Annex 1

1. IDENTIFICATION

Title/Number	Moyamba-Moyamba Junction Road and Bridges SL/FED023-284		
Total cost	EUR 40 700 000 EDF contribution (15.3 % NIP) Envelope A		
Aid method / Method of implementation	Project approach – *Partially decentralised management*		
DAC-code	*21020*	Sector	*road transport*

2. RATIONALE

2.1. Sector context

The economy of Sierra Leone is highly dependent on the transport of people and commodities by road. However, the condition of the national network is poor and its extent limited. Asphalted roads represent less than 10% of the total network. The rehabilitation/reconstruction of the core national road network, including major road bridges, is therefore a country priority.

The "Moyamba-Moyamba Junction Road and Bridges" (MRB) project aims at improving the road communication system between Moyamba town and the recently rehabilitated Masiaka-Bo highway. This will facilitate access to the South-Eastern area of the country. The action clearly targets a region with severe poverty in the context of a post-conflict fragile country.

The project road is consistent with the EU's strategy for the infrastructure sector, as well as with the Government of Sierra Leone Development objectives. The Sierra Leone Poverty Reduction Strategy (2008-2012) opens the discussion on the National Transportation Network by stating that "Poverty reduction requires an adequate means of moving people and goods. Therefore a developed transportation network is critical to growth and development".

Management of all public roads in Sierra Leone has been the responsibility of Sierra Leone Roads Authority (SLRA) since its creation in 1992. Despite the Government of Sierra Leone's efforts and donors commitments to the transport sector, there are major under-funding problems on the core network, which still remains far from an acceptable international standard.

2.2. Lessons learnt

Past experience shows that the rehabilitation of roads and bridges to adequate standards (paved roads and two-lane bridges) is a critical aspect in many road rehabilitation programmes.

With regard to the previous actions and experience of funding agencies, it is noted that one of the main problems faced was the large discrepancy between real costs and available budget. In several cases the budget available for road projects ran short and the bidding firms were forced to prepare offers matching the available budget. Most of the time, this resulted in badly implemented projects and in the worst case, projects being incomplete and contracts terminated (i.e. on the European Development Fund (EDF) funded Songo-Moyamba section of the route).

One of the reasons for the discrepancies between available budget and actual costs is the lack of an efficient and continuously updated database on construction and services unit prices. Another contributing factor is the limited level of competition among the few contractors interested to tender for construction and supervision contracts in Sierra Leone. To limit this risk annual inflation rates have been considered in the budget preparation including substantial contingencies (15% of costs estimate) and will be further reviewed in the tender documents preparation.

Another critical issue is to carry out technical audits regularly during the project implementation in order to avoid possible disputes at the end of execution period. An independent technical auditor with the provision of an adequate budget will be recruited from the beginning of the project implementation. Regular audit visits will be performed during the construction period and corrective actions on crucial technical issues will be undertaken in a timely manner.

Paying more attention to supervision activities and contracts is also a necessity in Sierra Leone, as previous experience shows a limited capacity to respect the foreseen quantities and budget. The use of a combined contract (for design and supervision) that was decided for the awarding of the formulation studies will enable the consultant to improve their input in the project preparation and in the subsequent project management.

2.3. Complementary actions

For the last 10 years, donors' support to the transport sector in Sierra Leone has been predominantly for roads rehabilitation, technical assistance for the supervision of their implementation and structural reforms.

The strategic goal of Sierra Leone Roads Authority (SLRA) is to improve the condition of the core network. This objective is supported by 10th EDF funds through major road rehabilitation programmes. A complementary action addresses SLRA capacity building through a Technical Cooperation project, 'Institutional support to SLRA' (EUR 3 000 000). This project includes staff training and new laboratory test tools to enhance project management and maintenance programmes. Additional support (USD 1 000 000) has been granted by the World Bank to the restructuring of SLRA, by amending the legislation, creating an independent Road Maintenance Fund Administration and privatising the Mechanical Services Unit.

A complete study defining a National Transport Strategy is under preparation with funds made available by the World Bank. This plan will certainly help to objectively assess the relevance of the choice of future roads to be funded.

The "Moyamba-Moyamba Junction Road and Bridges" (MRB) project as well as the future rehabilitation of the trunk road from Bandajuma to the Liberia border (MRU bridge), to be funded under the 10th EDF Regional Indicative Programme for West Africa, will provide a direct connection to the Masiaka-Bo and Freetown-Conakry highways, enabling several different districts to be reached from the same main regional corridor.

Further projects funded by other development donors include major trunks in remote areas, particularly the Kenema-Pendembu road and the Matatoka–Sefadu road (African Development Bank), as well as major feeder roads programmes (EU/World Bank).

2.4. Donor coordination

Current donor investment in roads is focused on rehabilitation and reconstruction. The completed and ongoing projects in the country have a total cost of more than USD 180,000,000, of which a majority is EDF contribution. The funding gap to rehabilitate/reconstruct the whole network is estimated at USD 600 000 000. It is expected that roads will be rehabilitated at a rate of about 120 km per year, thus bringing the total maintainable network to 2340 km in 2012.

The road sector coordination is limited among all stakeholders, but the Government of Sierra Leone is taking action in the right direction through the Donor Aid Coordination Office, with the establishment of a specific working group for the road sector. The Government and the donor community have already agreed that EU should act as lead donor in the road sector, where it is the main donor together with the World Bank (WB).

The African Development Bank (AfDB), Kuwait Fund, OPEC Fund, Saudi Fund and Islamic Development Bank are also making investments in this field with loans and/or grants arrangements.

Specific rehabilitation projects are decided bilaterally by the Government of Sierra Leone and the Chinese Government and are directly implemented by Chinese contractors.

The main challenge in donor coordination is that most donors contributing to the road sector have no sector staff or no representation at all in Sierra Leone. Sierra Leone Roads Authority (SLRA) attempts to organise multi-donor meetings keeping all relevant actors informed of other donors' activities. As the meetings have recently been rare, the EU as the lead donor is taking an increasingly active role in donor coordination.

The achievements in the sector are reviewed in monthly tripartite meetings with National Authorising Officer (NAO), EU Delegation and SLRA. These meetings will, in the future, be extended to include the other donors in the sector (WB, AfDB,...) and representatives from the relevant Ministries and the Agencies. These extended joint coordination meetings will be held in connection with missions from the WB and AfDB twice a year. In parallel, the Roads Authority, assisted by the NAO and the EU, organises regular bilateral meetings with the different stakeholders dealing with the implementation of EDF funded projects.

To ensure that the investments made in this road sector will be preserved in the long-term and that a sound financial management system is in place, the donors community (EU, DFID, WB, AFDB) will discuss with the Government of Sierra Leone the introduction of specific indicators for the road maintenance/sector in the framework of Budget Support operations.

3. DESCRIPTION

The MRB project includes: a) the rehabilitation of the Moyamba Junction-Moyamba Road, b) the construction of a new bridge over the Gbangbaya river (Gbangbama bridge), c) the construction of a new bridge over Rokel River (Magbele bridge) and d) the construction of a new bridge across the Ribi River (Mabang bridge). The Moyamba-Moyamba Junction road totals 33 km in length.

3.1. Objectives

The **overall objective** is reduction of poverty through the enhancement of the road and bridges network in Sierra Leone and in the West Africa region. The project contributes to this objective by enhancing socially and economically sustainable development of the population by the elimination of constraints to road transport and consequent reduction in costs.

The **purpose** (**specific objective)** of the project is the reduction of vehicle operating costs, travel time and accidents in the communication system between the Moyamba district and the Capital city, Freetown, as well as along the road link from Freetown to Conakry (Magbele Bridge).

3.2. Expected results and main activities

Result 1: 32,8 Km of the road from Moyamba to the Moyamba Junction (with the Masiaka-Bo Highway), including Gbangbama bridge (32.5 m span), are upgraded to a paved road.

Result 2: The Magbele bridge (166 m span) and the Mabang bridge (202 m span) are reconstructed and widened to two-lane bridges.

Activity 1 (under the result 1): The Moyamba–Moyamba Junction Road is fully upgraded from a Class II of gravel standard to a Class I asphalted road, including the new two-lane bridge over the Gbangbaya river.

Activity 2 (under the result 2): Two new two-lane bridges are built over the Rokel river (on the Freetown-Conakry) and Ribi river (on the Songo-Moyamba).

Activity 3 (under the results 1 and 2): Works construction supervision (Supervisor's Representative consultant).
Specific arrangements will be considered in the works programmes for road safety management both during the construction stage and in the long term. Explicit attention will be given to the road safety and HIV sensitization measures for all workers dealing with the execution of the project as part of the obligations of the Works contractors, under the guidance of the Supervisor Representative consultant.

To achieve the expected results a works contract including 2 lots (road including the Gbangbama bridge and two bridges) will be awarded to an international contractor.

The works supervision will be under the responsibility of Sierra Leone Roads Authority (SLRA) with the direct support of a consultant (Supervisor's Representative).

An independent auditor will be selected to further support the Contracting Authority and the Beneficiary throughout the implementation phase providing timely advice on possible claims/disputes.

3.3. Risks and assumptions

A list of risks and assumptions that have the potential to influence the success of the project has also been identified:

a. Procurement process identifies properly qualified contractors (medium risk: the capacity of the contractors will be accurately verified during the evaluation of offers);

b. Beneficiary or affected communities are involved at all stages of the project cycle and there is a general acceptance of the new infrastructure, in particular with regard to land tenure issues (low risk: the horizontal alignment for the road already exists and the future exact location of the new bridges will not create any major land acquisition issues. Furthermore, Sierra Leone Roads Authority (SLRA) is used to dealing with expropriation issues);

c. Price fluctuation risk (medium risk: the project budget already includes margins for variation of prices and contingencies. Moreover, the formulation study took into account base prices from previous peak periods).

d. Political stability continues (medium risk: the next Presidential elections in November 2012 are clearly a risk factor, although Sierra Leone has successfully held two Presidential elections in 2002 and 2007. The latter election saw a peaceful political transition);

e. Global economy remains stable (medium risk: the project is by nature not particularly prone to fluctuations of the global economy).

The longer term risk for the project is that insufficient funds from the Road Maintenance Fund are made available to SLRA to undertake periodic maintenance. Large underfunding problems to the maintenance sector have been experienced in the last years. However, Sierra Leone is expecting substantial increase of its revenues with the boost of mineral exports.

Additional risks relating to the activities of Technical Cooperation brought to SLRA, such as the establishment of a proper road maintenance management system (RMMS) or the enhanced project management capacity of the SLRA are difficult to assess. However, the results oriented monitoring (ROM) evaluation carried out in 2011 and 2012 on Technical Cooperation (TC) project funded by EU gives a rather optimistic forecast regarding the outcomes in terms of capacity building. After the expiry of the TC to SLRA in February 2013, a complementary Technical Assistance support to the project implementation will be provided throughout the recruitment of an independent technical auditor. An additional TC to the NAO, including a high qualified technical expert, is due to start by the end of 2013 up to mid 2014.

3.4. Cross-cutting Issues

Environmental and socio-cultural issues were evaluated, at the identification and formulation stages. The Environmental/Social Impact Assessment Report (ESIA Report) prepared in 2006 offered a wealth of data describing the road project and its potential impacts on the environment, its biophysical characteristics and their interactions with prevailing socio-cultural conditions. The findings and conclusions contained in the ESIA Report were basically sound and have been further revised during the formulation stage.

Apart from the usual requirements of road projects (quarries, dust mitigation, wetlands, safety…) additional attention is brought to specific issues linked to bridges construction (sedimentation control, breeding season of aquatic species). The scale of mitigation costs has been assessed, but it is not envisaged that any issue will incur exceptional mitigation costs. Resettlement requirements are limited as the alignment of the road remains almost unchanged.

It is also foreseen to minimize environmental nuisance such as soil erosion, ecosystem fragmentation, air and noise pollution, accidents and accidental pollution, in the design of the road and the execution of works, with the appropriate safety and mitigation measures.

Specific arrangements will be considered in the works programmes for road safety management, both during the construction stage and in the long term. Explicit attention will be given to the safety measures for all workers dealing with the project execution.

3.5. Stakeholders

The main implementing stakeholder concerned by this project is the Sierra Leone Roads Authority (SLRA), and indirectly the Road Maintenance Fund Administration (RMFA) which is the entity responsible for funding the maintenance of the road after the construction period. The Technical Cooperation to SLRA programme funded by the EU targets most of the issues identified during the identification phase, in terms of organisational and planning tools, and equipment. Additional technical assistance is being provided by the African Development Bank targeting mostly axle load control issues.

To ensure an adequate ownership of the MRB project for the expected beneficiaries, the SLRA and the NAO have been associated in every step of the identification/formulation phase: project preparation, drafting of the formulation study Terms of Reference (ToR), consultations with local beneficiaries and workshops during the elaboration of the design study.

The Roads Authority is currently under restructuring, with support from the World Bank and from the EU under the 10th EDF. Furthermore, the EU and WB are supporting the Government of Sierra Leone's efforts in the decentralisation process (transferring both responsibility and resources for feeder roads maintenance to local councils). This will enable local communities to better participate in the decision making process, enhancing accountability and overall governance of the road sector. However, the devolution process has yet to be fully implemented.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Partially decentralised management through the signature of a Financing Agreement with the Government of Sierra Leone in accordance with Articles 21 to 23 of the Financial Regulation of the 10th EDF.

The contracting authority for the project shall be the EDF National Authorising Officer of Sierra Leone.

The works supervision will be under the responsibility of Sierra Leone Roads Authority (SLRA) with the direct support of a consultant (Supervisor's Representative).

The Commission controls ex ante all the procurement and grant procedures.

Payments are executed by the Commission.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegate body under, respectively, decentralised, joint or indirect centralised management.

No programme estimates are foreseen for this project. The project will benefit from the ongoing Technical Assistance to the National Authorising Office, including both procurement and infrastructure experts.

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by EDF. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in article 20 of Annex IV of the revised Cotonou Agreement.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VII 'Grants' of the Financial Regulation applicable to the 10th European Development Fund. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 109 of the Council Regulation on the Financial Regulation applicable to the 10th European Development Fund.

4.3. Budget and calendar

The total contribution from EU is limited to EUR 40 700 000 from the 10th EDF National Indicative Programme (NIP), including provisions for contingencies. The overall project cost is broken down as follows:

Categories	EU contribution	Total
	EUR	EUR
Activity 1 - Road rehabilitation including new Gbangbama bridge (works contract)	17 600 000	17 600 000
Activity 2 – Magbele and Mabang bridges reconstruction (works contract)	15 000 000	15 000 000
Activity 3 – Works supervision (service contract)	2 500 000	2 500 000
Communication/ Visibility (included in the works contract)	200 000	200 000
Monitoring, External Evaluation and Audit (service contract)	600 000	600 000
Contingencies	4 800 000	4 800 000
TOTAL	**40 700 000**	**40 700 000**

The foreseen implementation operational duration of the project is 48 months.

Sierra Leone's own input in kind to the project will be primarily in human resources for procurement, contract administration, co-ordination and follow-up, in addition to funds for compensations, land acquisition and availability of office facilities for supervision tasks. Funds for compensation are expected to be quite limited (few alignment changes).

Communication and visibility activities will be included in a separate heading in the works contracts and the supervision consultant will be responsible for ensuring that the measures are implemented as described in the project design/technical specifications.

4.4. Performance monitoring

The project monitoring will be the primary responsibility of the Sierra Leone Roads Authority (SLRA) (Supervisor) with the technical support of the Supervisor Representative consultant.

Progress reports shall be made available to the Contracting Authority and to the EU on a monthly basis. The achievements of the project shall be reviewed in regular meetings and compared with the work-plan provided by the works contractor (after the tendering process). The main indicators shall be: percentages of works items completed, timely execution compared to work-plans, quantities/costs verification, provisional/final acceptance of works.

4.5. Evaluation and audit

Provision is made for a mid-term and final external evaluation as well as for a complete financial and technical audit.

An external technical audit will be carried out throughout the whole implementation of the project. A financial audit provision is foreseen in the budget for an independent audit of expenditure under the project.

4.6. Communication and visibility

The Supervisor shall be responsible for ensuring that the communication and visibility measures included in the works contract (lots 1 &2) are implemented by the Contractor as specified in the EU visibility guidelines and according to an ad-hoc visibility plan to be presented before the commencement of the works.

The Supervisor shall include visibility monitoring as a separate heading in the monthly reports to the Contracting Authority. At the end of each calendar year, the Supervisor must compile a comprehensive overview with financial details of all communication and visibility actions carried out within the project implementation reference period.

Temporary and permanent project sign boards will be placed at the different sites where works are executed.

All information provided to the press, the beneficiaries of funds, and all related publicity material, reports and publications, shall respect the Communication and Visibility Manual for EU external actions.

ANNEX 2

1. IDENTIFICATION

Title/Number	State Building Contract SL/FED/24389 Sierra Leone		
Total cost	EUR 29 620 000 10th EDF contribution – A Envelope		
Aid method / Management mode	Budget Support – direct centralised management Complementary support – Joint Management		
DAC-code	51010	Sector	Budget support

2. RATIONALE AND COUNTRY CONTEXT

The overriding objective in EU/Sierra Leone relations should be the durable stabilisation of the country. A strong and persistent engagement from the EU through the promotion of shared values and principles would consolidate the important investments already made in the relatively successful but still fragile stabilisation of the country. A stable, peaceful and prosperous Sierra Leone would serve as an example to the region and the wider continent, and contribute to the EU's strategy for Africa. The country remains, however, fragile, with weak institutions and tremendous capacity constraints. Youth unemployment, new threats such as drug trafficking, and the sub regional context of the troubled Mano River Union also contribute to fragility.

International support should remain adapted to this transitional post-crisis phase - whilst acknowledging that Sierra Leone must weaken its aid-dependency. Securing future domestic revenues from extractive industries will be crucial to reducing the country's dependence on aid and to sustain long term efforts in state building, development and poverty mitigation. Monitoring and enforcement of relevant regulations and the forthcoming Presidential and Parliamentary elections, considered by all concerned to be free and fair, are key to further improvements.

The "New Deal for Fragile States" of Busan, for which Sierra Leone is a pilot country, highlights the need for donor flexibility in responding to challenges arising in fragile situations. For aid to be effective, concentration must be balanced with the constraints imposed by fragility, weak implementing capacity, the inter-linkages between the root causes of poverty and fragility. Taking Sierra Leone's context as the starting point (Busan Principle 1) reveals the urgent need to address many sectors in a holistic manner: a further specificity of Sierra Leone is the limited size of the donor community and small number of donors in-country. The EU, the Government's leading donor partner, is often called upon to respond to a wide range of needs.

As provided for in the EU/UK Department for International Development (DfID) Joint Country Strategy Paper for Sierra Leone, the budget support operation aims to consolidate peace and State institutions by contributing to macro-economic stabilisation, strengthening core Public Finance Management (PFM) functions and processes and generate an improvement in the delivery of basic social services. The European Commission is currently providing General Budget Support (GBS) to the Government of Sierra Leone in conjunction with other Multi Donor Budget Support (MDBS) partners (African Development Bank, DfID, World Bank).

The 10th EDF National Indicative Programme (2008-2013) total allocation to general budget support (GBS) amounts to EUR 90,000,000. The initial three-year (2009-2011) GBS programme under the 10th EDF was for an amount of EUR 46,400,000, increased to EUR 68,400,000 by the addition of two V-Flex contributions (EUR 12,000,000 in 2009 and EUR 10,000,000 in 2010), and to EUR 82,400,000, following the adoption of a third addendum in July 2012 to allow for an additional disbursement in 2012.

The proposed action covers budget support to be disbursed in 2013 and 2014 in the framework of a State-Building Contract (SBC) with the Government of Sierra Leone. Such a programme seems to be more adapted to the fragile situation in Sierra Leone, whilst the characteristics of the previous programme were already aligned with a SBC. The political willingness at the highest level to get out of the crisis is a basic pre-condition to enter into a State-Building Contract, and is present in Sierra Leone. The support provided through a State-Building Contract could contribute to nurturing and shaping realistic policies to build sustainable State institutions.

2.1. Country Context and National Policy and Strategy

Since the end of the war in 2002, Sierra Leone has come a long way in the difficult transition from post conflict to economic reconstruction and development, recognising that the rule of law, human rights, and peace and security are essential prerequisites for poverty reduction and economic development. The country has held two democratic elections since the end of the war, and is heading for its third set of elections on November 17th 2012.

2.1.1. Economic and social situation and poverty analysis

In spite of its fragile situation, the economy of Sierra Leone has shown resilience in the face of the recent economic turmoil, with positive prospects for the coming years thanks to iron ore production and the discovery of oil offshore. It is, however, difficult to capitalize on the dividends of growth in a context of weak domestic revenue mobilisation and rapid population growth.

Statistical data used to assess poverty levels and social development in Sierra Leone are scarce mainly because surveys are not conducted on time due to financial and other constraints. However, surveys undertaken over the years confirm a high level of poverty and social vulnerability. GDP/capita has been hovering at between US $320-350 since 2008.

The 2011 UNDP Human Development Index ranked Sierra Leone in 180th position out of 186 countries, whilst the 2007 Core Welfare Indicator Questionnaire survey (CWIQ) suggested that 66.4% of the population lived on less than US$1/day. The 2010 Multiple Indicator Cluster Survey (MICS4) showed that the net attendance rate in primary education was 74% in 2010, with the literate adult population being estimated at 39% of the total. Population access to health services is another acute problem which the Government of Sierra Leone is actively addressing. In 2004, under-five mortality was 283/1000, whilst MICSS4 gives a figure of 217/1000 for 2010. The Free Health Care Initiative[1] is likely to have improved thehealth situation of lactating mothers, pregnant women and under-five children, although there are challenges to be addressed in relation, for example, to the delivery of drugs at facility level. Morover, MICS4 found that only 57% of the population used improved drinking water sources.

[1] Launched April 2010 targeting maternal and child health

Overall, the health situation in the country remains critical, with a scarce population of medical practitioners - with 1 doctor for 46,000 people[2].

With continued donor support during the implementation of the first PRSP, Sierra Leone achieved a relatively stable macro-economic environment with strong economic growth, moderate inflation, declining current and fiscal account deficit balances, increased level of foreign reserves, a broadly stable exchange rate, positive real interest rates and a lower external debt burden.

Public spending continues to receive boosts through domestic revenue recuperation, direct budget support, various investment lending and key policy reforms that stimulate domestic demand and attract foreign direct investment. These reforms have been undertaken in line with the PRSP II and continue to encourage a higher level of recurrent spending on the social sectors -- including health, education and economic services -- with a smaller share going to defence and other non-poverty reducing expenditures. These spending measures are helping to secure improvements in service delivery, sector outcomes and overall poverty reduction. The monitoring of service delivery processes and policy dialogue through the Multi Donor Budget Support Group have contributed to these results.

2.1.2. National Development/ Cooperation Policy and Strategy

The key domains that form the backbone of the EU *Agenda for Change* policy (human rights, democracy & other key elements of good governance; inclusive and sustainable growth for human development) are well reflected in the current Sierra Leone PRSP II (also called "The Agenda for Change"). The establishment of functioning and accountable institutions that deliver basic services and support poverty reduction is essential within an overall state-building governance package which, however, should fully reflect the fragile status of Sierra Leone and the provisions of the Busan New Deal. The PRSP II indeed outlines a set of state-building objectives that focus on the need to reduce poverty and to create institutions fundamental to good governance, which is clearly in line with principle 3 for good international engagement in fragile states and situations. In the same spirit, the recognition of links between political, security and development objectives (principle 5) is reflected in chapter 8 of the PRSP II 'Sustaining Peace, Security and Good Governance'.

The Government of Sierra Leone is currently preparing a successor to its Agenda for Change, called the Agenda for Prosperity ("A4P", 2013-2017), the aim of which will be to put inclusive growth, job creation, poverty reduction, governance, institutions, human capital and national cohesion at centre stage. In light of the country's natural resource potential, the PRSP III is likely to include promoting enhanced natural resource governance, transparency and accountability, which is in line with the EU policy on tackling the challenges in commodity markets and on raw materials.

Moreover, the Government of Sierra Leone has approached the OECD Paris21 Secretariat for assistance in the formulation of a new statistics strategy to follow on from the current National Statistics Development Plan (2008-2012).

2.1.3. National Budget and medium-term financial perspectives

The 2012 budget, as well as the 2013-2014 forecasts provided with it, is a reflection of the Agenda for Change's priorities and is heavily skewed towards infrastructure development. Early

[2] World Health Organisation recommends 2.5 doctors, nurses and midwives for every 1,000 people. US and UK have more than 12.

indications are that the focus of the future Agenda for Prosperity (A4P) will focus on diversifying the economy to make it more competitive, whilst also addressing governance, labour and social protection issues. Fiscal projections for the years 2012-2014 reflect the impact of recent investments in the mining and agricultural sectors on revenue collection and economic growth. The medium term fiscal framework is supported through the Extended Credit Facility (ECF) programme approved by the International Monetary Fund (IMF) in 2010, and which is due to come to an end in June 2013. Moreover, the Government of Sierra Leone is now working within a Medium-Term Expenditure Framework, as demonstrated by the 3-year budget forecasts, and has issued a revised set of MTEF guidelines in April 2012.

Efforts in making the PRSP II the effective framework for Government's action and budgeting is further demonstrated by the fact that the coding structure of the Integrated Financial Management Information System (IFMIS) chart of accounts has been revised by the Accountant General's Department to facilitate reporting on the PRSP-related activities.

2.1.4. Performance Measurement

Whilst the Agenda for Change does not contain indicators of performance, progress assessment in the implementation of the PRSP II is done by the Development Assistance Coordination Office (DACO) through regular reporting to the donors in the context of Development Partners' Committee (DEPAC) meetings. It is expected that the gaps in the Monitoring and Evaluation framework will be addressed in the formulation of the future PRSP III. The Government of Sierra Leone is, furthermore, fully aware of the importance of progressing towards the achievement of the Millenium Development Goals. Reference is also made to the introduction by the President of Ministerial Performance Contracts, which set the annual targets for each Minister and are subject to quarterly review.

Performance measurement, however, primarily takes place within the context of the budget support monitoring benchmarks (Government of Sierra Leone/EU/DfID/ World Bank (WB)/African Development Bank (AfDB) and the IMF). The Performance Assessment Frameworks are coordinated by the Ministry of Finance and Economic Development (MoFED) and published with the budget. Key areas of assessment are: improved expenditure management; improved basic service delivery; improved domestic revenue mobilisation; strengthening governance, specifically in terms of extractive industry revenues.

2.2. Eligibility for budget support

2.2.1. National Development or Cooperation Policy and Strategy

A Poverty Reduction Strategy exists and is used as a policy and budgetary framework by the Government. This national development policy is considered to be sufficiently relevant and credible to be eligible to an EU budget support programme.

The PRSP-II presents a comprehensive medium-term strategy that focuses on four priorities. These are: (i) enhancing national power (ii) increasing agricultural productivity and competitiveness;
(iii) significantly improving the national transportation network; and (iv) promoting sustainable human development through decentralized service delivery. These priorities are underpinned by good governance, macroeconomic stability, private sector development, financial sector reform, and natural resource management.

Since its launch, the Agenda for Change (PRSP-II) has been followed-up and is consistently used as a framework for Government's strategic budgeting – as demonstrated by the Government's 2010, 2011 and 2012 budgets – and for policy-setting purposes. As mentioned above, the successor to the Agenda for Change, the Agenda for Prosperity (A4P), will aim to put inclusive growth, job creation, poverty elimination, governance, institutions, human capital and national cohesion at centre stage.

2.2.2. *Macroeconomic situation*

Sierra Leone's economy continued to expand in 2011 on the back of agriculture, construction and services, supported by increased energy supply and infrastructure investments. Real gross domestic product (GDP) growth in 2011 is estimated at 6%. Price pressures have receded somewhat since mid-2011 and consumer price inflation eased to 16.9% (year-on-year) at end 2011, as food price increases subsided and tight monetary policy helped contain non-food inflation. Gross international reserves remain at a comfortable level, whilst the leone (national currency) has been relatively stable in the first half of 2012.

The Government of Sierra Leone medium term fiscal framework and economic policy is supported through the three year IMF Extended Credit Facility (ECF), with twice-yearly reviews. The fourth review, which took place in April 2012, identified the need to enhance fiscal consolidation efforts whilst also addressing Sierra Leone's large infrastructure and social service needs, stressed the importance of constraining non-priority expenditure for the remainder of 2012 and underlined the importance of expenditure and cash-flow management. In the latter respect, slippages in budget execution had translated into a higher-than-anticipated overall deficit financed through the accumulation of unpaid bills, a situation that has been corrected since then. The Government' spending has been reduced for the first half of 2012, thereby fulfilling the IMF targets of the ECF fourth review. A fifth review is planned to take place in September 2012.

The most recent IMF Debt Sustainability Update in July 2011 concluded that Sierra Leone's risk of debt distress remains moderate. The Government of Sierra Leone has requested a WB/IMF Joint Assessment Mission to support the Medium Term Debt Strategy Development (MTDS). The Public Debt Management Law enacted in March 2011 has consolidated and harmonised all legislation, whilst a specific unit, the Public Debt Management Unit, has been created in the Ministry of Finance and Economic Development, whilst the Government of Sierra Leone is currently in the process of drafting the regulation that would allow full implementation of the Act.

Based on the macro-economic and fiscal analyses, and in the context of an IMF programme considered to be on-track, this general condition is considered as met.

2.2.3. *Public Financial Management*

In November 2009, the Government of Sierra Leone launched a comprehensive Integrated Public Financial Management Reform Programme (IPFMRP), developed in consultation with the MDBS partners, which covers all relevant areas and weaknesses of the PFM (excluding tax/revenue administration addressed in a separate programme). This reform programme is supported by several donors including the EU. Since February 2012, a donor PFM working group has been meeting on a regular basis to share information and coordinate on PFM issues. One component of the IPFMRP is the development of a Citizen's Budget, designed to increase awareness of the budgetary process.

A Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2010 (published in March 2011) indicated solid progress in the quality of PFM systems and process between 2007 and 2010, and confirmed improvements in a number of areas: comprehensiveness and transparency of the budget process, accounting, recording and reporting as well as external audit. The current PFM reform strategy is considered sufficiently relevant because it was shaped with a view to addressing, in a well-sequenced manner, the major weaknesses highlighted in the 2007 and 2010 PEFA assessments.

One of the perennial problems in Sierra Leone concerns the poor performance of the National Revenue Authority in collecting revenues. This feature is highlighted in the latest PEFA assessment. This situation is explained by a lack of capacity in the National Revenue Authority (currently being addressed by DfID through their support to the NRA modernization programme).

A new Mines and Mineral Act has been enacted to guide government intervention in the sector. However, for these benefits to fully accrue to the country there is the need to strengthen transparency and accountability of extractive sector management, including contracting and revenue management. Sierra Leone became an Extractive Industries Transparency Initiative (EITI) candidate country in February 2008; the first EITI Report (covering 2006-07) was published in March 2010; and the final validation report was issued in August 2010. The reconciliation and validation reports contain a number of recommendations for improving revenue management and to help Sierra Leone achieve compliant status in 2012.

On the basis of the above, the PFM eligibility criterion can be considered to be fulfilled, as a credible and relevant programme to improve public financial management is in place.

2.2.4. Transparency and oversight of the budget

The basic entry point, publication of the budget, has been largely fulfilled as both the 2011 and 2012 enacted budgets were submitted to Parliament in November of the previous year and published immediately on the Ministry of Finance and Economic Development website.

The Government Budgeting and Accountability Act and the Public Procurement Act, the two major pieces of legislation regulating the use of public funds, offer a solid framework for the transparency, accountability and Parliamentary and public oversight of those funds. The annual accounts are audited and the audit reports submitted to Parliament and published. Effective implementation will, though, be a challenge in a fragile country like Sierra Leone.

Furthermore, the launching of the first Citizen's Budget in May 2012, and the country's involvement in the Open Budget Initiative, puts Sierra Leone on a very short list of countries which have made the public step to bring more transparency and accountability to the budgetary process.

2.3. Sector Policies

Unlike for the Sector Reform Contracts (SRCs), the aim of this State-Building Contract (SBC) is not to strengthen a particular sector. Instead the ambition of this SBC is to ensure the function of vital state functions and to ensure that basic services can be delivered to the population of Sierra Leone. In this regard, the SBC programme can highlight several policies which are of vital importance and which are included in the PRSP-II.

- The Integrated Public Sector Reform Programme, which covers, amongst other: civil service reform, decentralization, security and justice reforms, and parliamentary reform. Support to this programme will help strengthen key PFM functions as well as increase good governance practices in the country.

- The National Health Sector Strategic Plan 2010-2015 (NHSSP) and the NHSSP monitoring and evaluation plan (both of good quality).

-The Education Sector Plan (ESP 2007-2015). Whilst primary school enrolment ratios have improved in the last years, the Government has found it difficult to improve the quality of education, to develop the required infrastructure and to address the high drop-out rates.

2.4. Lessons learnt

The previous General Budget Support (GBS) programme played a critical role in maintaining a stable macro-economic framework in the difficult context of the 2008-2010 economic slow-down and beginnings of the recovery in 2011 and the continuing expansion of development infrastructure in 2012. It is important to ensure continuity of support to the budget in 2013 and 2014 to allow the Government to consolidate the objectives of the second Poverty Reduction Strategy Paper (PRSP) the Agenda for Change, and launch the initial actions of its upcoming third PRSP, the Agenda for Prosperity.

In spite of considerable donor support in the area of tax administration, Sierra Leone's revenue mobilisation performance remains weak. Multi-Donor Budget Support (MDBS) partners will, therefore, continue to focus on public finance management issues, such as tax administration, revenue mobilisation and expenditure management in order to make the best use of available funds. This is reflected in the dialogue about the Progress Assessment Framework (PAF), developed jointly with Government of Sierra Leone.

Using budget support to bridge the period of probably around four years until domestic revenues increase in any substantial way is essential, in order to accompany the Government's work on financial and fiscal management, as well as to consolidate the clear gains already made. Close monitoring is an essential requirement, in terms of political, macro-economic and development objectives.

2.5. Complementary actions

Ongoing actions funded by the EU (10^{th} EDF) which are complementary to this programme include: Support to the reform of public finance mangement (IPFMRP); Support to the decentralisation process through the Institutional Reform and Capacity Building Project (IRCBP) and Decentralised Basic Services programmes which look, among other things, at strengthening the financial management, monitoring and service delivery capacities of local authorities; Support to bridging the gap to attain the Millenium Development Goals 4 and 5; Support to the Sierra Leone Investment and Export Promotion Agency with a view to increase investments to Sierra Leone, diversify the economy and expand the country's tax base; and support to the public service reform with a component specifically supporting the Anti-Corruption Commission.

Complementary actions funded by other donors include: Support to the modernisation of the National Revenue Authority by DfID (until mid-2012); Support to the Audit Service Sierra Leone (by DfID, until mid-2012); Support to the Development Assistance Coordination Office (DACO) by DfID and the United Nations Development Programme (UNDP) which aims to improve the Government's reporting capacity on the implementation of its PRSP II and improve donor coordination activities ; and the IMF ECF programme to provide macro-economic and financial oversight, as well as additional resources to help maintaining macro-economic stability.

In 2012, the following budget support disbursements have already taken place : The World Bank disbursed US $ 12 million of its 2012 allocation (together with its US $ 12 million allocation for 2011) in January, DfID has disbursed £ 10 million in three tranches (January, March and May), whilst the AfDB plans to disburse US $ 6.37 million.

2.6. Donor coordination

Coordination among Multi-Donor Budget Support (MDBS) partners has been particularly solid in recent years and coordination between donors and Government of Sierra Leone has improved significantly over the last three years. These efforts were further reinforced when, in January 2010, a new Memorandum of Understanding (MoU) was signed between the Government of Sierra Leone and the MDBS group further detailing the responsibilities of the partners. The MoU strives to improve the flow of critical information coming both from the MDBS group and Government of Sierra Leone in an attempt to streamline the budget support operations. Representatives of the MDBS group also participate in the wider Governance and Accountabilty working group, which allows for information exchanges with other donors and discussions on governance issues relevant to budget support.

Since late 2011, a donor Private Sector Working Group has been meeting once every 6-8 weeks, and has attracted lively participation, including from non-traditional donors. Furthermore, a donor Public Financial Management (PFM) Working Group was set up in February 2012, also meeting on a regular basis.

3. DESCRIPTION

3.1. Objectives

The overall objective of this State Building Contract is to assist the Government of Sierra Leone in eradicating poverty, promoting sustainable and inclusive growth, and consolidating and improving democratic and economic governance.

The specific objectives are to:

- improve the financial capability of the government to restore macro-economic stability and to achieve its short-term policy objectives;
- support the Government efforts in ensuring its vital state functions (especially basic service delivery for the population) and strengthen the public financial management system, especially in the areas of tax administration and revenue mobilisation;

3.2 Expected results and main activities

The expected results of this intervention are:

- the restoration of macroeconomic stability, reduction of fiscal imbalances, improved cash management, improved budget execution in line with the budget and the avoidance of arrears accumulation.
- Improved provision of a minimum level of basic services in health and education and public administration, as well as in terms of road maintenance.
- improved efficiency, capacities and transparency of the public administration.
- a more transparent and accountable planning and budgeting system, notably with respect to the more timely and comprehensive publication of key budget reports (final budget

implementation of previous year available by end first quarter of current year, supplementary budgets published).

The main activities in this respect are a continued political and policy dialogue with the Government; continued effort to reinforce Government's capacities in the area of PFM; regular monitoring of budget support eligibility criteria.

3.3. Stakeholders

The main stakeholders of State-building and PFM actions will be the Government of Sierra Leone and primarily the Ministry of Finance and Economic Development. It is expected that financial resources would be allocated to various ministries, in accordance with the Government of Sierra Leone's policy agenda. Ultimately, the population of Sierra Leone will benefit from this budget support operation and related PFM reform, thanks to a stable macro-economic environment and more efficient, transparent and effective management of public finance. Other Development Partners, as well as the IMF, are also stakeholders.

3.4. Risks and assumptions

The country's fragile situation involves a substantial risk for budget support operations. Country systems and institutional structures are still not sufficiently robust to guard against the key risk of macroeconomic instability, caused by fiscal gaps created by unbudgeted expenditures in the expectation of domestic revenue (mainly natural resource windfall payments) which is not realised. Should the risk occur, the impact would significantly disrupt the programme and the achievement of results.

The risks around economic governance issues and corruption also cannot be ignored, though the general trend over the years has been globally positive, starting from an extremely low base and against tremendous capacity constraints. Extractive resources wealth is likely to exacerbate the competition for power which, in an ethnically fragmented country, adds risk to the democratic process and the period leading up to the elections. Sierra Leone stands, therefore, at a critical crossroads.

The main assumption underpinning this State-Building Contract is the Ministry of Finance's continued commitment to maintain a stable macro-economic environment, to implement the Integrated Public Financial Management Reform Programme (IPFMRP) and to pursue its economic growth-related activities. It is also assumed that the President will continue to support the action of the Anti-Corruption Commission and that the Commissioner will be able to carry out his duties without political interference. It is further assumed that the Government in place after the November 2012 elections will maintain the commitment to growth-oriented, poverty-alleviating policies, as well as to budgetary transparency.

3.5. Crosscutting issues

The EU State Building Contract should generate positive results at political, economic and social levels. Assisted by the ongoing Integrated Public Financial Management Reform Programme (IPFMRP), it should foster transparency and accountability in the use of public funds and thus improve governance. The State Building Contract will have a positive impact in terms of supporting the Government's commitment to gender and environmental issues in the framework of the PRSP II and PRSP III implementation. There is a specific "gender" indicator in the Performance Assessment Framework (PAF) 2012.

4. IMPLEMENTATION ISSUES

4.1. Budget and calendar

The total project cost is estimated at EUR 29 620 000 which shall be financed from the 10th EDF National Indicative Programme (NIP) in the framework of the Cotonou Agreement.

A total amount of EUR 1 500 000 is set aside in this programme to provide additional support to the PFM reforms by supporting a further phase of the Integrated Public Financial Management Reform Programme (IPFMRP).

A Financing Agreement will be signed with the Government of Sierra Leone.

Indicative timetable and amounts for the Programme (all amounts in EUR):

Categories	2013	2014	Total
State-Building Budget Support			
Fixed tranches	9 000 000	9 000 000	18 000 000
Variable tranches	5 000 000	5 000 000	10 000 000
Subtotal	**14 000 000**	**14 000 000**	**28 000 000**
Complementary support			
Support to the IPFMRP throughWorld Bank (Administration Agreement)		1 500 000	1 500 000
Subtotal		**1 500 000**	**1 500 000**
Evaluation		60 000	60 000
Audit		60 000	60 000
Communication & visibility			
Total	**14 000 000**	**15 620 000**	**29 620 000**.

The programme's operational duration will be 36 months as from signature of the Financing Agreement.

This action will be implemented:

- by direct centralised management in accordance with Article 25 of Regulation No 215/2008 applicable to the 10th European Development Fund with regard to the State-building Budget Support component.

- and by Joint management through the signature of an agreement with an international organisation in accordance with Article 29 of the Regulation No 215/2008 applicable to the 10th European Development Fund with regard to the complementary action, on the basis of a Trust Fund and Cofinancing Framework Agreement with the World Bank, implemented by an Administration Agreement. The international organisation complies with the criteria provided for in the applicable Financial Regulation, and takes a leading role in the support to PFM in Sierra Leone.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegate body under, respectively, decentralised, joint or indirect centralised management.

4.2. Budget support modalities

The action consists of a direct and untargeted budget support operation.

4.3. Procurement and grants award procedures

This applies only to the Complementary Support under Joint Management and the Audit and Evaluation under Direct Centralised Management.

All contracts implementing the action must be awarded and implemented in accordance with the general and specific conditions of the Financing Agreement and with the procedures and standard documents drawn up and published by the Commission for the implementation of external operations in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by 10th EDF Financial Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in articles 20 of Annex IV of the Cotonou Agreement.

All payments must be made by the Commission in accordance with the general and specific conditions of the Financing Agreement and with the procedures and standard documents drawn up and published by the Commission for the implementation of external operations in force at the time of the launch of the procedure in question.

For the component of the project under Joint Management, all contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.4. Performance monitoring and criteria for disbursement

(1) Description of performance monitoring arrangements

This State-Building contract will be organised on an annual basis with a fixed (FT) and a variable tranche (VT) assessed and disbursed annually at the same time and on the basis of the n-1/n/n+1 principle when assessing the performance indicators to ensure predictability.

Monitoring of PFM performance will be carried out by the EU Delegation once a year in advance of budget support disbursements. Progress in PFM reforms will also be monitored on a yearly basis through a set of result indicators (results matrix) included in the IPFMRP project document signed by Government of Sierra Leone. Some of these indicators are reflected in the MDBS PAF and will be part of the EU variable tranches.

(2) General conditions for disbursement of all tranches.

Prior to each disbursement (fixed and variable tranches), the four general eligibility conditions for budget support will be assessed : i) satisfactory progress in the implementation of the Sierra Leone national development strategy, the PRSP II ("Agenda for Change"), or its successor PRSP III ("Agenda for Prosperity"), ii) satisfactory progress in the maintenance of a stability-oriented macroeconomic policy ; iii) satisfactory progress in the implementation of its programme to improve PFM ; iv) transparency and oversight of the budget.

(3) *Areas in which specific conditions for disbursement of individual tranches will be defined.*

The variable tranches will be disbursed against ten selected indicators from the Performance Assessment Framework (PAF) in the areas of PFM reform, institutional reform, public sector reform, education and health service delivery, road maintenance funding and economic growth-related measures.

The selection of the indicators for the VT is done in the context of the continuous dialogue process among the MDBS partners on performance indicators.

4.5. Evaluation and audit

A final evaluation might be carried out at the end of this operation, whose conclusions could be used in the annual review and to prepare the next Budget Support/PFM programme. The EU Delegation will also participate actively in any budget support evaluation undertaken by other donors. An audit of the use of funds for the complementary support will be undertaken. The Audit Service Sierra Leone also carries out, lays before Parliament and publishes audits of the annual accounts, as well as specific thematic/sectoral audits.

4.6. Communication and visibility

In accordance with the "EU visibility guidelines for external actions", the EU Delegation will prepare press releases for each budget support disbursement, to be posted on its website and disseminated to the local press. The EU Delegation will strive to approach civil society and Parliamentarians to inform them about the objectives and modus operandi of its budget support operations, including through the Citizen's Budget initiative.