



This action is funded by the European Union

ANNEX

of the Commission Decision on the Annual Action Programme for Sierra Leone to be financed from the 11th European Development Fund

Action Document for State Building Contract for Sierra Leone

1. Title/basic act/ CRIS number	State Building Contract for Sierra Leone CRIS number: 2014/037419 financed under the 11 th European Development Fund.			
2. Zone benefiting from the action/location	Sierra Leone The action shall be carried out at the following location: Sierra Leone			
3. Programming document	National Indicative Programme for Sierra Leone 2014-2020.			
4. Sector of concentration/ thematic area	Governance and Civil Society			
5. Amounts concerned	Total estimated cost: EUR 85 000 000 Total amount of EDF contribution EUR 85 000 000 of which EUR 80 000 000 for budget support and EUR 5 000 000 for complementary support and evaluation			
6. Aid modality(ies) and implementation modality(ies)	Budget Support Direct (centralised) management Budget Support: State Building Contract Procurement of services			
7. DAC code(s)	51010 General budget support			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not	Significant	Main

		targeted	objective	objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships				

SUMMARY

The proposed action is a second consecutive budget support operation to support Sierra Leone through the State Building Contract (SBC), within the framework of the Multi Donor Budget Support (MDBS). The MDBS involves three other development partners¹ and has proven a very successful platform for harmonising donor assistance for public financial management reforms and aligning with the Government of Sierra Leone Government of Sierra Leone policy reform agenda. The performance assessment of MDBS takes place on the basis of a jointly agreed Progress Assessment Framework (PAF). The new SBC will be coherent with a 3-year PAF covering actions in 2014-2016.

The analysis in the AD takes into consideration the consequences of the Ebola outbreak, bearing in mind that the full scale of the impact in the aftermath of the disease and medium term can only be evaluated once the Ebola epidemic is effectively contained.

In spite of the crisis, the formulation phase confirms the eligibility of Sierra Leone for budget support. Specifically, (1) a national development strategy (Agenda for Prosperity 2013-18) and (2) a comprehensive Public Finance Management (PFM) reform programme (PFM Improvement Strategy 2014-17) are in place and being implemented; (3) the Government's macroeconomic policy remains stability oriented (the on-going International Monetary Fund (IMF) Extended Credit Facility received a positive review in June 2014); and (4) the existing arrangements for public access to budgetary information and oversight over public finances are satisfactory while there is a range of credible Government actions towards greater transparency and enhanced oversight.

The general objective of this SBC is to contribute to sustainable and inclusive growth and to assist the Government of Sierra Leone in the process of transitioning from fragility by achieving the peace-building and state-building goals. The specific objective is to support the Government of Sierra Leone in improving resilience to face external shocks and in reaching the New Deal Peace-building and State-building Goal of 'improved management of revenue and increased capacity for accountable and fair service delivery'. It is expected that EU budget support will provide additional fiscal space for the Government, enabling development spending and ensuring enhanced provision of basic public services.

In addition, it is envisaged that under this SBC the EU will support the Government of Sierra Leone to further improve public financial management systems for a more efficient and accountable use of public funds. There is an emphasis on curtailing the incidence of, and

¹ UK (through DFID) the World Bank (WB) and the African Development Bank (AfDB).

scope for, corruption. The SBC will also provide complementary assistance to help strengthen institutional capacity of the Government in the areas pertaining to sector strategic planning and budget execution, in particular with regards education and health sectors.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Sierra Leone is among the poorest countries in the world with per capita gross domestic product (GDP) of \$615, and ranking 183h in the 2014 Human Development Index. The country is still transitioning from the era of the conflict that destroyed its economic and social fabric, and has now been dealt an additional challenge to contain an unprecedented outbreak of the Ebola disease.

Prior to the Ebola crisis, it was projected that GDP would grow by 11.3% in 2014. Now it is expected that 2014 growth will slow down to 4.0% (October IMF/Government of Sierra Leone projections). Growth projections for 2015 have also been revised downwards to 2.5 % if Ebola is contained by December 2014 and -2.0% if Ebola epidemic continues into 2015.

Regarding service delivery, recent development data shows that Sierra Leone is still below the regional averages in spite of substantial gains since the end of the conflict. This includes very limited access to electricity and improved water sources, as well as low quality of roads and overall infrastructure. Furthermore, only 13% of the population has access to improved sanitation facilities, life expectancy is 45 years, while infant mortality is 117 per 1000 live births. In the area of education, the primary completion rate is 72%, with a 77% transition rate to secondary school. The overall literacy rate also remains low at 43% of total population.

The Ebola crisis has exposed the very deficient level of service delivery in the health sector, which is representative of other sectors and risks reversing the gains of the recent years related to poverty reduction.

1.1.1 Public Policy Assessment and EU Policy Framework

In February 2012, the Government of Sierra Leone started the process of developing the country's updated national development framework, 'Agenda for Prosperity' (AfP) 2013-2018.). Nationwide consultations culminated in the Development and Transformation Conference in Freetown in which the vision was articulated and on which the AfP was based. The AfP is based on eight pillars (i) Diversified Economic Growth; (ii) Managing Natural Resources; (iii) Accelerating Human Development; (iv) International Competitiveness; (v) Labour and Employment; (vi) Social Protection; (vii) Governance and Public Sector Reform; (viii) Gender and Women's Empowerment.

AfP sets a comprehensive monitoring and evaluation framework. Activity, outcome and policy levels of monitoring are expected to be established for monitoring of the implementation process and the achieved results. The indicator-set of the Results Framework covers the 5-year period of the Strategy but is not based on yearly targets. Overall performance to date has been mixed, but without undermining credibility or casting doubt on the commitment of Government to implement the policy. In addition to capacity limitations, there have been considerable extenuating circumstances caused also by external economic factors as well as the current Ebola crisis that posed additional challenges to the Government.

The objectives set out in the eight pillars of the AfP are relevant and comprehensive covering the importance of inclusive growth and poverty reduction, the management of natural resources which is key for Sierra Leone, issues of democratic governance, public administration reform and human development, issues of economic management, and last but not least there is a pillar dedicated to gender equality and the empowerment of women.

The objectives of the MDBS and the EU SBC budget support programme are embedded in the stated public policy. The budget support programme addresses key systemic issues in resource allocation, revenue collection and financial management at central Ministry of Finance and Economic Development (MoFED) level but also branches out to key sectors such as education and health.

On the basis of this assessment, it is concluded that the policy is sufficiently relevant and credible for budget support programme objectives to be largely achieved – see relevant annex for detailed analysis of the eligibility assessment.

1.1.2 Stakeholder analysis

The key stakeholders of the Programme are:

- The Ministry of Finance and Economic Development;
- The National Revenue Authority, which is responsible for revenue administration
- The National Public Procurement Authority
- The Audit Service Sierra Leone;
- Selected line ministries/agencies.

The wider public will benefit from the improved governance, more efficient and transparent use of public funds, and efficient public service delivery

1.1.3 Priority areas for support/problem analysis

Since the end of the conflict in 2002, the country has made considerable progress in restoring peace and socio-economic structures. Nevertheless, Sierra-Leone remains exposed to domestic and external shocks and economic imbalances. The Ebola crisis has brought to light the challenges facing the country. The rapid spread of the epidemic exposed the vulnerability of the healthcare and education systems and public institutions in general.

Overall poor service delivery is a main aspect of fragility and SBC (through the MDBS operation) is aimed at tackling the underlying institutional issues that are necessary for effective service delivery.

The importance of weak revenue mobilisation in service delivery is manifested by the country's tax revenue/GDP ratio that has been between 10% and 13% over the last few years. This is below the 14% threshold considered by the Organisation for Economic Cooperation and Development (OECD) as the minimum benchmark below which a country is characterised as fragile. A few of the key reasons cited for exceptionally low revenue mobilisation are the narrow tax base and large informal sector, weak revenue administration, and a wide range of tax exemptions originally set to attract mining companies. Another critical factor of fragility is that the Government of Sierra Leone has been running current (or revenue) deficits until 2013, which meant that there was reliance on grant budget support aid to finance recurrent expenditure (i.e. salaries, goods and services etc.). The recent improvement in Sierra Leone's fiscal stance is now reversed due to the Ebola crisis, and current deficits are expected in 2014 and 2015. Budget support grants received from

development partners are an important source of financing for both overhead expenditure of Government and the much-needed development expenditure.

Other political and governance issues relate to access to justice, low levels of law enforcement, prevailing corruption and a weak Parliamentary oversight capacity.

In conclusion, Sierra Leone is still very vulnerable to domestic and external shocks, human development remains low, and the institutional and regulatory framework is a long way from being completed and fully implemented. Sierra Leone's fragility is now further challenged by the Ebola crisis. The proposal to provide support under the SBC arrangement for a second consecutive cycle is fully justified to support the transition towards sustainable development, in particular with regards the reinforcement of national systems.

1.2 Other areas of assessment

1.2.1 Fundamental values

The Government of Sierra Leone broadly adheres to the fundamental values of democracy, human rights and the rule of law. This is evidenced by the reports of several international independent watchdog organisations focusing on human rights.

According to the 2013 Report of Amnesty International², the adoption of the Right to Access Information Act³ is a major step to ensure greater government transparency, the rule of law, and respect for human rights. Human Rights Watch in its 2013 Report⁴ claims that, if rightly implemented, the Act will help transform Sierra Leone into a model of transparency and rule of law for all of West Africa.

The Legal Aid Act⁵ passed in 2012 was considered as one of the most progressive pieces of legislation in Africa and is expected to contribute to the enhanced access of the citizens to justice. Furthermore, during 2013, the Government continued to maintain the official moratorium on the death penalty initiated in 2011. The 2014 Report of Freedom House⁶ indicates that Sierra Leone has a freedom status of "partially free". The score for political rights and civil liberties is '3' (with a scale of 1 for best performance to 7 for worst performance). The political rights rating declined by one point compared to 2013, which, according to the report, is due to the high-profile corruption allegations against bankers, police officers, and government officials.

Most of the analyses agree that corruption remains a major drawback in guaranteeing protection of human rights and the anticorruption efforts of the Government need to be broadened. The 2013 Corruption Perception Index of Transparency International for Sierra Leone is 30 ranking the country 119th among 177 surveyed ones⁷. This fact is taken into consideration in the formulation of the action...

1.2.2 Macroeconomic policy

Sierra Leone has been growing steadily since end of the civil conflict in 2002. In the last decade alone, real GDP growth averaged over 5 %. In 2012, the first year of fully-fledged iron

² <http://www.amnesty.org/en/region/sierra-leone/report-2013>

³ Supplement to the Sierra Leone Gazette Vol. CXLIV, No. 62 dated 31st October, 2013

⁴ <http://www.hrw.org/news/2013/10/30/sierra-leone-new-law-promotes-transparency>

⁵ Supplement to the Sierra Leone Gazette Vol. CXLIII, No. 42 dated 23rd August, 2012

⁶ http://freedomhouse.org/report/freedom-world/2014/sierra-leone-0#.VCKe3_mSySp

⁷ <http://cpi.transparency.org/cpi2013/results/>

ore production saw the growth rate jump to over 15%. In 2013, GDP growth reached 20% and prior to the Ebola outbreak was projected to slow down to 11.3% in 2014.

The Ebola epidemic has turned into a full scale emergency crisis in August 2014 and is expected to have a considerable impact on the short and medium-term growth prospects of Sierra Leone. Preliminary assessments carried out by the MoFED and the World Bank in September 2014, as well as the latest IMF Country Report of September 2014 show that in 2014 alone the impact on output may be as much as 3.3 percentage points, revising GDP growth projections downwards to 8% against originally projected 11.3%. In late October 2014, the IMF further revised the macroeconomic projections for the period 2014-2016, given the continued spread of the disease with higher infection rates. Real GDP growth for 2014 is now projected to slow down to 4.0 %.

The economic outlook of Sierra Leone is now anchored on two scenarios: (i) a low Ebola Scenario, which assumes that the Ebola disease will have been contained by end December 2014 and (ii) a high Ebola scenario, which assumes that Ebola will continue beyond the second quarter of 2015. In the case of a low Ebola scenario, GDP growth is expected to be 2.5% compared to the initially projected 8.9%, and the non-iron-ore GDP growth will be 4.5% compared to the initially projected 6.3%. In case of a high Ebola scenario, overall GDP is projected to contract by 2% and non-iron-ore GDP by 3.2%.

Lower than anticipated economic growth will have a dramatic effect on public revenue. In 2014 total revenue is expected to drop by Le390 billion (US\$90 million) 1.6% of non-iron-ore GDP. The forgone revenue in 2015 will be even higher at Le 932 billion or US\$215 million (3.6 % of non-iron ore GDP) in 2015. At the same time, in 2014, total expenditure is expected to increase by US\$41 million (0.2% of GDP). Other Ebola-related costs, including outlays on security to enforce quarantine measures and food for quarantined zones are estimated at US\$10 million. Estimate of the total impact of the epidemic on the budget is about US\$130 million (2.4 % of non-iron ore GDP) in 2014. Expenditure pressures are likely to continue in 2015, particularly for higher social spending and incentive measures for health workers and farmers. The estimated total impact of Ebola for 2015 is estimated at US\$224 million (3.8 percent of non-iron ore GDP), comprising 3.6 % of revenue loss and 0.2 percent of additional expenditure. A shortfall in domestic revenue and the expenditure overruns will widen the budget deficit to 5.7% of non-iron-ore GDP both in 2014 and 2015. The estimated uncovered financing gap for 2015 is estimated at US\$72 million.

2013 was the first year in which the Government achieved a current budget (or revenue) surplus, a turning point for Sierra Leone's fiscal policy. Prior to the Ebola crisis, this positive path was expected to continue. As a direct result of the Ebola outbreak the Government will again incur current budget deficits in 2014 and 2015.

Prior to the Ebola outbreak, inflation was showing a clear downward trend on account of streamlined monetary and fiscal policies. In 2013, an inflation rate of 8.5% was registered compared to 12% in 2012 and 16.9% in 2011. Food inflation was even lower, thanks to declining international food prices and high growth in agriculture and therefore higher domestic food supply. Projections for 2014 were originally more optimistic at 7.5%, with further reductions targeted at 5.4% by end-2016. According to the latest IMF Country Report of September 2014, fuel and food shortages as a direct result of the Ebola crisis will drive

inflation to 10% by the end of 2014 and 12 % by the end of 2015 in the case of low Ebola scenario and 14% under the high Ebola scenario.

In 2013, the balance of payments recorded a surplus of about US\$ 46.6 million, and gross international reserve accumulation stood at US\$ 473 million representing 3.4 months of imports (excluding iron ore-related imports). Overall current account deficit improved to US\$ 511 million (12.4% of non-iron-ore GDP) against US\$ 1 billion (31% of non-iron-ore GDP) in 2012. This good performance in the external sector will be adversely affected by the Ebola crisis. The current account deficit is projected to be 13% of non-iron-ore GDP compared to the pre-crisis projection of 11.1%. The current account deficit is projected to widen to 15.7 % of GDP in 2015. The gross public debt at the end of 2013 was 35.1% of GDP, of which the external public debt is 25.1% of non-iron-ore GDP. The Government plans to maintain prudent borrowing policy in coming years. It is projected that the external public debt will be stable between 25% and 27% during 2015 and 2016.

The country's revenue mobilisation capacity is still at "rebuild and reform" stage according to the fragility assessment carried out by the Government in March 2013. It is manifested by the country's domestic revenue (tax and non-tax) to GDP ratio that has been between 10 and 13% over the last few years. That said, Sierra Leone's revenue performance during the last three years has been encouraging. In 2014, the domestic revenue to GDP ratio was projected to be 12.8% (nominal increase by 13% compared to 2013). The expectations for the following years were even higher prior to the Ebola outbreak. Prior to Ebola outbreak, the Government of Sierra Leone targeted the level of 13.6% and 13.7% of the domestic revenue to GDP ratio for 2015 (nominal increase by 28.3% compared to 2014) and 2016 (nominal increase by 13.2% compared to 2015) respectively. In fact, the Government planned to almost triple the tax revenue in 2016 compared to 2011. However, these assumptions are no longer valid because of the Ebola crisis. The revised projections show that the domestic revenue to GDP ratio will drop significantly to 11.3% in 2014 and 11.7% under low Ebola Scenario and 10.6% under high Ebola scenario in 2015.

The current Ebola crisis has highlighted the country's vulnerability to external shocks and the overall fragility. High levels of disease incidence and mortality will multiply the demand for public health care services and impact on human resources. Lower growth, low revenue collection and expected higher spending may pose serious risks on economic and fiscal outlook of the country in the foreseeable future.

Regarding the programme with IMF, in October 2013, the Government of Sierra Leone requested a new three year Extended Credit Facility arrangement to cover 2013-2016, which was approved by the IMF Board for an amount of US\$ 95.9 million with an immediate disbursement of a US\$ 13.7 million tranche. The first review of the new ECF confirmed the credibility of the Government's macroeconomic and fiscal policies. On 26 of September 2014, in response Ebola crisis IMF approved approximately US\$ 130 million immediate assistance to the countries (Guinea, Liberia and Sierra Leone) most affected by the outbreak. Sierra Leones's share in this assistance is US\$ 39.8 million. Thus, the total financing for Sierra Leone from IMF will reach US\$ 135.7 million.

On the basis of the analysis above, and confirmed by the successful implementation of the on-going IMF ECF programme, it is concluded that the Government of Sierra Leone continues to

pursue a credible and relevant stability oriented macroeconomic policy aiming at fiscal and external stability – see relevant annex for detailed analysis of the eligibility assessment.

1.2.3 Public Financial Management (PFM)

Sierra Leone has had three Public Expenditure and Financial Accountability (PEFA) assessments in 2007 and 2010 and in 2013⁸. The latter was completed in February 2014. According to PEFA 2013 assessment⁹, there are still remaining concerns in some important areas of PFM, mostly attributed to capacity constraints of the Government of Sierra Leone. The predominant developments by PFM performance dimensions are as follows:

Credibility of the Budget: The difference between actual expenditure and the original Budget was high at 30% in 2010. Actual expenditure continued to overshoot the Budget by 16% and 24% in 2011 and 2012 respectively. Budget overruns in 2012 can also be attributed to the general elections of that year. As a result, the unplanned expenditure overruns widened the fiscal deficit and created large pressures to Government of Sierra Leone for financing the shortfall. In 2013, the variance in primary expenditure was lowered to 7.9%¹⁰ (PI-1). In 2013, there was enhanced budget discipline; a Supplementary Budget process was effectively introduced and the planned fiscal deficit target of 2% was achieved. Arrears accumulated during previous years and carried forward from one year to another since the end of the civil conflict were by and large cleared between 2011 and 2013. The stock of expenditure arrears was between 0.4 to 0.7% of total expenditure in the same period (PI-4).

Comprehensiveness and transparency: A weakness identified by PEFA 2013 is that the functional classification of the Budget is not fully compliant with the COFOG/GFS¹¹ classification. It should be noted however, that the Integrated Financial Managements Information System can generate the relevant information by COFOG/GFS functional categories needed for IMF reporting and other type of analysis. The economic classification in the chart of accounts is fully compliant with GFS 86 (PI-5).

Comprehensiveness of information included in the budget documents has improved in 2011-2013 and currently covers the 7 out of 9 elements required by PEFA framework (PI-6). The level of unreported extra-budgetary expenditures remains high at approximately 35% of total budget expenditure. The unreported expenditures include donor funded activities managed by Project Implementation Units, subvented¹² agencies, expenditures made from own source revenues of agencies that are not collected by the National Revenue Authority (NRA) (PI-7).

An important achievement has been the improvement of the system for monitoring fiscal risks from public enterprises, and controlling the fiscal positions of local councils. There is a National Commission for Privatisation which has oversight responsibilities for public enterprises and scrutinises the financial performance of 12 big public enterprises. However, there are still problems with analysing and consolidating the information. After the adoption of the Public Debt Management Act, the monitoring of liabilities of local councils has also

⁸ http://www.pefa.org/en/assessment_results?country_value%5B%5D=SL

⁹ <http://mofed.gov.sl/PFMRU/Sierra%20Leone%20External%20PEFA%202014%20Final%20Report.pdf>

¹⁰ According to MoFED PFM progress monitoring at end December 2013, 11% assessed within the framework of the MDBS 2013 Interim PAF. Source: Budget Bureau and Accountant General's Office.

¹¹ UN Classification of Functions of Government (COFOG); IMF Government Finance Statistics (GFS).

¹² Autonomous government agencies and local governments not reporting their accounts to the Accountant General e.g. universities and schools.

improved. The Public Debt Management Division of MoFED is responsible for collecting and analysing information related to the fiscal situation of local councils (PI-9).

Public access to key fiscal information has also improved in recent years. Annual budget information, year-end financial statements and external audit reports are published and made available to the public. In 2012, MoFED prepared the first ‘Citizens’ Budget’ and in 2013 successfully repeated the exercise¹³.

Policy based budgeting: From 2011, MoFED introduced a new generic budget calendar covering the entire budget preparation process from the development of the macro-fiscal framework to the submission of the Appropriation Bill to the Parliament. In spite of the existence of a good budget formulation process, there are still delays in the implementation of the Budget calendar mostly attributed to delays from line ministries and Local Councils.

Parliament enacts the Budget prior to the start of the fiscal year. The medium term expenditure framework (MTEF) covers sector strategies of 6 sectors – Education, Health, Justice, Security, Energy and Water. These sector strategies are costed, but budgets put forward are often unrealistic and well beyond the Government’s financial envelope. The linkages between investment and recurrent budgets are also weak. An important positive development has been the annual preparation of the Debt Sustainability Analysis (PI-12).

Predictability and control in budget execution: Revenue administration has registered considerable progress in recent years. Comprehensiveness and clarity of taxpayers’ liabilities and obligations have improved substantially after the adoption of the Consolidated Customs Act (2011) and Finance Act (2013). Overall tax administration has improved on average with only 1.5% of tax arrears during the last three years.

In Budget execution, the capacity in MoFED to generate reliable cash flow forecasts is still weak. A cash flow forecast is prepared for the fiscal year, but is updated only twice a year. This limits the reliability of information to line ministries and agencies on ceilings for expenditure commitment (PI-16). Serious problems remain in the area of personnel records and payroll. Several attempts have been made by the Government during recent years to consolidate payroll and personnel records. However, it is recognised that ghost employees still exist in various sectors and especially in health and education (PI-18). Two specific indicators related to the teacher's payroll will be measured in the context of the Variable Tranches.

There are concerns with regards to the limited use of competitive methods in public procurement. Following the recommendations of the Country Procurement Assessment Review in 2012, the National Public Procurement Act, 2004 has been reviewed and is expected to be submitted to this Honourable House before the end of 2014. However some last minute amendments are questioned by the MDDBS partners and are part of the on-going policy discussions.

Accounting, recording and reporting: One of the main systemic problems is the absence of the Treasury Single Account. Without an effective TSA the scope of enforcing budgetary discipline and effectively managing revenue and cash is limited. The failure to consolidate cash balances from government accounts held outside the Consolidated Fund¹⁴ has been one

¹³ <http://mofed.gov.sl/PUBLICATIONS/Citizens%20budget%20final.pdf>

¹⁴ These include donor financed projects and extra-budgetary funds/subvented agencies. The latter are autonomous government agencies and local governments not reporting their accounts to the Accountant General, such as universities and schools.

of the main technical reasons for poor budget discipline. There are over one thousand such accounts in Sierra Leone at present. The Government planned to address this issue during 2014.

The Accountant General's office submitted the financial statements to the Parliament in a timely fashion and in line with the requirements of the legislation (before the 31st of March) during 2011, 2012 and 2013, the period reviewed by the PEFA. The statements are also posted on the MoFED website and made available to the public. However, financial statements are not based on clear national government accounting standards. The Government plans to address this weakness by developing accounting standards in line with international practice (PI-25).

External audit and scrutiny: Sierra Leone enjoys a fully independent and effective Supreme Audit Institution (SAI) in line with the International Organisation of Supreme Audit Institutions standards. The operational planning of external audits is based on a two year horizon and includes areas chosen for performance audits. During the last years, the reports of Audit Service Sierra Leone (ASSL) have been submitted to the Parliament within the deadlines defined in the legislation. Further details are provided in Section 3.3 below (PI-26). There are also concerns with regard to the Parliament's level of engagement in budget discussions and its ability to scrutinise the public accounts. These are attributed to weak capacity of the Parliament (PI-27&28).

The main short-term and medium term challenges to the PFM system are detailed in the PFM eligibility assessment and some of the performance indicators specifically focus on procurement, follow-up of audit recommendations and taxpayer compliance.

The PFM Reform Strategy 2014-2017 builds upon achievements of the previous reform agenda and is considered relevant. There is a high level of commitment to reforms within the government and MoFED leads the process. Audit Service Sierra Leone as Supreme Audit Institution is meaningfully involved in the PFM reform process and its capacity in scrutinising the public accounts is sufficiently strong.

On the basis of this assessment in the identification phase, it is concluded that there is a credible and relevant programme to improve public financial management – see PFM eligibility assessment annex.

1.2.4 Transparency and oversight of the budget

The Government makes available to the public most of its budget information, including annual budget documentation and year-end financial statements. To obtain in-year budget execution reports specific requests are required. Regarding the annual Budget:

- The Appropriation Bill (Executive's Budget Proposal), together with the Budget Speech is available on the MoFED website¹⁵;
- The Appropriation Act (Budget approved by the Legislator), is available on the MoFED website and is published and available from the Government Printers.

¹⁵ <http://mofed.gov.sl/>

The entry point is considered to be met, as both the Executive’s budget proposal and the enacted Budget are regularly published at MoFED website and made available to the public from the Government Printers¹⁶.

The Government continues publishing and making available to the public the Executive’s Budget proposals and enacted Budgets. The Budget is comprehensive, encompassing all government revenue and expenditure. It includes a detailed commentary on each revenue and expenditure programme. All key economic assumptions are disclosed explicitly in the Budget Speech. The Budget Profile is the main appropriation document submitted to the Parliament with the Budget Speech. It presents the actual revenue expenditure of the last fiscal year (i.e. 2013), estimates of the current fiscal year (i.e. 2014) and the plan for the forthcoming fiscal year (i.e. 2015). It also presents the medium-term perspective illustrating how revenue and expenditure will develop during the two years beyond the forthcoming fiscal year (i.e. 2016 and 2017).

The Parliament enacts the Appropriation bill before the start of the financial year. The Public Accounts are comprehensive and the submission of the annual government financial statements (year-end report) to the Parliament Audit Service Sierra Leone takes place in a timely fashion. The Delegation receives on request updated budget execution tables whenever required. Audit Service Sierra Leone continues publishing and making available to the public the audit reports. The Public Accounts are audited by the ASSL in accordance with generally accepted auditing practices. Audit reports prepared by the Supreme Audit Institution are presented to the Public Accounts Committee of the Parliament¹⁷.

In summary, Sierra Leone benefits from reasonably well defined processes safeguarding the transparency and oversight of public finances.

2 RISKS AND ASSUMPTIONS

The overall assessment of the Delegation's RMF refers inter alia to:

Risks	Risk level (H/M/L)	Mitigating measures
- Rule of law	H	Political dialogue – support to constitutional review
- Macro-economic – vulnerability & exogenous shocks	H	Maintain macroeconomic stability - enhance revenue collection, strengthening expenditure and debt management. Pro-poor policies to be prioritised and /or developed (safety nets)
- Developmental - governance effectiveness	H	
- Corruption & fraud	M/H	Policy dialogue – targeted complementary measures improving governance
Assumptions		
The eligibility criteria for this State Building Contract focus on core dimensions of		

¹⁶ It should be noted however, that since March 2014 the MoFED website is under major reconstruction and some sections often are not accessible.

¹⁷ <http://www.auditservice.gov.sl/reports-2-annual-reports.html>

governance. Implementation of development policies, Macro-economic stability, Public Financial Management and transparency are essential confidence building pillars. Although risk taking is inherent in Budget support operations, this State Building Contract is instrumental to allow the Government of Sierra Leone to maintain essential state functions. Risk mitigation measures will be high on the political and policy dialogue and accompany specific measures and actions undertaken within the Complementary measures of this contract

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

There have been two major review documents to date: a recent evaluation of the MDBS PAF commissioned by the UK Department for International Development (DfID), and the European Commission communication on the lessons learnt from State Building Contract. The above documents together with the Delegation's own appreciation of the lessons learnt lead to the following main points:

- MDBS, the framework in which EU budget support operates, harmonises the support of four major development partners to the Government of Sierra Leone policy reform agenda. PFM reforms feature predominantly in the agenda but in recent years sectoral elements (i.e. education, energy, road maintenance) have increasingly being taken on board.
- To date, the MDBS PAF has been successful in spite of the mixed performance in meeting the set PAF indicator targets of 2012 and 2013. A multi-year PAF has been approved. This PAF, focused on a narrower set of priorities, should improve the quality of the dialogue and allow for better follow-up of Government of Sierra Leone reforms.

3.2 Complementarity, synergy and donor coordination

The aid architecture in Sierra Leone includes the overarching Development Partnership Committee (DEPAC), which consists of line ministries and agencies of Government level and development partners. DEPAC is the main forum for high level dialogue taking place on a quarterly basis. Civil society and other stakeholders are invited to the meetings depending on the agenda. The MDBS operation falls within the broader aid arrangements for Sierra Leone. It is established by agreement between the four participating donors (EU, DFID, African Development Bank, World Bank) and the Government of Sierra Leone.

3.3 Cross-cutting issues

This project aims to support the implementation of the national development policy (Agenda for Prosperity). This policy includes a specific gender focused pillar 'Gender equality and women's empowerment'. The overall goal of this pillar of the development policy is to empower women and girls through enhanced and more accessible education, participation and representation in decision making, access to equal justice and economic opportunities. In addition, other pillars of the AfP refer partially to gender related issues: Pillar 1 Economic Diversification to promote inclusive growth; Pillar 3 Accelerating Human Development; Pillar 5 Labour and Employment Strategy; Pillar 6 Social Protection.

Another important cross-cutting issue within governance relates to corruption and anti-fraud mitigation measures. Corruption is highlighted as a major risk in the Government's AfP. Parliament has approved more stringent anti-corruption laws, and the power and

independence of the Anti-Corruption Commission has been strengthened. However, implementation capacity remains weak and can be subject to interference by vested interests. This project will have a continued interest on this matter both through policy dialogue and complementary measures.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **general objective** of the proposed State Building Contract (SBC) budget support programme is to contribute to sustainable and inclusive growth and the improvement of political and economic governance in Sierra Leone.

The **specific objective** is to support the Government of Sierra Leone (Government of Sierra Leone) in improving resilience to face external shocks and in reaching the New Deal Peace-building and State-building Goal (PSG) of ‘improved management of revenue and increased capacity for accountable and fair service delivery’.

The **expected results** of the budget support are:

- 1) Additional fiscal space for the Government of Sierra Leone, enabling development spending and curtailing the cost of borrowing to ensure enhanced provision of basic public services at national and local levels;
- 2) Improved governance (including the fight against corruption) and PFM systems for more efficient and accountable use of public funds and effective public service delivery;
- 3) Strengthened institutional capacity of the government in development policy and sector-strategy planning and resource allocation.

The **expected results** of the complementary support are:

- Strengthened national statistical systems, and the monitoring and evaluation capacity of MoFED to enhance capacity for measuring and assessing progress in the implementation of national development policy;
- Enhanced implementation, reporting and review process of the PFM strategy 2014-2017;
- Enhanced capacity for sector budget analysis and the support to line ministries during the budget planning and formulation process, in particular with regards education and health;
- Improved quality of in-year and annual financial statements;
- Enhanced capacity of a selected sector ministry to support policy development, monitoring and evaluation as well as budget planning and formulation.

4.2 Main activities

4.2.1 Budget support

The **activities for Result 1** are:

- Transfer of grant resources to the Budget of Sierra Leone in 2015-2017 Fiscal Years;
- Follow up regularly the eligibility criteria for EU budget support;

- Review of the MDBS Progress Assessment Framework (PAF) in collaboration with participating development partners;
- Ensure efficient and timely administrative support to the implementation of the SBC.

The **activities for Result 2** are:

- Support and engage in political dialogue where pertinent to ensure the implementation of PFM reforms as set in the PFM Reform Strategy 2014-2017;
- Provide support to improve systems for PFM, budget formulation, execution and external oversight;
- Analyse information on macroeconomic, fiscal and budgetary developments within the technical working group of the MDBS.

The **indicative activities for Result 3** are:

- Support the implementation of the national development policy – Agenda for Prosperity 2013-2018;
- Ensure continuous policy dialogue on governance and development issues in line with the 11th EDF objectives;
- Provide support to improve systems for Planning, Monitoring & Evaluation of the national development policy and sector strategies, statistical systems.

4.2.2 Complementary support

The Action will include a complementary support (CS) component incorporating technical assistance.

The **activities** envisaged under CS are:

- Support to strengthening of the national statistical systems, and the monitoring and evaluation capacity of MoFED to enhance capacity for measuring and assessing progress in the implementation of national development policy – ‘Agenda 4 Prosperity’.
- Support to the implementation, reporting and review process of the PFM strategy 2014-2017;
- Support to the Budget Bureau of MoFED to enhance the capacity for sector budget analysis and the support to line ministries during the budget planning and formulation process;
- Support to the Accountant-General’s Office to improve the quality of in-year and annual financial statements;
- Support to selected sector ministries for strategic planning, M&E and budget execution.
- Support to the realisation and timely delivery of visibility activities for the Programme.

4.3 Intervention logic

The total amount allocated to the “governance and civil society” sector under the National Indicative Programme (NIP) is EUR 159 000 000 of which EUR 85 000 000 is to be delivered under the present budget support programme. The maximum contribution under this SCB will be EUR 85 000 000, of which EUR 80 000 000 (94%) will be delivered as budget support and the remaining EUR 5 000 000 will be used for complementary support and evaluation. In

view of the Ebola disease, EU budget support will have an enhanced role in providing fiscal space as well as contributing to the stabilisation of the external balance.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 80 000 000, and for complementary support EUR 4 900 000 + EUR 100 000 for evaluation. This amount is based on an envisaged assistance representing a per capita ratio of EUR 4.5 per year for EU budget support in Sierra Leone, which is in line with the 4.23 average for West Africa in 2014. In view of the Ebola disease, EU budget support will have an enhanced role in providing fiscal space as well as contributing to the stabilisation of the external balance. Official transfers make up a significant amount for financing of the current account - between 8.5 and 10% in 2012 and 2013 respectively, expected to be between 12 and 16% in 2014 and following 2 years.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- *Satisfactory progress in the implementation of the 'Agenda for Prosperity' 2013-2018 and continued credibility and relevance thereof*; this will include inter alia: follow up on the implementation of stated policy and on general service delivery; follow up of the monitoring process of the AfP Results Framework, including the improvement of systems for data collection and analysis.

- *Implementation of a credible stability-oriented macroeconomic policy*; this will include primarily the progress in the IMF ECF programmes and other pertinent policy developments.

- *Satisfactory progress in the implementation of PFM reform agenda*; this will include inter alia: follow up on the implementation of the 'Public Financial Management Reform Strategy 2014-2017', consideration of diagnostic studies in PFM (PEFA, Public Expenditure Reviews or Tracking Surveys etc.), follow up of policy implementation following the revision of the Public Procurement Act, consideration of the reports and accompanying recommendations of the Auditor General.

- *Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information*; this will include inter alia: timely availability of budget execution reports, consideration of relevant diagnostic studies such as PEFA and the Open Budget Survey, General, follow up of the implementation of the relevant provisions regarding the publication of revenue collected from extractive industries in the Mines & Minerals Act and Sierra Leone's commitments under the Extractive Industries Transparency Initiative.

b) The specific conditions for disbursement that may be used for variable tranches are the following:

1. Minimum value (in % of total) of procurement transactions solely funded by Government of Sierra Leone undertaken under national procedures above the competitive threshold that are conducted through open competition;
2. Implementation (in % completion) by Vote Controllers of the recommendations made in the Auditor General's report on the 2012 and 2013 Public Accounts;
3. Proportion (in % of total) of medium and large taxpayers filing returns made on time;
4. Proportion of teachers on the payroll with correct supporting documentation on their respective files (random sample basis);
5. Appointment and functioning of the Sierra Leone Teaching Service Commission;
6. The progressive increase of MoHS allocated and executed funds for the pharmaceuticals bills financed under the Free Care Health Initiative.

This set of indicators has been widely discussed with the Government of Sierra Leone and is coherent with the MDDBS coordination mechanism. The indicators will cover key strategic areas to improve governance and ensure core State reforms in public financial management, including public procurement, revenue administration and public external oversight as well as aspects pertaining to improved service delivery in the education and health sectors.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Authorising Officer (Minister of Finance and Economic Development) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Leone (SLE) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The indicative schedule of disbursements is summarised in the table below based on fiscal year of the partner country (all figures in EUR millions).

Country fiscal year	2015				2016				2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Base tranche			25				13				12		50
Variable tranche			0				15				15		30
Total			25				28				27		80

5.4 Implementation modalities for complementary support.

5.4.1.1 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Complementary measures – capacity building	services	1	Q2 2015
Evaluation	services	1	Q1 2019

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1) (b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.6 Indicative budget

Subject	EU contribution (amount in EUR)
5.3 Budget support State Building Contract	80 000 000
5.4 Complementary Measures - Procurement (direct management) Service contract	4 900 000
5.9/5.10 Evaluation & audit	100 000
Totals	85 000 000

5.7 Organisational set-up and responsibilities

The Programme will provide support within the framework of the Multi Donor Budget Support (MDBS). The MDBS involves three other development partners, the UK (through DFID) the World Bank (WB) and the African Development Bank (AfDB). The performance will be monitored on the basis of a jointly agreed Progress Assessment Framework (PAF) covering actions in 2014-2016. The SBC Programme indicators and targets are aligned with the MDBS PAF.

5.8 Performance monitoring and reporting

The Base Tranche (fixed) disbursement is subject to continued compliance with the four general eligibility criteria. The MoFED will thus periodically report on AfP progress, macroeconomic performance, improvements in public financial management and budget transparency.

The Variable Tranche will depend on the fulfilment of the four general eligibility criteria and of the Specific Conditions. Review and monitoring of progress in the implementation of the PAF will be entrusted to the MDBS technical group, which is co-chaired by a senior director of MoFED and one of the MDBS partners. The formal annual reviews will be conducted jointly by MDBS partners and the Government of Sierra Leone for every year of implementation. A Joint Aide Mémoire will be concluded by MDBS partners and Government (MOFED).

The review and payments process will be based on the T/T-1/T+1 principle, whereby progress in the year of implementation T-1 is assessed in year T for the disbursements to be made in the year T+1.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for the complementary measures via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that lessons learned from the complementary measures can be instrumental for future budget support programmes.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. Indicatively, one contract for evaluation services shall be concluded under a framework contract in Q 1 2019.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Indicatively, one contract for audit services for complementary support measures could be concluded under a framework contract in Q 1 2019.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above under complementary measures.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The visibility initiatives, coherent with the Budget support instrument, will be developed by the Technical Assistance in coordination with MOFED and the EU Delegation to Sierra Leone.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS FOR BUDGET SUPPORT

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	To contribute to sustainable and inclusive growth and the improvement of political and economic governance in Sierra Leone.	<p>Positive assessment of the European Commission regarding progress made in implementation of AfP</p> <p>Positive assessment of the European Commission regarding Sierra Leone's macroeconomic performance.</p> <p>Positive assessment of the European Commission regarding progress made in public financial management.</p> <p>Positive assessment of the European Commission regarding budget transparency and oversight.</p>			<p>Government of Sierra Leone annual progress reports of the AfP.</p> <p>Special reports related to the Ebola crisis impact and management.</p> <p>IMF ECF programme reviews & country reports.</p> <p>MoFED progress reports on the PFM Reform Strategy 2014-2017; repeat PEFA assessments</p> <p>Auditor General annual reports.</p> <p>MoFED and other relevant websites;</p> <p>Government of Sierra Leone official printers;</p> <p>Open Budget Survey; repeat PEFA assessments.</p>

Induced outputs	To modernise public administration through public sector reform and capacity building to improve service delivery, revenue generation and budget management.	<p>4. Proportion of teachers on the payroll with correct supporting documentation on their respective files (random sample basis);</p> <p>5. Appointment and functioning of the Sierra Leone Teaching Service Commission;</p> <p>6. The progressive increase of MoHS allocated and executed funds for the pharmaceuticals bills financed under the Free Care Health Initiative.</p>	<p>2013: 62.5%</p> <p>NA</p> <p>Le 15.2 billion (post Ebola adjusted) 2015</p>	<p>2014: 70% 2015:80%</p> <p>2014 TSC appointed and secretariat functioning 2015 TSC in full compliance with its mandate</p> <p>2015: Le 15.2 billion – 85% executed for full and 70% for half payment, 2016: Le 16.7 billion – 85% for full and 70% half payment</p>	.As above
Direct outputs	Joint multi-donor Budget Support dialogue framework in Sierra Leone	Multi year PAF operational	2014-2016 Multi-year PAF	Yearly joint Government of Sierra Leone - donors reviews and updates	.Joint Aide Mémoire's