the case of the SLRA, budgetary data show only the transfer to the SLRA from the Consolidated Revenue Fund of the central Government. Audited accounts are produced but are held internally. Furthermore, these data are not detailed enough to allow an analysis of spending by road category or by district. In the case of feeder roads maintained by NaCSA, published planned and actual budgetary spending data do exist. Unfortunately, these data are not organized in a way that allows the user to clearly identify resources spent on roads as distinct from other NaCSA activities. This data was available only by special request. The situation is the same for MAFFS except that the requested data was not available.²²³ Actual spending financed by external donors is especially difficult to obtain.²²⁴ As noted in Chapters 3 and 4, these data are generally incomplete. The only exception is data from the audited accounts of SLRA which report on a small subset of the road sector projects recorded in the development budget of the central Government.

7.33 The ability of policy makers to monitor progress and hold the implementing agencies responsible for results is also constrained by weak or absent monitorable progress indicators. SLRA lags behind other road agencies in Africa in terms of a fully functional Road Maintenance Management System (RMMS) for network and project level analysis and prioritization. The EU is supporting development of the RMMS but the collection of data needed to populate the database remains to be completed. Meaningful information on the condition of the road network and an accurate picture of the classified road network is also needed to implement at least some simple output and outcome performance indicators. Because a substantial portion of Sierra Leone's road network remains in need of reconstruction or rehabilitation, the share of the network that is improved, and changes in the network, should be accessible on an annual basis to decision makers and stake holders in the sector. Yet, no

²²³ The 2010 Budget Speech includes what may be the first attempt to assign resources from multi-sector projects that include feeder roads into their respective sectors. This effort could be expanded systematically to cover all sectors, and further improved indicating the implementing MDA for each project.

²²⁴ The donors can help in two ways: (i) they can report actual use of their funds on a timely basis, as required under the new Aid Policy introduced in November 2009; and (ii) provide enough information for multi-sector projects to allow the authorities to sort out how much was spent in each sector – for example in an agricultural project with a feeder road sub-component.

published statistics exist in this regard. In fact, as discussed above, road length and quality appear not to be systematically monitored. As a consequence, there is a general lack of precision about the current status of the road network.

7.34 Progress indicators also need to be defined more precisely. An attempt was made to provide monitorable progress indicators in the PRSP-1 (and no attempt made in PRSP-2) but they were not easy to interpret. According to the PRSP-2, under the time period of the PRSP-1 (2005-07), “the road network was improved slightly with approximately 500 km of gravel roads rehabilitated and over 1,200 km of trunk roads constructed and maintained.” The phrase “constructed and maintained” is somewhat confusing, however, since the total network length grew by only 216 km between 1992 and 2008 according to the data presented in Table 7.1.

7.35 It would be helpful to henceforth make public the five yearly and annual plans with clear and distinct targets for road maintenance, rehabilitation, reconstruction, and new construction. This would also inform the annual maintenance contracts to be signed between SLRA and the IRMF, and monitored by the IRMF, once the latter is functional. In the case of rehabilitation and reconstruction, it is also important to indicate whether the work will result in a change in the road pavement, for example, from earth to a gravel road, or in the classification of the road from say, a feeder road to a class B road. An important first step in this regard is to update the classification of the route network, complete an inventory of the primary, secondary, urban, and rural roads and their condition, conduct an inventory of current projects, and thus establish a roads database. A similar exercise was recently completed in Mozambique (with a larger network) in roughly 4 months at a cost of approximately US\$1 million.

3. Governance within SLRA

7.36 The sluggish improvement in network condition despite institutional reforms is due in part to the location of the Road Fund within SLRA: the Road Fund is in reality a bank account managed by SLRA outside the Government’s general budgetary framework and control. This has made it harder for Parliament, MOFED, AGD, and the Office of the Auditor-General to play oversight roles. The SLRA Board and Director-General manage both the revenues of the Road Fund and the road network. The Road Fund has therefore at no point functioned as a genuine purchasing agency and an efficient means of delivering road maintenance. Allocation of resources amongst various parts of the network, rural, urban, and inter-urban, is currently an internal matter for SLRA and there is no separation of responsibilities aligned with matching authority.²²⁵

7.37 The lack of effective accountability to an overseeing ministry, made worse by the inability of oversight agencies and Local Councils to directly monitor SLRA activities, creates problems with regard to contract management and waste in SLRA expenditures. As noted above, issues associated with contract management led to the cancellation of funding by KfW for 24 projects scheduled for 2010. In fact, there have been allegations made by many contractors that payments due for works completed are not made on a timely basis by SLRA. In addition, there has been at least one documented instance of attempted double billing by a major international contractor. With regard to SLRA expenditures, Section D below shows that

²²⁵ In the absence of strong accountability mechanisms, road boards may be subject to elite capture when a road authority is given additional autonomy over substantial funds.

administrative expenses have tended to crowd out operational expenditures on needed road maintenance.

7.38 To improve transparency and accountability, the NTSIP recommendation for an independent Road Fund should be implemented. The NTSIP detailed the Government's policy related to institutional arrangements. The national road system was to be managed by SLRA and funded through a legally and organizationally *separate* Independent Road Maintenance Fund (IRMF). In essence, the policies sought to create a simplified and updated SLRA managing the capital and maintenance works to be delivered by the private sector. Road user funding would be channeled and managed through the IRMF which would ensure that public monies were spent according to agreed maintenance plans and to an agreed quality. The IRMF would be governed by its own Board, whose members are also drawn from civil society.

7.39 It is commendable that the first step towards such a fund, the adoption by Cabinet of the necessary legislation, has recently been completed. It is recommended, however, that the legislation include objective selection criteria for senior appoints to the IRMF in order to further strengthen the autonomy of the IRMF.

4. Private Sector Capacity

7.40 There are three international road construction firms currently in the road sector in Sierra Leone. These are: Salini Costruttori; Compagnie Sahelliene D' Entreprise; and the China Seventh Railway Group. In addition to these, SLRA has 275 qualified local contractors on its register to do any type of road work in Sierra Leone. Of these, only 9 are Class A contractors with a capacity to undertake work valued at Le 500 million. The expertise that these firms have is usually limited to an engineer (who in most cases is owner of the business), a road inspector, a foreman, and technicians. Another 19 are Class B contractors who can compete for small rehabilitation projects of between Le 250 million and Le 500 million. The remainder is small works firms (Class C) who can undertake works of less than Le 250 million. Thus far, the role of private local contractors has been limited to routine maintenance on paved and gravel roads and periodic maintenance on gravel roads. This is due to low administrative, financial, and contract management capacity. Technical skills of local contractors also need to be upgraded.

7.41 Progress is constrained by the limited number of qualified contractors who can undertake large obligations but there are also opportunities for growth. According to the SLRA, in 2003 there were only two major road contracts; 4 in 2008; and 6 in 2009 for the rehabilitation of about 464 km of main roads. All contracts are being implemented with substantial delays. As the number of contracts expands under the PRSP-2, particularly as Local Councils pick up more responsibility, there is a risk that the existing firms may not be able to keep up with demand and works will be further delayed. On the other hand, there is also an opportunity for some of the small and medium-scale firms to grow as they attract more work, particularly at the district level. There is increasing collaboration between the donors, specifically the EU and the World Bank, to provide support in developing a comprehensive capacity building training program in the roads sector. The program seeks a focus on building national capacity through a coordinated approach to improve performance of the local contracting and consulting industry.

7.42 **Local capacity can in some circumstances be augmented through public-private partnerships.** In many countries it is common for large investors to help expand the road network in ways that are mutually beneficial to the country and the investor. Sierra Leone has taken a step in that direction in partnership with an external mining firm that has agreed to undertake a US\$1.5 million, 18-20 km road construction project to link Mammy Nancy (a small village on the Rogbere-Port Loko highway) and Thofayim (a coastal village). The company will also fund the construction of a jetty for its use and for the people of Port Loko. Such examples could become more numerous if the Government were to enact legislation to facilitate public-private partnerships in a way that is attractive to investors and protective of Government interests (see Chapter 4).

D. SECTOR ALLOCATIONS AND EXPENDITURES

7.43 **The PRSP-2 sets out some ambitious goals for improvements in road quality by 2014 that appear well beyond what can be justified in terms of road traffic, resource constraints, the long-term affordability of maintenance requirements, and the implementation capacity of the SLRA.** An optimal scenario for road network improvements over time is presented below as an alternative with specific guidance on spending requirements for the Road Fund and Local Councils. An analysis of actual expenditures suggests that spending on maintenance and administrative costs has been too high.

1. PRSP-2 Objectives

7.44 **The PRSP-2 sets out some ambitious goals for improvements in road quality by 2014.** While the PRSP-2 does not set any target for increased road length, it does specify substantial improvements in road quality (see Table 7.4). For example, the portion of paved roads that are assessed as acceptable (e.g. not poor) would increase from 60 percent in 2008 to 100 percent by 2014. The portion of gravel roads judged acceptable would increase from 50 percent to 85 percent while the feeder road shares would grow from 53 percent to 92 percent.

Table 7.4: Expected Status of the Road Network by 2014

	Total km	Acceptable 2008		Acceptable 2014	
		km	%	km	%
Class A and B	4,044	2,408	60	3,549	88
Feeder Roads	4,152	2,182	53	3,820	92
Urban Roads	3,104	1,290	42	2,704	87
Total, of which:	11,300	5,880		10,073	89
Paved	1,262	755	60	1,262	100
Gravel	5,886	2,943	50	4,991	85
Feeder	4,152	2,182	53	3,820	92

a. Acceptable is defined as any category other than "poor."

Source: Tables 9 and 11 of PRSP-2. This table does not use the latest data available from SLRA, as reported in Table 7.1 above.

7.45 **These improvements, while very much in the right direction, need to be carefully evaluated in relation to traffic levels, resource constraints, the affordability of long term maintenance requirements, and the implementation capacity of SLRA.** The majority of all roads (paved and unpaved) in the primary and secondary network carry less than 300 vehicles per day; about 70 percent of the secondary roads are low volume roads carrying less than 30 vehicles per day, on average. This is the same as the average volume of traffic carried on rural

networks in SSA countries. A roads database, complete with traffic counts, is an essential first step to planning appropriate interventions for rehabilitation and condition targets for the network.

7.46 The likelihood of achieving such ambitious goals in such a short period needs review. The main implementing agency (SLRA) has not demonstrated a capacity to rehabilitate or reconstruct road segments with the speed needed to achieve the PRSP-2 goals by 2014. For example, as noted earlier in the chapter, SLRA rehabilitated an average of less than 60 km of Class A roads per year in the last 5 years with substantial delays in feeder road improvements as well. By contrast, achieving the PRSP-2 goals for Class A roads would require rehabilitating roughly 80 km per year with additional obligations for all other road categories.

7.47 A rural roads policy, accounting for the Government's poverty reduction and connectivity objectives for the rural poor, is urgently needed. The vast bulk of Sierra Leone's poor are found in the rural sector where road traffic volumes are generally low. In such circumstances, it may be worthwhile to consider a basic approach that would give priority to the provision of reliable, all-season access to as many villages as possible rather than upgrading individual links to standards that are higher than necessary. The policy could also offer useful guidance on how rural road maintenance is to be funded, for example, from central Government transfers to Local Councils. The key to success is to provide a stable and predictable source of funds.

2. Allocations

7.48 Spending on the road network is intended to become the single largest item in the budget for 2010-12, superseding education which had historically been the largest expenditure item. The data included in Annex 3 of the 2010 budget speech shows that the expansion in spending is aimed not only at rehabilitation and maintenance, as in the recent past, but also at some new additions to the network—all of which is consistent with the objectives set out in the PRSP-2. This expansion can be clearly seen in Figure 7.1 and Table 7.5.²²⁶ The road sector share in total allocations increased from just over 15 percent in 2004 to 16 percent in 2007 and then returned to 14 percent in 2008. That share was programmed to increase to 18 percent in 2009 and then gradually increase to 21 percent by 2012. By contrast, the share for education, including transfers to Local Councils, reached a peak of 19 percent in 2008 and is programmed to fall to 17 percent for the period 2010-12.

7.49 The hoped for increase in road spending is expected to be financed from a near doubling of external project financing with an accompanying sharp expansion in domestic financing. The average level of external financing expected for the period 2004-08 was US\$34 million. By contrast, the average expected for 2009-12 is US\$60 million. Domestic financing was to increase sharply from Le 15.5 billion (US\$5 million) in 2009 to Le 73.3 billion (US\$20 million) in 2010 with additional increases in 2011-12. It is interesting to note that the average domestically financed share of the development budget for the road sector, which had been close to 10 percent over the period 2004-2009, is programmed to increase to an average of 36 percent for the period 2010-12.

²²⁶ It is interesting to note that the PRSP-2 Table 11 (duplicated in Table 7.4 here), which sets out goals for the road network, does not portray an expansion in terms of length.

Figure 7.1: Budgetary Allocations to Roads and Education, 2004-12

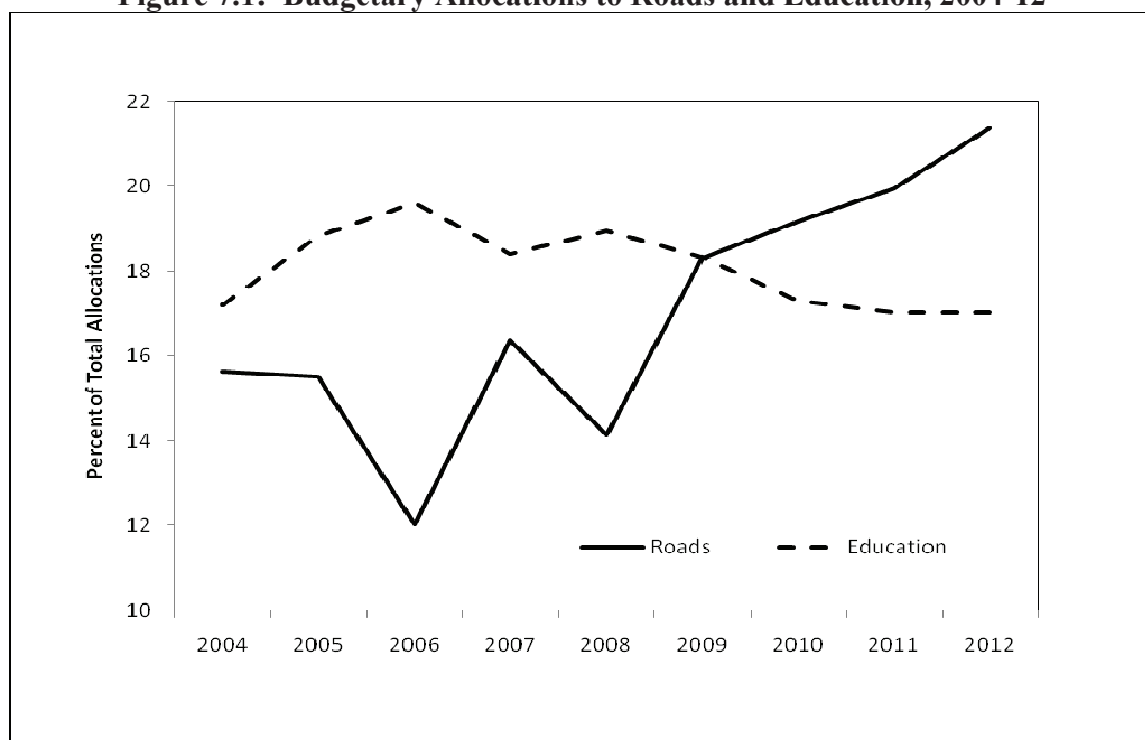


Table 7.5: Budgetary Allocations to the Road Sector

In Billions of Leones	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Roads a/	120.0	128.1	108.3	181.6	158.6	246.8	312.9	378.3	460.4
A. Min. Works b/	109.6	106.3	76.9	144.4	104.7	190.6	255.6	313.0	384.0
External Financing	106.6	97.9	68.9	134.9	85.0	175.2	182.2	230.8	291.6
Domestic Financing	3.0	8.4	8.0	9.5	19.7	15.5	73.3	82.1	92.4
B. Road Fund c/	10.4	21.7	31.4	37.3	53.8	56.2	57.3	65.3	76.4
Total in US\$ millions	44.4	44.3	36.6	60.8	53.2	74.4	85.7	100.6	118.9
o/w External Financing	39.5	33.9	23.3	45.2	28.5	52.8	49.9	61.4	75.3
<i>Memo Items:</i>									
Domestic (% Total MOW)	2.8	8.6	11.7	7.0	23.2	8.8	40.2	35.6	31.7
Roads (% Total) d/	15.6	15.5	12.0	16.4	14.1	18.3	19.2	19.9	21.4
Education (% Total) d,e/	17.2	18.8	19.6	18.4	18.9	18.3	17.3	17.0	17.0

a. Excludes NaCSA and MAFFS due to lack of detailed information.

b. Development Budget only. Excludes non-road expenditures.

c. Recurrent transfers only. The Road Fund is included in the allocations for the Min. Works in 2004 and 2005.

d. Total allocations excluding debt service and net lending.

e. Includes allocations to Local Councils.

Sources: MOFED and World Bank staff calculations.

7.50 Government expectations for project financing will require improved SLRA performance. Chapter 4 showed that the actual level of external financing has generally fallen well short of the targets set in the budget. Moreover, Table 4.4 in that chapter shows that the major implementing agency in the road sector (SLRA) has been one of the weakest performers with regard to using available donor funds. On average, for a sample of 7 projects, for any given year, the SLRA used only 6 percent of the external project funds available to it. By contrast, the unweighted average for all MDAs in the sample (with a total of 61 projects) was 18 percent. This low rate of resource usage could be related to some of the governance issues

described in Section C above, **particularly with regard to procurement and contract management.** Chapters 1 and 4 include a number of suggestions for improving the flow of funds from donor projects.

7.51 The sharp increase in the domestic contribution to the MOW development budget is puzzling. The domestic contribution is typically mainly for counterpart funding: the development budget contains very few projects exclusively financed from domestic resources. Those donors that continue to seek counterpart funds typically seek a relatively fixed share over time. Thus, while an accelerated road program would indeed require more counterpart funding, the overall share in total spending should not increase. Moreover, several donors including the World Bank now often approve projects with minimal or no counterpart funding requirements.

7.52 The spending targets, and associated road improvement targets, exceed what is needed to reach the lowest net present value of social costs over time. The Road Network Evaluation Tools (RONET) model can be used to estimate what the optimal expenditure path would be.²²⁷ For each road class, RONET evaluates the performance of the road under different standards and calculates the corresponding stream of road agency costs (rehabilitation and maintenance), indicative road user costs and indicative total society costs (sum of road agency and user costs) over the evaluation period.²²⁸ RONET then computes the present value of the total society costs for each standard, at the input discount rate, and determines the optimal standard for the road class. This is the one that yields the lowest present value of total society costs. According to the model, it will be important to rehabilitate the road network, though not as aggressively as portrayed. In some cases, no rehabilitation is economically justified where road traffic is low and/or road quality is poor. Conversely, if the exercise is repeated every few years, new data on road utilization will capture the impact of growth in the economy and/or population and thus justifying an upgrading of some segments from gravel to pavement. The key results are summarized in Table 7.6 below.²²⁹

7.53 The optimal expenditures are roughly one third of the expenditures portrayed in the 2010 budget. Average total spending is US\$31.3 million per year rather than the average of US\$100 million shown in Table 7.5 for 2010-12. Approximately US\$15.9 million per year would be needed by the SLRA to rehabilitate the Class A and B trunk roads, and another US\$5.9 million would be needed annually to perform periodic and recurrent maintenance. The rural Local Councils would need US\$1.2 million per year to maintain the feeder roads. The urban Local Councils would require US\$7.7 million annually to rehabilitate urban and local roads and another US\$0.7 million annually to maintain them. Total average annual rehabilitation costs would be US\$23.5 million while total average annual maintenance costs would be US\$7.8 million. The level and composition of the annual spending requirements will change as road

²²⁷ Development of the RONET model was funded by the Sub-Saharan African Transport Partnership. The partnership is an international effort to facilitate policy development and related capacity building in the transport sector in Sub-Saharan Africa.

²²⁸ Costs are an average from a sample of 40 African countries. The World Bank team stands ready to work with the authorities to further identify and apply actual unit costs from Sierra Leone.

²²⁹ The discount rate used in this exercise is 12 percent. By contrast, the one year Treasury Bill rate at end-2009 was close to 15 percent. Indicative costs and road utilization rates come from an average of a sample of 40 Sub-Saharan African countries. Data on the number of vehicles come from the Sierra Leone Road Transport Authority.

quality improves. Spending on rehabilitation would decrease after 2014 while maintenance would increase.

Table 7.6: Indicative Optimal Targets and Expenditures, 2010-14

	Road Quality (% Acceptable)			Average Annual Cost in US\$ Millions Years 2010-14			
	PRSP-2		RONET	Rehabil- -itation	Maintenance		Total Cost
	2008	2014	2014		Periodic	Recurrent	
Class A & B	60	88	74	15.9	1.9	4.0	21.7
Feeder	53	92	53	0.0	0.6	0.7	1.2
Urban/ Local	42	87	42	7.7	0.0	0.7	8.4
Total	52	89	58	23.5	2.5	5.3	31.3

Sources: PRSP-2 and staff calculations using RONET.

7.54 Policy goals that deviate from the optimal economic scenario will require more resources. For example, as a matter of policy, the authorities may wish to ensure that no Class A or B roads are poor in quality regardless of traffic levels. In such a case, the indicative annual costs would increase to as much as US\$49.3 million for rehabilitation (of which US\$24.8 million is for Class A and B) and US\$13.9 million for periodic and recurrent maintenance (of which US\$9.2 million is for Class A and B) for an annual total of US\$63.3 million rather than the average US\$100 million in the 2010-12 budget. It is recommended that the authorities further prioritize the targeted road quality improvement goals through the use of the RONET model which will allow the exploration of any policy and cost scenarios the authorities may wish to consider.

3. Actual Expenditures

7.55 The analysis of actual expenditures is focused here on maintenance and small emergency projects implemented by the SLRA, plus small projects implemented by NaCSA. Data on actual externally financed development expenditures implemented by MOW and MAFFS are not available.

Table 7.7: Competing Estimates of the Road Fuel Levy, 2004-08

In Billions of Leones	2004	2005	2006	2007	2008
Fuel Levy Collected					
Recorded by the Petroleum Management Unit	17.6	19.7	36.4	39.7	42.6
Recorded by the Budget Bureau (MOFED)	16.0	25.1	33.7	31.4	53.8
Recorded by the Accountant-General's Department	..	23.9	39.7	34.4	46.2
Transfer to SLRA (Audited SLRA Accounts)					
In Billions of Leones	17.9	19.5	36.3	32.5	43.6
In US\$ Millions	6.6	6.7	12.3	10.9	14.6
Gap (AGD less Audited SLRA Accounts)					
In Billions of Leones	..	4.4	3.4	1.9	2.6
In US\$ Millions	..	1.5	1.1	0.6	0.9

Sources: MOFED, World Bank project materials, and staff calculations.

7.56 There are inconsistencies in the reports of Road Fund transactions with possible losses in need of investigation. SLRA maintenance activities are financed primarily through the Road Fund which, in turn is financed from a share of petrol sales via a fuel levy. A much smaller revenue stream is derived from vehicle license fees. In theory the revenues collected for the fuel levy should flow into and out of the Road Fund. In practice, there may some losses.

Table 7.7 shows data from multiple sources, none of which agree. There are data on revenues collected for deposit into the Road Fund from three sources and data from audited SLRA accounts on what was transferred to SLRA from the Road Fund. If one accepts the AGD data as superior for actual revenues collected, then one can infer that an average of US\$1 million per year is lost on the way from the Road Fund to the main SLRA account. This number might be higher or lower depending on which source of revenue data is most accurate.²³⁰

7.57 Maintenance expenditures have exceeded needs within Sierra Leone. Table 7.8 shows that actual spending on maintenance has been well above the indicative estimates for Class A and B roads under both the optimal scenario (US\$5.9 million) and the illustrative policy scenario (US\$9.2 million). Actual spending varied between a low of US\$11.9 million in 2005 to a high of US\$18.1 million in 2008. It will be important to learn why actual spending has been so high, especially since the indicative cost estimates from RONET are likely to be overstated in Sierra Leone's case: cost savings are possible because Sierra Leone has good quality local laterite suitable for road construction.

Table 7.8: Road Sector Maintenance Expenditures, 2004-08

	2004	2005	2006	2007	2008
Total (Leone Billions)	41.5	34.4	49.0	50.9	54.0
SLRA a/	40.9	33.8	47.5	50.9	49.2
NaCSA b/	0.6	0.6	1.6	0.0	4.9
MAFFS	n.a.	n.a.	n.a.	n.a.	n.a.
Total (% GDP)	1.4	1.0	1.2	1.0	0.9
Total (US\$ Millions)	15.4	11.9	16.6	17.1	18.1

a. Includes project disbursements for emergency repairs.

Omits most expenditures financed directly by donors due to a lack of data.

b. Includes donors. Excludes administrative costs.

Sources: SLRA, NaCSA, and World Bank staff calculations.

7.58 Available resources could be better used by SLRA: the data suggest that a very high share of SLRA resources is diverted to administrative costs rather than road work. Administrative expenditures declined from 64 percent of domestic revenue in 2004 to 34 percent of revenue in 2008 (See Table 7.9).²³¹ Some elements of the administrative costs are misclassified and should be excluded. These are items related to debt obligations, depreciation, and end-of-service benefits. When these are excluded, the 2004 share of revenues is reduced to 31 percent while the 2008 share is reduced to 29 percent. This is still high. The comparable share in well administered Road Authorities elsewhere is no more than 5 percent.²³²

7.59 There are opportunities to reduce administrative expenses. Table 7.10 shows that salaries consumed 9 percent of domestic revenues in 2008 while other administrative expenses consumed another 20 percent. The authorities may wish to consider reducing both staff costs and other administrative costs. With regard to staff, the SLRA has reduced the number of personnel from over 600 in 1993 to 414 in 2007 and 314 in the first half of 2009. This reduced level of staff is still quite high relative to needs. According to the Road Sector Management

²³⁰ The possibility of additional losses between the collection of revenues at the petrol pumps and deposits into the Road Fund could not be explored due to a lack of time to collect the necessary data.

²³¹ This share could be over-stated to the extent that there may be some project expenditures managed by SLRA that are conducted outside the budget.

²³² World Bank, 2002. TWU-47, Road Funds Revisited: A Preliminary Appraisal of the Effectiveness of "Second Generation" Road Funds.

Action Plan²³³, only 165 staff are required for the size and quality of the road network in Sierra Leone. Implementing this recommendation would reduce the revenue share consumed by administrative costs by 4.5 percentage points. With regard to other administrative expenses, it is interesting to note that spending on per diems has increased much faster than have revenues. Per diems increased by 282 percent between 2004 and 2008 while revenues increased by 105 percent. Other large administrative expenses are associated with vehicle operation and maintenance. If these other administrative expenses could be halved, in rough proportion to the envisioned reduction in staff, then total administrative expenses could be brought down to approximately 15 percent of revenues.

²³³ December 2005.

Table 7.9: SLRA Revenues and Expenditures

Le Bins	2004			2005			2006			2007			2008		
	SLRA	Donors	Total	SLRA	Donors	Total	SLRA	Donors	Total	SLRA	Donors	Total	SLRA	Donors	Total
Revenues															
Road Fund (Fuel Levy)	23.2	10.8	34.0	25.1	7.7	32.8	42.9	7.1	50.0	38.9	9.8	48.7	47.7	6.8	54.6
Vehicle fees	17.9		17.9	19.5		19.5	36.3		36.3	32.5		32.5	43.6		43.6
Funds from Deferred Income Account a/	4.3		4.3	4.6		4.6	5.7		5.7	5.1		5.1	3.7		3.7
Other operating income		10.8	10.8		7.7	7.7		7.1	7.1		9.8	9.8		6.8	6.8
	1.1		1.1	1.0		1.0	0.9		0.9	1.4		1.4	0.5		0.5
Expenditures															
A. Recurrent	30.1	10.8	40.9	26.1	7.7	33.8	41.9	5.5	47.5	45.9	5.1	50.9	45.7	3.5	49.2
1. Administration	28.1	0.0	28.1	20.6	0.0	20.6	33.9	0.0	33.9	34.6	0.0	34.6	24.0	0.0	24.0
2. Maintenance	14.9		14.9	11.9		11.9	19.8		19.8	19.8		19.8	16.5		16.5
3. Support to Local Governments	12.9	0.0	12.9	8.7	0.0	8.7	14.1	0.0	14.1	14.8	0.0	14.8	7.5	0.0	7.5
B. Capital	0.2		0.2	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
1. Rehabilitation	1.4	10.8	12.2	5.5	7.7	13.2	8.0	5.5	13.5	11.2	5.1	16.3	21.7	3.5	25.2
2. Construction	0.3		0.3	3.2		3.2	4.0		4.0	5.5		5.5	16.2		16.2
3. Bridges	0.0		0.0	0.7		0.7	1.0		1.0	0.6		0.6	0.1		0.1
4. Ferries	0.7		0.7	0.5		0.5	1.7		1.7	1.8		1.8	1.8		1.8
5. Emergency Works	0.0		0.0	0.4		0.4	0.4		0.4	0.6		0.6	0.8		0.8
6. Donor Funded repairs	0.4		0.4	0.4		0.4	0.7		0.7	1.8		1.8	0.8		0.8
7. Other	0.0	10.8	10.8	0.0	7.7	7.7	0.1	5.5	5.6	0.3	5.1	5.4	0.4	3.5	3.8
C. Net Financing Costs	0.0		0.0	0.3		0.3	0.2		0.2	0.7		0.7	1.7		1.7
	0.6		0.6	0.1		0.1	0.0		0.0	0.0		0.0	0.0		0.0
Balance	-6.9	0.0	-6.9	-1.1	0.0	-1.1	1.0	1.6	2.6	-6.9	4.7	-2.2	2.0	3.3	5.4
Administration as % Dom. Revenue	64%			47%			46%			51%			34%		

Table 7.10: SLRA Administrative Costs, 2004-08

8.	2004		2005		2006		2007		2008		% Change
	Le Bln	%Rev	Le Bln	%Rev	Le Bln	%Rev	Le Bln	%Rev	Le Bln	%Rev	
Revenues	23.234	100	25.065	100	42.911	100	38.927	100	47.731	100	105
Administrative Costs	14.905	64%	11.889	47%	19.786	46%	19.814	51%	16.456	34%	10
A. True Administration	7.179	31%	9.528	38%	14.016	33%	15.603	40%	13.907	29%	94
1. Salaries	2.970	13%	3.704	15%	4.639	11%	5.284	14%	4.481	9%	51
2. Other	4.209	18%	5.825	23%	9.377	22%	10.319	27%	9.426	20%	124
Fuels and Lubricants		0%		0%		0%	1.613	4%	1.404	3%	..
Vehicle Repair and Maintenance	0.580	2%	0.804	3%	3.332	8%	1.595	4%	1.216	3%	110
Staff Training	0.245	1%	0.225	1%	0.831	2%	1.518	4%	0.694	1%	183
Printing and Stationary	0.551	2%	0.417	2%	0.549	1%	0.632	2%	0.759	2%	38
Per Diem	0.260	1%	0.400	2%	0.872	2%	0.796	2%	0.993	2%	282
Board expenses	0.199	1%	0.321	1%	0.383	1%	0.492	1%	0.342	1%	72
Other	2.374	10%	3.659	15%	3.411	8%	3.674	9%	4.019	8%	69
B. Mis-classified	7.726	33%	2.360	9%	5.769	13%	4.211	11%	2.549	5%	-67
Depreciation	0.716	3%	0.666	3%	0.669	2%	1.146	3%	0.479	1%	
Bank charges	0.181	1%	0.215	1%	0.274	1%	0.544	1%	0.278	1%	
Sundry accounts write-off	5.799	25%	-1.015	-4%	-0.628	-1%	2.172	6%	0.000	0%	
Provisions for slow moving stocks	0.000	0%	0.061	0%	0.000	0%	0.000	0%	0.000	0%	
Provisions for bad debt	0.734	3%	0.241	1%	0.000	0%	0.349	1%	0.000	0%	
Bad debt written off	0.158	1%	0.092	0%	0.000	0%	0.000	0%	0.000	0%	
End-of-Service Benefits	0.137	1%	2.100	8%	5.455	13%	0.000	0%	1.792	4%	
In US\$ Mlns											
A. True Administration	5.467		3.297		4.732		5.227		4.662		
Salaries	1.099		1.282		1.566		1.770		1.502		
Other	4.368		2.016		3.166		3.457		3.160		
Staff	600		550		500		450		400		
Average Monthly Salary Le/month	412,444		561,136		773,150		978,519		933,542		
Average Civil Service Salary	394,860		524,902		593,688		654,275		768,754		
Average Monthly Salary \$/month	153		194		261		328		313		
Average Civil Service Salary	146		182		200		219		258		

Appendix 7.1: Road Quality Definitions

In the absence of published definitions of road quality, this annex provides some generic standards published in the RNET User's Guide (2009) that can be applied in almost any circumstances. Each network type, road type, and traffic category is subdivided into five possible road condition categories defined as a function of the engineering assessment of the capital road works (periodic maintenance or rehabilitation works) needed to bring a road to very good condition. Routine maintenance road works are needed by all roads every year; therefore, they are not considered on the definition of the road condition classes.

For paved roads, the road condition classes are defined as follows:

- *Very Good:* Roads in very good condition require no capital road works.
- *Good:* Roads in good condition are largely free of defects, requiring some minor maintenance works, such as preventive treatment or crack sealing.
- *Fair:* Roads in fair condition are roads with defects and weakened structural resistance, requiring resurfacing of the pavement (periodic maintenance), but without the need to demolish the existing pavement.
- *Poor:* Roads in poor condition require rehabilitation (strengthening or partial reconstruction).
- *Very Poor:* Roads in very poor condition require full reconstruction, almost equivalent to new construction.

For gravel roads, the road condition classes are defined as follows:

- *Very Good:* Roads in very good condition require no capital road works.
- *Good:* Roads in good condition are roads that require only spot regravelling.
- *Fair:* Roads in fair condition require regravelling (periodic maintenance).
- *Poor:* Roads in poor condition require partial reconstruction.
- *Very Poor:* Roads in very poor condition require full reconstruction, almost equivalent to new construction.

For earth roads, the road condition classes are defined as follows:

- *Very Good:* Roads in very good condition require no capital road works.
- *Good:* Roads in good condition are roads that require only spot repairs.
- *Fair:* Roads in fair condition require heavy grading (periodic maintenance).
- *Poor:* Roads in poor condition require partial reconstruction.
- *Very Poor:* Roads in very poor condition require full reconstruction, almost equivalent to new construction.

Continued

Table 7.11 presents a summary of the capital road works needed to bring a road to very good condition by surface type.

Table 7.11: Capital Road Works Needed to Bring a Road to Very Good Condition

Category	Bituminous Roads	Gravel Roads	Earth Roads
Very Good	None	None	None
Good	Preventive Treatment	Spot Re-graveling	Spot Repairs
Fair	Resurfacing	Re-graveling	Heavy Grading
Poor	Strengthening	Partial Reconstruction	Partial Reconstruction
Very Poor	Full Reconstruction	Full Reconstruction	Full Reconstruction