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This action is funded by the European Union

ANNEX

of the Commission Decision on the individual measure for Sierra Leone to be financed from the 11th European Development Fund

Action Document for State Building Contract 2018-2020 for Sierra Leone

1. Title/basic act/ CRIS number	State Building Contract 2018-2020 for Sierra Leone 11 th European Development Fund CRIS number: SL/FED/040-115 financed under the 11 th European Development Fund (EDF)			
2. Zone benefiting from the action/location	Sierra Leone			
3. Programming document	National Indicative Programme (NIP) for Sierra Leone 2014-2020.			
4. Sector of concentration/ thematic area	Governance and Civil Society	Dev. Aid: YES ¹		
5. Amounts concerned	Total estimated cost: EUR 80 000 000 Total amount of EDF contribution: EUR 45 000 000* EUR 40 000 000** for budget support EUR 5 000 000 for complementary support, audit and evaluation *The contribution is financed for an amount of EUR 45 000 000 by the present decision. An additional amount of EUR 35 000 000 is subject to the adoption of a future financing decision. **An additional amount of EUR 35 000 000 is subject to the adoption of a future financing decision.			
6. Aid modality(ies) and implementation modality(ies)	- Direct management - Budget Support: State Building Contract - Complementary Support: Procurement of services - Audit & Evaluation: 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	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	Women In Development)			
	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 targeted	Significant objective	Main 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	Not Applicable			
10. Sustainable Development Goals (SDGs)	SDG 1, 2, 4, 5 and 16			

SUMMARY

The proposed action is the third consecutive State Building Contract (SBC) to support Sierra Leone.

A first SBC EUR 28 000 000 (including EUR 1 620 000 for the complementary measures) was launched in 2013 covering 2013-2014. This short-term programme intended to consolidate state institutions maintaining a focus mainly on public finance management (PFM) and on health and mineral sector. A set of indicators shared by the donors in the framework of the Performance Assessment Framework (PAF - joint assessment process put in place in 2006 between Department for International Development (DFID), African Development Bank (AfDB), World Bank and the European Union) was agreed with the Government covering the following targets area: improved public financial management, improved public service delivery, improved domestic revenue mobilization, strengthening governance. Through the indicators some progress was reached regarding protection of poverty related expenditures, teacher payroll management, children immunization, follow up of tax filing, mineral revenue and management. Following the Ebola crisis, in November 2014 the amount of the SBC was increased by EUR 6 300 000 disbursed through a special tranche in 2014.

A second SBC (FED/2014/037-419 - EUR 80 000 000, including EUR 5 000 000 for the complementary measures) was launched in 2015 covering 2015-2017. It was conceived at the pick of the Ebola crisis as a continuity of the previous SBC (the PAF and broadly the same indicators were used). Performance under this second SBC was initially satisfactory but dropped significantly in 2015 notably due to the impact of the Ebola crisis, which impacted the implementation of development policies. Indeed, according to the 2016 review of the PAF, only 27 % of the indicators were met for the Financial Year (FY) 2015, compared to the 82 % for FY 2014 and 58 % for FY 2013. Areas of progress regard follow up of tax filing and use of open competition in public procurement. However challenges remain notably in the area of payroll management, public procurement, controls in budget execution, internal audit and oversight of the budget.

This third SBC will allow deepening actions carried out through the previous SBC notably regarding public procurement and tax administration. It was launched in the particular context

of a double external shock which hampered seriously economic and financial performances of the Government of Sierra Leone.

The SBC remains within the framework of the Multi Donor Budget Support (MDBS) groups and will take advantage of the revival of the Memorandum of Understanding ruling the MDBS to foster policy dialogue.

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. The objective of this SBC is coherent with the 11th EDF objective of transitioning from a post conflict situation towards a sustainable and inclusive development path, and with the focal sectors of the National Indicative Programme (NIP) 2014-2020.

The specific focus on agriculture and education within this third SBC will complement the two ongoing AAP 2016 sector programmes and contribute to the expected transition toward Sector Reform Contracts (SRC) in the coming years.

The SBC will also provide complementary support to strengthen the institutional capacity in PFM, including revenue management, strategic planning and monitoring, budget formulation, execution and oversight, both at the central and at the selected sector levels and monitoring/evaluation of the development policy.

This SBC is financed for an amount of EUR 45 000 000 by the present decision. The additional amount of EUR 35 000 000 is subject to the adoption of a new financing decision, which will bring the total contribution at EUR 80 000 000.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Sierra Leone is among the poorest countries in the world with a per capita Gross domestic product (GDP) of USD 638², and ranking 179th out of 188 in the 2016 Human Development Index. The country is still transitioning from the civil war that destroyed its economic and social fabric.

The civil conflict in Sierra Leone that ended in 2002 following 11 years of instability resulted in a dramatic decline of economic activity, destruction of public administration, and ultimately a sharp fall in human development. Since the end of the conflict and up until the outbreak of the Ebola epidemic, the country made considerable progress in reducing poverty, with the incidence of poverty decreasing from 66.4 % in 2003 to 52.9 % in 2011³.

The impact of the Ebola crisis that hit Sierra Leone in 2014 and 2015 was compounded by the sharp drop in iron ore prices which led to the collapse of the entire iron ore sector, which represented 15 % of GDP in 2013. The twin crisis had adverse impacts on economic development and social conditions. In addition to the 3 956 people killed⁴ by the disease (out of more than 14 000 infected), the epidemic also caused major disruption to the economy, including agriculture, trade and education. The real GDP dropped by 20 % in 2015 as opposed

² Projection for 2016, IMF, ECF 6th review

³ A poverty profile for Sierra Leone, World Bank, Statistics Sierra Leone, June 2013

⁴ According to the Centre for Disease Control, April 2016, <https://www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html>

to a growth rate of 20.7 % in 2013 and 4.6 % in 2014. The economy has since recovered with real GDP growth rate at 6.1 % in 2016 and expected to reach 6 % in 2017; the current recovery remains fragile as it is highly dependent on the mining sector.

Regarding service delivery, recent development data shows that Sierra Leone is still below the regional averages. This includes very limited access to electricity and improved water sources. Furthermore, only 13 % of the population has access to improved sanitation facilities⁵. Life expectancy is only 51.3 years⁶ (51.9 years for female and 50.8 for male), while maternal mortality was 1 360 per 100 000 live births⁷ in 2015 and infant mortality is 87.1 per 1000 live births⁸. Fertility rate has decreased from 6.0 (2000/2005) to 4.8 (2010/2015)⁹. In the area of education, although gross primary enrolment rate was estimated at 130 %¹⁰, exceeding the Millennium Development Goals target of 100 %, universal access is far from being achieved. Indeed according to the 2011 Integrated Household Survey¹¹, only 43 % of 6 years old children attended school in 2011. The literacy rate also remains low at 48.1 % of adult population in 2015 (59.3 % for female and 75.9% among youth population age 15-24),¹² 52.9¹³ % of the population lives below the absolute poverty line, with urban poverty, at 31.2 %, much lower than rural poverty (66.1 %).¹⁴ Sierra Leone did not meet its interim Millennium Development Goals' targets for 2015, except for the access to primary education and the gender parity in access to primary education.

1.1.1 Public Policy Assessment and EU Policy Framework

Sierra Leone's national development policy framework has been based on a sequence of poverty reduction strategy papers, starting in 2001 with an interim paper after the end of the protracted civil conflict in the country. The Poverty Reduction Strategy Paper-I and Poverty Reduction Strategy Paper-II ('Agenda for Change') covered the periods of 2005-2007 and 2008-2012 respectively. In February 2012, the Government of Sierra Leone started the process of developing the country's updated national development framework, 'Agenda for Prosperity' 2013-2018 (AfP). The design of the Strategy for the next period should start beginning of 2018.

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. Indeed, such a wide scope makes full realisation a challenge.

In the aftermath of the Ebola epidemic, the Government remained committed to the AfP and maintained it as the overarching document for the development strategy. However, for more targeted actions needed for recovery after the Ebola outbreak, in July 2015, the Government approved the 24 month Ebola Recovery Strategy (ERS) to complement the AfP during the

⁵ <http://data.worldbank.org/indicator/SH.STA.ACSN/countries>

⁶ Human Development report 2016, UNDP

⁷ Human Development report 2016, UNDP

⁸ Human Development report 2016, UNDP

⁹ Human Development report 2016, UNDP

¹⁰ Human Development report 2016, UNDP, MDG Report 2015, February 2016, Enrolment numbers from 2015 School Census

¹¹ Poverty Profile for Sierra Leone, June 2013

¹² Human Development report 2016, UNDP

¹³ 2011 Integrated Household Survey

¹⁴ A poverty profile for Sierra Leone, June 2013, World Bank

period from July 2015 to July 2017. The ERS included three sequential steps to transition back to the AfP¹⁵. The AfP stipulates the institutional set up for monitoring and evaluation.

In the context of the Ebola crisis and the implementation of the ERS, this institutional set up has been blurred. This situation has emphasized the need to increase the monitoring and evaluation of the strategy which should be an important challenge for the next strategy. Furthermore, though the indicator-set of the Results Framework covers the 5-year period of the strategy, it does not include quantified annual targets, many of the baselines were also absent in the strategy including gender. These shortcomings are currently being addressed with technical support from the EU, with the objective to establish a comprehensive Results Framework that provides a good basis for policy reviews at national and sector levels and establish the baselines in order to allow proper monitoring of the strategy. On a broader point of view, this situation is to be linked with insufficient availability of statistics in the main economic sectors as well as gender related issues.

The objectives set out in the eight pillars of AfP are comprehensive, covering the importance of inclusive growth and poverty reduction, the management of natural resources (key to Sierra Leone) issues of democratic governance, public administration reform and human development, issues of economic management, and gender equality and the empowerment of women. Pillars 1 “Diversified Economic Growth” and 3 “Accelerating Human Development” of the AfP clearly emphasize the importance of improving the agriculture and education in Sierra Leone targeted within this third SBC.

The Education Sector Plan 2014-2018 (ESP) and the next one currently under elaboration (ESP 2018-2020) outline the priorities for the Government of Sierra Leone. The ESPs are endorsed by the Education Development Partners Group¹⁶ and the Global Partnership for Education (GPE). Notwithstanding this endorsement, the ESP 2014-18 (and the next one) lacks a medium term financial framework and, in the absence of such a framework, does not provide a structured, feasible set of projections for moving towards education for all. The ESP also fails to address the essential policy issue of how to manage the growth of schools and how to assist the transition of unapproved schools to approved (and funded) status. The following issues are considered to be some of the most critical ones: the uncomplete establishment and functioning of the Teacher Service Commission (TSC), the sustainability of a clean Teacher Payroll, the high proportion of unapproved schools, the widespread use of informal/illegal fees for schooling, the ban on pregnant girls/mothers attending/re-entering school, the lack of capacity for Curriculum Development within the Ministry of Education, Science and Technology (MEST), the very high repetition rate, the non-implementation of the Technical and Vocational Education and Training (TVET) policy.

The transformation of the agriculture sector is central to the Agenda for Prosperity (AfP) and the Government will seek to create “a sustainable, diversified, and commercial agriculture sector, which ensures food self-sufficiency, increases exports and creates job opportunities for Sierra Leonean men and women.” The importance of agricultural development and food security was reiterated in the 2017 Government Budget, “Recovery through Economic Diversification and Fostering Entrepreneurship”, which allocated SLL¹⁷ 63.3 billion to the Ministry of Agriculture, Forestry and Food Security with SLL 48.6 billion for the Food Security Programme. A further SLL 55.4 billion was given to the Ministry of Education, Science and Technology for a nationwide School Feeding Programme.

¹⁵ 1) Getting to and maintaining zero cases; 2) Implementing immediate recovery priorities, with a special focus on restoring access to basic healthcare, reopening and running of schools in a healthy environment, providing social protection support, and revamping the private sector, including agriculture activities; and 3) Transitioning back to the AfP plan.

¹⁶ Composed by the European Union, DfID, the World Bank, UNICEF and the World Food Programme

¹⁷ Sierra Leonean Leone (SLL).

However, the agriculture sector presently lacks a comprehensive policy structure to guide implementation of these efforts. The EU will support the efforts of the Government of Sierra Leone to review and amend sub-sector policies and develop a coordinated agricultural policy that supports broader development objectives. Policy areas involved include but are not limited to: Food and Nutrition Security, Cash Transfer and Social Protection, Cash Crops such as Cashew, Cocoa and Coffee, Fertilizer, Research, Extension, Mechanization, Livestock, Pest Management and Crop Protection or Disaster Risk Reduction, Climate Change Adaptation, Forestry, Statistics. Frameworks for interaction with other sectors need to be developed including with Trade, Finance, Lands, Education, Transport, Tourism and Agencies for Regulation, Commodity monitoring, Quality control.

These policies need clearly defined implementation frameworks linked to specific budgets as well as communication or awareness strategies. Sierra Leone is in the process of developing the Inclusive Comprehensive Agriculture Development Programme (ICADEP), an investment programme within the framework of the National Sustainable Agriculture Development Plan 2010-2030 (NSADP) and the Agenda for Prosperity, which will further clarify resource allocation for specific activities. The EU should encourage the government and other donors to fulfil this vision and further strengthen sub-sector budgeting process so that direct budget support can be offered to these sectors in future.

Conclusion: Though the Government of Sierra Leone faces challenges in the monitoring of the development policy and in a context of heavy financial constraints has. The government has shown commitment to carry out investment programmes, increase poverty related expenditures and social safety nets. The policy is sufficiently relevant and credible to ensure eligibility for a State Building Contract.

1.1.2 Stakeholder analysis

Due to the orientations of the programme, the key stakeholders are primarily the Ministry of Finance and Economic Development (MoFED) which is in charge of PFM as well as the coordination, monitoring and evaluation of the development strategy. The main challenges regard budget planning, revenue mobilization and tax policy design, procurement planning, treasury management and financial reporting. Though some progress have been done in the recent years notably through the Roll-out of the Integrated Financial Management Information System (IFMIS), the implementation of the Treasury Single Account has met some delays which hampers efficient cash management.

Other bodies involved in PFM would include:

The **National Revenue Authority** (NRA - in charge of tax administration and collection, some major reforms are expected after the Tax Administration Diagnostic Assessment Tool (TADAT) assessment carried out in 2016). A technical assistance action plan should be designed and integrated in the action plan of the new PFM strategy.

The **National Public Procurement Authority** (NPPA - regulatory and monitoring body) as a central role in public procurement system and control its role should be increased through the implementation of e-procurement, main challenge remain proper design and respect of procurement plans by the Ministries, Departments, and Agencies (MDAs), decrease irregularities in public procurement procedures as pointed by Audit Service Sierra Leone.

The **Audit Service Sierra Leone**, though its role is developing, the main challenge in recent years has been the increase its recommendations follow up by MDAs. In the meantime, further development of the internal audit function in the ministry of finance should support the work carried out by the Auditor General.

The **Parliament** (Legislative oversight of PFM rests with the Public Accounts Committee (PAC), the Public Finance Committee and the Transparency and Accountability Committee)

major challenges regard the increase in the parliamentary work and the access to financial information and a comprehensive draft budget submitted by the executive branch.

The **Ministry of Education** and the **Ministry of Agriculture** will directly be supported by this action. Main challenges regard the disbursement of their budget allocation. The action will support a timely and effective disbursement of the allocation for expenditure on goods and services for these two ministries among other selected MDAs: Ministry of Health and Sanitation, Ministry of Welfare, Gender and Children's Affairs, Audit Service Sierra Leone, National Public Procurement Authority, Anti-Corruption Committee, National Revenue Authority, Statistics Sierra Leone and transfers to local council.

The Ministry of Education has the overall responsibility for education; responsible for policy and planning, professional standard setting, monitoring and evaluation of education service delivery; accreditation; teacher management. It lacks qualified and experienced people at both national and district levels; recruitment and retention of key staff is a challenge. At the decentralised level, the ministries relied on the District Education Offices. They are responsible for implementation at the decentralised level, including the monitoring of education activities in primary and secondary schools. A decentralisation process launched devolve some powers to local councils has turned more challenging than originally imagined.

Teaching Service Commission (TSC) - Based on the Teaching Service Commission Act of 2011, it is responsible for teacher management issues, including recruitment, deployment, training, discipline, pay and retirement. A functional TSC will take responsibility for all teacher matters except that of training / preparation.

The Ministry of Agriculture is the lead ministry overseeing the agricultural sector as well as food security issues. It is responsible for policy making, strategic planning, data collection, monitoring & evaluation and the enforcement of regulations. Lack of resources – human, infrastructural and financial – remains challenging. This is particularly obvious in sectors such as the livestock production and husbandry. Furthermore, extension services are weak, suffering from bottlenecks notably due to capacity constraints in research and data collection. Capacity to manage data, incoherent and dysfunctional certification schemes and a lack of coordination with other in line Ministers and public entities also hamper progress in the sector. This is compounded by a critical situation in academic institutions where general education regarding agriculture is poor and veterinary medicine is totally unavailable in the country.

At the decentralised level, the Local Government Act 2004 provides the main legal framework for **local councils** and **chiefdom councils**. The **Ministry of Local Government and Rural Development** (MLGRD) has responsibility for implementing decentralisation and local governance reforms. There are 19 local councils, made up of five city councils and one municipal council in the urban areas, and 13 district councils in the predominantly rural areas. The Local Government Act 2004 gives both the local councils and the chiefdom councils powers to raise revenue including local taxes, property rates, licences, fees and charges, and to receive mining revenues, interest and dividends etc. Transfers from central government include recurrent and development components. There are three broad types of transfers: administrative grants, grants for devolved functions and local government development grants. Under the Local Government Act 2004, 80 functions were devolved to local councils. To date, 56 of the 80 have been devolved in practice, including the following ones:

- primary and junior-secondary education (including the payment of school fee subsidies, and distribution of textbooks/ teaching and learning materials)
- agricultural extension services (crop and animal)

However, in practice, due to the lack of capacities at local councils and chiefdom councils level, lots of the functions are still implemented by the District Agricultural Officer (DAO) of the Ministry of Agriculture and the District Education Office of the Ministry of Education

(DEO). An increased fiscal space should also allow finalizing the decentralization process increasing revenues at the local level.

To develop efficiency and ownership of the PFM strategy and processes, capacity building and a wider access to information for the public as well as oversight bodies are needed. This SBC will support these actions notably the new PFM strategy which should promote the development of a training policy and training centre which should allow increasing the overall efficiency of the PFM system.

Civil society is increasingly being involved in budget discussion during the public hearings organized during the budgetary procedure. Its role in anti-corruption scrutiny is also increasing. An increased access to financial information should allow increasing the role of the Civil society notably through the update of the website of the Ministry of Finance. The wider public would also benefit from improved governance, more efficient, equitable 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.

The iron ore crisis of 2014 has exposed Sierra-Leone's vulnerability and over-dependence on the mining sector. Although mining will remain an important economic sector in the foreseeable future, the Government of Sierra Leone is conscious of the need to diversify its economic base, notably through the development of the agricultural and agro-business sector, as stated in the 2017 Budget Speech.

The Ebola crisis highlighted the vulnerability of the healthcare and education systems. Furthermore, overall poor service delivery is an important aspect of fragility in Sierra Leone. This SBC aims at addressing the underlying institutional weaknesses that hamper effective service delivery, notably by improving key aspects of PFM, including revenue mobilization, planning and budgeting, and budget execution and oversight. This should allow creating fiscal space to allow proper implementation of the development policy.

The Government of Sierra Leone revenue performance is weak, with a tax to GDP ratio of around 10 % in recent years (10.1 % in 2014, 9.4 % in 2015 and 10.2 % in 2016¹⁸), well below the regional average and below the threshold of 14 % for countries to be considered fragile states. Some of the key reasons for low revenue mobilisation are the narrow tax base and the large informal sector, weak revenue administration, and a wide range of tax exemptions. A Tax Administration Diagnostic Assessment Tool (TADAT) has been carried out in 2016 allowing identifying and addressing the main issues regarding domestic revenue mobilization: the efficiency of tax collection and reduce the scope for leakages. In this context the funding of the development policy remains under constraint.

Regarding the development policy, the Agenda for Prosperity 2013-2018 (AfP) will come to an end during the implementation of the State Building Contract and a successor Development Strategy (starting from 2019) will have to be designed. Due to the delays observed in the design of the next strategy, the extension of the Agenda for Prosperity is becoming an option. Some challenges will need to be addressed such as the improvement of the monitoring and evaluation system, and some shortcomings regarding the absence of baseline and targets in the design of the strategy, lack or insufficient statistics. This situation has notably caused difficulties in the follow up of the development policy implementation and attention given to cross cutting issues such as gender.

¹⁸ Source : International Monetary Fund (IMF) Country reports Executive Board Specials (EBS) 16/378 and 16/236, tax revenue to non-iron ore Gross Domestic Product (GDP)

Financing of large projects is expected to be at the core of the new strategy objectives in order, among others, to address major infrastructure gaps. The agriculture sector which continues to account for more than half of GDP and is still the largest employer (70% of the current labour force) will also need to be strengthened to boost growth and to reduce the dependency on iron ore production. Similarly, the management of the education sector needs to be reinforced in order to increase the capacities of human capital to contribute to economic growth and more specifically perspectives for the youngest.

Other governance and cross cutting issues remain challenging such as access to justice, fight against corruption and a parliamentary oversight, gender issues. Some of these challenges will notably be addressed through the policy dialogue.

In conclusion, Sierra Leone remains in a fragile situation (vulnerability to external shocks, need to diversify the economy, challenges in the implementation and monitoring of development policy, weaknesses in the institutional capacities, low human development). The proposal to provide support under the SBC arrangement for a third consecutive cycle is fully justified to support the transition towards sustainable development.

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.

The country has come a long way since the end of the civil war in 2002 in respect of the protection of human rights, including the down-sizing of military which is now fully under civilian control. The Constitution prohibits torture and, other cruel, inhuman or degrading treatment or punishment and the Government is committed to abolish the death penalty.

The EU Electoral Observation Mission concluded that the 2012 elections were overall credible, even though several shortcomings were underlined. The impartiality of the National Electoral Commission (NEC) has improved since the new NEC Chair was appointed, in February 2015, with the consensus of all political parties. The upcoming elections, due on March 2018, could lead to heightened tensions due to an embittered opposition and internal issues within the parties.

The adoption of the Right to Access Information Act¹⁹ in October 2013 was a major step to ensure greater government transparency, the rule of law, and respect for human rights. The Freedom of Information Act guaranteeing citizens access to information was adopted in October 2013.

Sierra Leone is ranked 79th out of 180 countries in the 2015 World Press Freedom Index issued by Reporters Without Borders. The Government of Sierra Leone is committed to improve the freedom of press.

The Government of Sierra Leone has signed, ratified and enacted a range of international treaties and national legislation and policies to ensure the protection and promotion of the rights of women and children. A number of policies and laws have been developed to fully promote gender equality and women's advancement as part of the implementation of the Beijing Platform for Action (BDPfA). A National Gender Strategic Plan (2010-2013) has been adopted and the Sierra Leone National Action Plan (SILNAP) on United Nations Security Council Resolution (UNSCR) 1325 on Women, Peace and Security; and United

¹⁹ Supplement to the Sierra Leone Gazette Vol. CXLIV, No. 62 dated 31st October, 2013

Nations Security Council resolution (UNSCR) 1820 on Sexual Violence has been adopted and launched in 2009 and 2010 respectively.

1.2.2 Macroeconomic policy

Sierra Leone had been growing steadily during the period between the end of the civil war in 2002 and the twin crisis of 2014-15. From 2012 onwards, the first year of full-fledged iron ore production, GDP growth rate soared to reach 20.7 % in 2013. The impact of the Ebola crisis in 2014 and 2015 and of the sharp drop in iron ore prices led to the collapse of the entire iron ore sector, which represented 15 % of GDP in 2013. Consequently, the GDP fell by 20.6 % in 2015. In spite of this adverse context, Sierra Leone is on the path to economic recovery, and government revenue is increasing modestly. According to the latest International Monetary Fund (IMF) review²⁰, growth rebounded in 2016. The real growth rate reached 6.1% in 2016, is projected at 6.0% in 2017 and is projected to converge towards 6.5% in the medium term. Non-iron ore GDP grew by 4.3%, underlining that the diversification of the economy remains an important challenge to lower dependency to iron ore prices evolution.

Facing severe budgetary pressure during the second half of 2016, the Government had to take strong actions: announce expenditures cuts and increase fixed retail fuel price (+60%). The emblematic measure related to the increase of the retail fuel price was part of the benchmarks of the programme with the IMF which were delayed until then. The efforts of the Government demonstrate a political willingness to remain on-track with the IMF programme and courage to take unpopular measures up to election, which have allowed concluding the 6th and last review. For the IMF, the Government of Sierra Leone maintained fiscal discipline and managed to protect key expenditures, notably poverty reduction expenditure. However, the fiscal situation is one of the main challenges and increasing the revenue to GDP ratio and revenue mobilization have been agreed with the IMF as being imperative to finance the national development policy including heavy infrastructure needs. Though the tax/non iron-ore GDP has been constantly low (11.6% in 2013), it has dramatically decreased to reach 10.1% in 2015 and recovered slightly to 11.5% in 2016.

Inflation remained high at 17.4 % at the end of 2016 and is projected to remain above 10 % in 2017. It was driven by currency depreciation, as the Leone had depreciated by almost 20 % year-on-year.

The depreciation of the Leone in turn was driven by two unrelated but concomitant factors: the drying up of Ebola related foreign assistance and more importantly the impact of the iron ore crisis on the balance of payments. Exports, which had more than halved between 2014 and 2015, have increased by 19 % in 2016. Hence the trade deficit is expected to improve moderately in 2016 and further in 2017 with exports increasing 16.8 %, driven by minerals.

Under the outgoing ECF Programme which ended in December 2016, the IMF latest assessment was positive: all quantitative performance criteria but one were met, the performance on structural benchmark was mixed as the benchmarks relating to the approval of a wage reform strategy, the adoption of a new Tax Administration Bill and the diagnostic study of 2 state owned banks were missed. A waiver was also granted by the IMF for temporary multi-currency practice during the summer of 2016, when the authorities attempted to resist the impending depreciation of the currency, by selling foreign currency. The benchmarks related to the establishment of the Natural Resource Fund and of the Treasury Single Account were met as these measures are included in the provisions of the new PFM Act passed in July 2016; however they are yet to be implemented.

²⁰ IMF, Memorandum of Economic and Financial Policies (MEFP) under the Extended Credit Facility (ECF) 2017 – 2020

Due to the fiscal situation, sound debt management is a priority to avoid high risk of distress. The IMF identifies heightened risks on the horizon, especially depreciation and fiscal fragility. In addition, risks surrounding the iron ore sector persist. The IMF has urged the authorities to remain prudent in their debt management, including by not signing a proposed airport loan that would place Sierra Leone at high risk of debt distress and giving priority to concessional borrowing.

Looking ahead, the main challenges facing the Government of Sierra Leone are to reduce its dependency on natural resources, through diversification of its economy, and to improve revenue mobilization through better tax administration, improved capacities in tax collection estimates and tax policy design, broadening tax basis in order to finance much needed investment in infrastructure and social services. These issues will be at the core of the policy dialogue carried out in the framework of this budget support operation.

On June 5, 2017, the IMF Executive Board has approved a new three-year arrangement under the Extended Credit Facility (ECF) for an amount of SDR 161 800 000.

Conclusion: The Government of Sierra Leone has shown commitment to pursue stability-oriented macroeconomic policies aimed at maintaining fiscal and external stability and sustainability despite a very challenging context and a strong vulnerability to exogenous shocks.

1.2.3 Public Financial Management (PFM)

The latest Public Expenditure and Financial Accountability (PEFA) assessment was carried out in 2014 and showed mixed progress compared to its predecessor assessment of 2010. Despite this, some areas had shown progress notably in stock and monitoring of expenditure payment arrears, (PI-4), orderliness and participation in the annual budget process (PI-11), effectiveness in collection of tax payments (PI-15), legislative scrutiny of external audit reports (PI-28). A new PEFA co-financed by DFID and the EU will be carried out in 2017/2018.

The Government's first comprehensive PFM reform agenda was articulated through the "Integrated Public Financial Management Reform Programme" (IPFMRM), approved in 2008. In 2014, the Government of Sierra Leone approved the "Public Financial Management Reform Strategy 2014-2017", which four thematic areas: (i) Budget planning, comprehensiveness and credibility; (ii) Financial control and accountability, service delivery and oversight; (iii) Revenue mobilisation; and (iv) Strengthening local governance financial management through local councils for effective decentralisation.

A successor PFM Reform Strategy for the period 2018-2021 is currently being prepared with a support of the EU. The new Strategy will be largely articulated around the requirements of the implementation of the PFM Act, enacted in July 2016, which replaced the Government Budgeting and Accountability Act of 2005 (GBAA 2005) and the new Procurement Act (2016).

The PFM Act 2016 has far reaching implications and its implementation will be facilitated by the adoption of related regulations which should be an important part of the next PFM Strategy. The main implications of the new PFM Act are that:

- It broadens the coverage of the PFM Act beyond the scope of central government, in line with the IMF Government Finance Statistics Manual 2014, to cover Sub-sectors and Extra-budgetary Entities that were not previously covered under the GBAA 2005²¹.

²¹ Supplement to the Sierra Leone Gazette Vol. CXXXVI, N 17 dated 7th of April 2005; <http://www.sierra-leone.org/Laws/2005-3p.pdf>

- It strengthens the macro-fiscal framework by introducing fiscal responsibility principles and a Fiscal Strategy Statement to guide fiscal planning and the medium-term budgetary framework (MTBF); and strengthening budget discipline by introducing firm limits on the amount of additional spending in excess of the approved budget.
- It increases the focus on measuring, monitoring, and managing fiscal risks by introducing an annual Fiscal Risk Statement;
- It strengthens expenditure controls, in particular commitment controls.
- It improves cash management through the implementation of the Treasury Single Account (TSA), setting up the Cash Management Committee and introducing cash planning requirements.
- It improves financial reporting and auditing by introducing standardized general purpose financial reporting template for all public sector entities, covering statutory annual financial statements, in year financial reports and standardized accounting policies.
- It improves the legal framework for the management of Extractive Industries revenues, through the establishment of a Transformational Development Fund Account (TDFA), a Transformational Development Stabilization Fund (TDSF), and an Intergenerational Savings Fund (ISF).

The legal and regulatory framework for PFM will also be strengthened through the adoption of revised regulations on public procurement, in line with the new Public Procurement Act 2016 and the adoption of a new Extractive Industries Bill and of a new Tax Administration Bill by October 2017²².

With regard to external audit, Sierra Leone has a fully independent and functional Supreme Audit Institution in line with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. However some issues remain regarding the implementation of its recommendations.

The design and implementation of the new PFM strategy currently ongoing will take advantage of recent assessments (Tax Administration Diagnostic Assessment Tool (TADAT), discussions with the IMF, PEFA yet to be launched during second semester of 2017) to address the needs and shortcomings of the current strategy.

It is expected that the ownership of the strategy is increased through improvements in the governance bodies. The PFM Reform Unit of the MoFED is in charge of the coordination of PFM reforms and the oversight of reforms is exercised through three committees: (i) PFM Oversight Steering Committee, chaired by the Minister of Finance which meets twice a year; (ii) Technical PFM Committee, chaired by the State Minister which meets on a quarterly basis; and (iii) Thematic and Sub-Thematic Managers' Committee, chaired by the Financial Secretary which meets on a monthly basis. A strongest follow-up of the implementation should be reached through the introduction of annual action plans and the reactivation of the memorandum of understanding signed among the budget support donors and the government which foresees a framework for the policy dialogue through financial and macroeconomic information.

To emphasize the intergovernmental aspect of the Strategy, an endorsement in cabinet is envisaged by end 2017.

Conclusion: Despite implementation and monitoring challenges, the current PFM Strategy has proved to be a credible and relevant policy. Its shortcomings have been analysed and the

²² Letter of Intent, November 2016, Appendix to IMF ECF 6th review

design and implementation of the next strategy will take advantage of recent assessments to address the needs and to further improve the governance and ownership of the strategy.

1.2.4 Transparency and oversight of the budget

The Government of Sierra Leone makes publicly available essential budgetary information including the Annual Budget Speech, the Budget Profile which presents the budget for the fiscal year, as well as a comparison with budget execution data for previous fiscal year (FY) and forward looking estimates for 2 subsequent FYs (as part of the document attached to the budget speech). This information is available from Ministry of Finance and Economic Development's (MoFED) website²³. The enacted Budget (Appropriation Act) is available from the Government Printers only. In addition, the "Parliamentary Copy of Recurrent and Development Expenditure Estimates, Financial Years 2017-2019" which details all revenue and expenditure by projects, programmes and activities implemented by MDA's including sources of financing is available from the Government Printers as well.

Hence, the entry point is considered to be met, as both the Executive's budget proposal and the enacted Budget are regularly published on MoFED website and made available to the public from the Government Printers²⁴.

The Open Budget Survey for 2015 awarded a score of 52 to Sierra Leone²⁵ and ranked the country the 38th. This represents a considerable improvement in Sierra Leone's budget transparency and oversight²⁶ and is well above the regional average. In 2017 Open Budget Index (OBI) survey, the new definition of public availability of documents is likely to impact negatively on the scoring since OBI now requires documents to be published on relevant official government website. The update of the 2015 survey in 2016 already points out the fact that year end reports are available only in hard copy. Recurrent difficulties concerning the website of the Ministry of Finance (accessibility and need to update the information) impact negatively the availability of financial information.

Since 2011 Sierra Leone produces a Citizens Budget, which summarises the annual appropriations.

Regarding the annual financial statements, there has been full adherence to the deadline (31st of March following the end of the Fiscal Year) for the submission of annual Government financial statements to the Parliament by the Accountant-General, and further submission to Audit Service Sierra Leone (ASSL). Also, the Auditor-General has presented her reports to the Public Accounts Committee of the Parliament within the stipulated deadlines (12 months following the end of the Fiscal Year) and the reports are made available on the website of Audit Service Sierra Leone²⁷.

The Auditor General also carries out performance audits. These audits include audits of the management of commercial buses by the Sierra Leone Road Transport Corporation, public procurement, solid waste management by municipalities and Ebola funds management. These reports are available on the ASSL website.

MoFED has also recently launched a Non-State Actors Support Programme to assist the development of analytic and dissemination capacity of non-state actors in exercising scrutiny over the use of public funds²⁸.

²³ <http://mofed.gov.sl/PUBLICATIONS/Budget%20Profile%20GPD.pdf>

²⁴ It should be noted however, that since March 2014 the MoFED website is under major reconstruction and some sections often are not accessible.

²⁵ <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf>

²⁶ <http://survey.internationalbudget.org/#timeline>

²⁷ <http://www.audit-service.gov.sl/reports-2-annual-reports.html>

²⁸ <http://www.nsas.org/>

Furthermore, in 2013 the Right to Access Information Act was adopted²⁹, which should further facilitate the access of the public to budget information.

Remaining issues include:

- Publication of information on public procurement is limited although efforts are under way.
- The legislative review of the draft Budget (Appropriation Bill) is weak.
- Expenditures are classified by economic classification only at the aggregate level but not at MDA level.
- Information on tax expenditures (tax exemptions), including incidence of tax or tax burden are not presented in the budget book.

Conclusion: The government has published the executive's budget proposal for 2017 and the appropriation act for 2017. The eligibility criterion on transparency and oversight of the budget is met.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/S/M/L)	Mitigating measures
Rule of law	S	Policy dialogue - support to constitutional review
Macro-economic risks	S	Maintain macroeconomic stability - enhance revenue collection, strengthening expenditure and debt management.
Public Finance Management	S	Support to PFM reforms through technical assistance support to PFM and to Civil Service Reform
Developmental risks	H	Pro-poor policies and gender equality to be prioritised and /or developed (safety nets)
Corruption & fraud	S	Policy dialogue - targeted complementary support improving governance
Assumptions		
The eligibility criteria for this State Building Contract focus on core dimensions of governance. Implementation of equitable development policies, gender responsive, 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 support of SBC.		

²⁹ Supplement to the Sierra Leone Gazette Vol. CXLIV, N 62 dated 31st October 2013; <http://www.sierra-leone.org/Laws/2013-02.pdf>

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

An independent evaluation of budget support to Sierra Leone from 2002 to 2015³⁰ was carried out in 2015. It is the most recent and also the most comprehensive evaluation work on the subject as it covers all budget support operations by the EU, the African Development Bank (AfDB), the United Kingdom Department for International Development (DFID), and the World Bank (WB).

Main lessons from this evaluation are:

- The performance assessment framework (PAF) contains a reasonable number of measureable indicators and is relatively efficient in terms of transaction costs.
- Budget Support has represented on average 15.1 % of total public spending over the period and has been particularly critical during crisis times to ensure service delivery.
- The EU introduced output/outcome targets for health and education but these targeted improvements in service delivery were not supported by a set of milestones to increase funding levels or specific policy actions.
- The involvement of the government of Sierra Leone beyond MoFED has been variable, and coordination of response to ensure delivery of the PAF as a whole within government of Sierra Leone has been weak.

The Multi Donor Budget Support (MDBS) group and its joint PAF, the framework in which EU budget support operates, harmonise the support of four major development partners to the government of Sierra Leone policy reform agenda. It allows reducing significantly transaction costs for the government and seeking for synergies among the donors. Public finance management (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.

The PAF, focusing on a narrower set of priorities, should allow improving the quality of the dialogue and better follow-up of government of Sierra Leone reforms. It will take advantage of the revival of the memorandum of understanding ruling the MDBS group to foster policy dialogue.

Under the complementary measures, special emphasis will be given to the support of the training policy and training centre which should be part of the next PFM strategy. In the past years, the donors have essentially concentrated action on processes, overall capacity building, information system, etc. but little has been done on improving human resource. Action on this should allow increasing ownership and service delivery.

Furthermore regarding the impact of budget support on cross cutting issues such as gender, the report focuses on the education sector. Budget support impact is mainly channelled through the fiscal space created which has been absorbed by primary and secondary schools. Primary pass rates have increased and primary gender gap has been closed in 2014. According to the study the fiscal space offers resources to reduce the number of unapproved schools, to enhance enrolment and to reduce gender gap. The reduction of unapproved schools will be retain specific attention in the framework of this SBC.

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

³⁰ Independent Evaluation of Budget Support to Sierra Leone 2002 - 2015, DFID Global Evaluation Services Framework Agreement: Thematic Grouping -Framework Reference No: PO 5859

quarterly basis. Civil society and other stakeholders are invited to the meetings depending on the agenda.

The Multi-Donor Budget Support (MDBS) framework 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. It includes commitments from the Government of Sierra Leone to share financial and economic information with the donors and a Performance Assessment Framework (PAF) to follow indicators of the 4 budget support donors. It allows harmonization and synergy among the donors and facilitates the follow up for the government.

The focus on state consolidation of this third SBC will complement the EU support project to governance (EUR 27 000 000) aiming notably at enhancing the role of the Parliament and the reform and the performance of the civil service.

The focus on agriculture and education will complement the two following ongoing sector interventions financed by the EU:

- Support to education programme (EUR 29 000 000): aiming at improving the current extremely low education results which are the consequence of poor access to education during the 10-year civil war (which ended in 2002).
- Boosting Agriculture and Food Security programme (EUR 35 000 000): aiming at reducing poverty and food insecurity through better governance and increased agricultural productivity and diversification in line with priorities of the Agenda for Prosperity.

The Technical Assistance in place in these three interventions will support the authorities and the implementation of this programme regarding the analysis of sector indicators and the policy dialogue as well as the institutional reforms aiming at improving policy design and service delivery.

The action will complement other donors' programmes notably World Bank (WB) and DFID to be designed by end 2017 and beginning of 2018. To date strong synergies and complementarity are observed regarding the areas of focus:

- WB: budget planning and credibility, financial control and oversight, revenue mobilization, local governance, PFM reform coordination
- EU: monitoring and evaluation of the development policy and of the PFM strategy, financial reporting, budget planning and central and sector level, internal controls and oversight
- DFID: budget credibility, wage bill management, procurement, revenue, macroeconomic management (related to staying on track with the IMF programme).

AFRITAC west 2 supports reforms with regard to revenue administration, PFM legal framework, financial sector regulatory and supervisory frameworks and macroeconomic statistics.

The IMF has been supporting the country (2013-2016) through an Extended Credit Facility arrangement. Originally approved for 3 years for USD 86 860 000 in October 2013, it was extended until December 2016 and augmented twice (up to USD 253 810 000). On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) has approved a new three-year arrangement under the Extended Credit Facility (ECF) for Sierra Leone for approximately USD 224 200 000 in support of the authorities' economic development efforts. It aims at supporting important policies targeted at reducing inflation and significantly increasing domestic revenues, including by eliminating numerous tax and duty exemptions, while increasing infrastructure spending and bolstering the social safety net. The ECF program is also expected to play a catalytic role to maintain external support. In the medium-term, the arrangement will provide the framework for structural progress on revenue

mobilization, public financial management and financial sector reforms, as well as increased reserves.

The World Bank is preparing a 3 year budget support operation (2017-2019). The estimated amount should be around USD 20 000 000 per year. The programme should contain an important sector oriented component related to agriculture, land and fisheries and public finance management (procurement and fight against corruption).

DFID is currently implementing a budget support programme (financial aid) (2016-2018) up to £ 10 000 000 per year. Indicators are negotiated every year and are mainly dealing with public finance management issues (wage bill, procurement, budget credibility, revenue).

African Bank of Development (AfDB) is part of the MDBS but did not provide budget support in 2016. AfDB is currently preparing another budget support operation of 3 years 2017-2019 with an estimated amount of USD 4 000 000 per year. Areas of intervention still have to be defined.

The EU Delegation is member of the international donor group on gender, shares initiatives and looks forward upon synergy with other donors on gender programmes.

3.3 Cross-cutting issues

The SBC aims to support the implementation of the Agenda for Prosperity (AfP) and its successor.

The AfP includes Pillar 8 'Gender equality and women's empowerment', which aims at empowering women and girls through enhanced and more accessible education, increased participation in decision-making, improved access to equal justice and economic opportunities and strengthening prevention and response mechanisms to violence against women. The ongoing ban on pregnant girls/mothers attending/re-entering school in Sierra Leone will be one of the critical issues addressed in our policy dialogue in particular securing the budget for the Ministry in charge of gender. Furthermore, the reduction of unapproved schools (issue also specifically addressed in the framework of this programme) should contribute to increase pass rates, to promote a more equitable education system and to reduce gender gap. On a broader perspective, budget support will also create fiscal space to fund notably social safety nets with a gender impact.

Protection of rights and primarily taxpayers' rights will be addressed through this action through support to the capacity building and training policy of the new PFM strategy. The Government of Sierra Leone established an Anti-Corruption Commission under the Anti-Corruption Act (ACC - 2000, amended in 2008)³¹. The ACC was set up for prevention, investigation and prosecution of corrupt practices, as well as for provision of timely and reliable information to the public on anti-corruption measures. The fight against corruption will be strengthened through accelerating PFM reforms, and establishing efficient, effective, transparent PFM system, supporting the control of oversight bodies like Audit Service Sierra Leone in order to minimise opportunities for corruption. This budget support operation will specifically address the issue of secured budgets for the Anticorruption Commission and Audit Service Sierra Leone.

Environment and climate change protection will be key elements of the policy dialogue with regard to the national agriculture policies and sector policies.

With regard to the education and agriculture sectors specific technical assistance support will be provided in the framework of other EU projects.

³¹ Supplement to the Sierra Leone Gazette Vol. CXXXI, No. 7 dated 3rd February, 2000

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the proposed State Building Contract (SBC) is to promote sustainable and inclusive growth and support the consolidation of peace-building and the state-building processes in Sierra Leone.

The **specific objective** of the SBC is improved 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', and more specifically:

- Improve financial ability of the Government of Sierra Leone to restore peace, macro-economic stability and to achieve short-term development policy objectives;
- Improve public finance management governance notably regarding revenue collection to finance the implementation of development policy and service delivery to key sectors;
- Foster a transition process towards development and democratic governance;
- Ensure vital state functions (notably the provision of peace and security, payment of civil service salaries, provision of core administrative functions and minimum basic services);
- Strengthen institutional capacity of the Government to implement the Development Strategy: Agenda for Prosperity (2013 - 2018) and the following strategy (from 2019) thereby stimulating growth, reducing poverty and improving resilience to external shocks.

This programme is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG Goal 1) 'no poverty' and 16) 'peace, justice and strong institutions', but also promotes progress towards Goals 2) 'Zero Hunger', 4) 'Quality Education', 5) 'Decent Work and Economic Growth'. This does not imply a commitment by Sierra Leone benefiting from this programme.

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

1. Peace and security maintained, transition to democracy and development;
2. Sufficient financial allocation to cover at least the provision of a minimum level of basic services and public administration - 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 in particular in the education and agriculture sectors;
3. Improved efficiency of public financial management systems - Improved governance (including the fight against corruption) and PFM systems for more efficient equitable and accountable use of public funds and effective public service delivery;
4. A more transparent and accountable planning and budgeting system;
5. Strengthened institutional capacity of the Government in development and sector policies and sector-strategy planning and resource allocation;
6. The restoration of macroeconomic stability.

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

1. Strengthened monitoring and evaluation capacity of MoFED and targeted line ministries to enhance capacity for measuring and assessing progress in the implementation of national development and sector policies;
2. Enhanced implementation, reporting and review process of the PFM strategy 2018 - 2021;
3. Improved revenue mobilization;
4. Enhanced capacity for strategic planning and budget formulation, at central (MoFED) and at sector level, with a focus on selected line ministries (education and agriculture);

5. Improved quality of in-year and annual financial statements;
6. Improved procurement planning, more competitive procurement and improved procurement oversight;
7. Improvement in internal audit and enhanced capacity of internal audit units in the line ministries and agencies;
8. Improved management response to audit recommendations issued by Internal Audit and by the Auditor General.

4.2 Main activities

4.2.1 Budget Support

- Transfer of grant resources to the Budget of Sierra Leone in 2018-2020 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;
- Support and engage in political dialogue where pertinent to ensure the implementation of PFM reforms as set in the PFM Reform Strategy 2018-2021;
- Provide support to improve systems for PFM, budget formulation, execution and external oversight including consideration to gender responsive financial management;
- Analyse information on macroeconomic, fiscal and budgetary developments within the technical working group of the MDBS;
- Support the implementation of the national development policy: Agenda for Prosperity 2013-2018 and the successor development strategy;
- Support the implementation of sector policies and reforms (education and agriculture) in close cooperation with the two sector interventions financed by the EU (see 3.2) including consideration to gender issues in policy drafting and budgeting;
- Ensure continuous policy dialogue on governance, development, education and agriculture issues in line with the 11th EDF objectives.

4.2.2 Complementary Support

The intervention will include a Complementary Support (CS) component incorporating technical assistance. The support will be provided notably through studies, support to processes, trainings, training of trainers identified by the beneficiaries in the view of an increased mid-term and long term ownership.

Complementary measures of the State Building Contract (SBC) II mainly focused on monitoring and evaluation of the development policy and of the public finance management (PFM) strategy, financial reporting, budget planning and central and sector level, internal controls and oversight. Building on the outcomes of this programme, the complementary measures of SBC III would support the following areas and activities:

- Support capacity building in budget support follow up by the Ministry of Finance and Economic Development (MoFED) and Ministries, Departments, and Agencies (MDAs) involved in the overall process, support to the MoFED in the preparation of the disbursement file;
- Support capacity building in monitoring and evaluation by the MoFED, the Ministry of Agriculture, Forestry and Food Security (MAFFS) and Ministry of Education, Science and Technology (MEST) in the implementation of national development policy and sector policies;
- Support governance, implementation, reporting and review process capacities of the PFM strategy (2018-2021) by the MoFED;
- Support capacity building in domestic revenue mobilization in tax administration and tax policy functions both in the National Revenue Authority (NRA) and the MoFED;

- Support capacity building in strategic planning and budget formulation, at central (MoFED) and at sector level (MAFFS and MEST);
- Support capacity building in financial reporting (in-year and annual financial statements) and cash management by the Accountant General's Department (AGD);
- Support capacity building in producing, implementing procurement plans and strengthening public procurement oversight (MoFED, MAFFS, MEST, National Public Procurement Authority (NPPA);
- Support capacity building to Internal Audit Department (MoFED) and internal audit units in the line ministries and agencies;
- Support capacity building in implementing audit recommendations issued by Internal Audit and by the Auditor General (MoFED, line ministries, internal audit, auditor general);
- Support training policy chapter of the PFM strategy to improve overall capacities in PFM in the MoFED and line ministries and oversight bodies through the creation of a training center in PFM.

Due to the orientation of the SBC to support transition towards a possible Sector Reform Contract in the selected sectors (education or agriculture) a strong synergy with the ongoing related projects will be sought notably on PFM sectors aspects and monitoring and evaluation. More specific aspects will be addressed in the framework of other actions in the sector (via the project modality).

Synergies with projects supporting PFM reforms from other donors such as the World Bank and DFID will be exploited. The preparation of their new programme should start by end 2017. The new PFM strategy (prepared with a support of the EU) should address some shortcomings of the previous PFM strategy. Among them was the absence of annual action plans. The first action plan should be ready by last quarter 2017. It should provide a better framework for donor coordination and monitoring/evaluation and ownership by the MoFED.

4.3 Intervention logic

Given the fragile situation described previously, the proposed State Building Contract is particularly relevant for Sierra Leone. The proposed intervention will aim to support the Government of Sierra Leone by ensuring that core state functions are consolidated and strengthened in order to guarantee basic service delivery to the population especially women and girls, in coherence with 11th EDF objectives and focal sectors (education and agriculture) and implement gender policy.

The proposed intervention combines two components: i) general budget support for a period of 3 years and ii) complementary support for technical assistance and capacity building for a similar period. The intervention will bridge with and benefits from two other ongoing EU programmes in the sectors of agriculture and education. This intervention will therefore contribute to mitigate the heavy financial constraints on the national budget after the Ebola crisis and the fall in iron ore prices and also stimulate the political dialogue on public finance management (PFM), agriculture and education, which will allow fostering reforms. A comprehensive policy dialogue strategy will be designed at the beginning of the intervention in order to structure EU discussions on PFM, agriculture and education with a special attention to gender issues.

The association of political dialogue, technical assistance, capacity building and budget disbursement is expected to contribute positively to better planning, implementation, spending and reporting from the Government in the medium and long term.

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 4.2 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 75 000 000, and for complementary support EUR 4 850 000 and EUR 150 000 for evaluation and audit.³² Under the present financing decision the amount allocated for budget support component is EUR 40 000 000, and for complementary support EUR 4 850 000 and EUR 150 000 for evaluation and audit.

These amounts are based on the fragile situation of Sierra Leone described previously. The budget support of the EU being a grant should allow to alleviate financial pressure meanwhile needed public finance management (PFM) reforms especially regarding domestic revenue mobilization are implemented.

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 (AfP) 2013-2018' and of the successor of this strategy/policy and continued credibility and relevance thereof, a specific attention will go towards progress achieved in the agriculture and education sectors;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the public finance management (PFM) reform programme and continued credibility and relevance thereof;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The **specific conditions** for disbursement that may be used for variable tranches are the following : revenue collection, budget credibility and execution in a selection of critical poverty related Ministries, Departments, and Agencies (MDAs), budget proposal comprehensiveness, control of excess expenditures, financial statements, payroll management, procurement planning and transparency, of the recommendations of the Auditor General, education system governance and policy, equal access to education, diversification of the economy through agriculture development.

This set of indicators has been discussed with the government of Sierra Leone and is coherent with the Multi Donor Budget Support (MDBS) group coordination mechanism. The indicators will cover key strategic areas to improve governance and ensure core state reforms in public

³² Subject to the adoption of a new financing decision.

financial management, including public procurement, revenue administration and public external oversight as well as aspects related with reforms and service delivery in the education and agriculture 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.

The **fixed tranche** disbursement is subject to continued compliance with the four general eligibility criteria. The Ministry of Finance and Economic Development (MoFED) will thus periodically report on ongoing and future development policy progress, macroeconomic performance, improvements in public financial management and budget transparency. Even if the Agenda for Prosperity and its successor will be assessed as a whole, a special focus will be given to progress made in the education and agricultural sectors based on agreed critical reforms to be addressed notably regarding gender issues.

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 performance assessment framework (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). Special attention will be given to gender issues regarding the indicators of the EU.

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).³³

Country fiscal year	2018				2019				2020				Total
Type of tranche:	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	
▪ Fixed tranche				10				10				10	30
▪ Variable tranche				15				15				15	45
Total				25				25				25	75

³³ The amounts indicated in the table are subject to the adoption of a new financing decision.

5.4 Implementation modalities for complementary support of budget support

5.4.1 Procurement (direct management)

Subject	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Complementary Support: - - Technical Assistance / Capacity building - Communication & Visibility	Services	1-3	Q2 2018 > Q4 2018

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	40 000 000
5.4.1 - Complementary Support - Procurement of services (direct management)	4 850 000
5.9 - Evaluation, 5.10 - Audit	150 000
5.11 - Communication and visibility	Included in 5.4.1 - procurement of services
Total	45 000 000

Subject to the adoption of a new financing decision, the budget of the action will be increased as follows:

Subject	EU contribution (amount in EUR)
5.3 - Budget Support – State Building Contract	75 000 000
5.4.1 - Complementary Support - Procurement of services (direct management)	4 850 000
5.9 - Evaluation, 5.10 - Audit	150 000
5.11 - Communication and visibility	Included in 5.4.1 - procurement of services
Total	80 000 000

5.7 Organisational set-up and responsibilities

The programme will provide support within the framework of the Multi Donor Budget Support (MDBS) which has proven to be a very successful platform for harmonising donor assistance for public financial management reforms and aligning with the Government of

Sierra Leone policy reform agenda. The MDBS involves three other development partners, the UK (through DFID) the World Bank (WB) and the African Development Bank (AfDB).

EU variable tranche indicators are added to the Progress Assessment Framework (PAF) foreseen in the Memorandum of Understanding ruling the MDBS which consolidate indicators of the budget support donors in a single document.

The annual assessment of performance for the related disbursement is consolidated in a joint aide memoire from the budget support donors. It is shared with the government notably to feed policy dialogue on the performances and reforms.

The framework will take advantage of the revival of the Memorandum of Understanding ruling the MDBS to foster policy dialogue through the commitment of the Government to share financial and economic data with budget support donors.

5.8 Performance monitoring and reporting

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

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 support 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 support can be instrumental for future budget support programmes. Special attention will be given to gender aspects.

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 the first quarter of 2021.

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 the activities under complementary support shall be concluded under a framework contract in the first quarter of 2021.

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 possibly supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

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 the Ministry of Finance and Economic Development (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. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	Promote sustainable and inclusive growth Support consolidation of the peace- building and the state-building processes in Sierra Leone	1. GDP growth	1. 2016 : 6,1 %	to be determined	1 IMF Reports
		2. Inflation	2. 2016 : 11.5 %		2. IMF Reports
		3. Global Multidimensional Poverty Index (MPI) for Sierra Leone	3.Score: 0.464 (2013)		Oxford Poverty and Human Development Initiative (OPHI)
		4. Human Development Index	4.Rank: 179 Score: 0.420 (2016)		
		5. Status of fragility	Fragile state	SL is not a fragile state anymore	Human development Index annual report UNDP

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Specific objective(s): Outcome(s)	1.Improved economic and political governance 2.Improved service delivery	1.Mo Ibrahim Index/GDP Growth 2.Poverty related expenditures (as defined under the programme with the IFM)	1.2016 Index for 2015 : 49,4 (under African average : 50) ranking 30/54 2.Initial target under ECF programme for 2017 : 518 billion Le	1.Improvement of the score above African average 2.Annual target of the programme with the ECF programme with the IMF is respected	1.Mo Ibrahim Index yearly report 2.IMF reports
Induced outputs	1. Macroeconomic stability 2. Improved public policy execution process 3. Strengthened PFM governance 4. Improved financial transparency	GDP Growth Fiscal deficit Debt (FMI) – Value of Debt Sustainability analysis DRM Budget execution Service delivery (sector results) Results a PFM assessments (PEFA, TADAT, PIMA etc.)	1. non-iron ore GDP growth: 2016 4.3 % 2.Domestic revenue of central government floor (annual target programme with the IMF 2016 : 2.889 billion SLL	Annual target of the programme with the ECF programme with the IMF is respected	1. IMF reports 2. IMF reports

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Direct Outputs	Improved PFM system, budget implementation and reporting	State of Monitoring of revenue collection	Partial reporting on revenue collection	Improved reporting of revenue collection	
		State of Budget information	Incomplete budget information	Improved availability of budget information (details tbc)	
		State of Execution of the budget and reporting	Delays in the execution and incomplete reporting information	Reduction of delays in the execution of the budget and improved availability of reporting information (values to be confirmed)	
		State of Payment of Wages	Inconsistency between HR date base and payroll	Improved consistency (% to be confirmed)	
		Level of respect of procurement procedures	Incomplete compliance with procurement rules	Improved use of procurement plans and procurement rules	
		Rate of response to audit recommendations (internal and external)	Low rate of implementation of audit recommendations	Increased rates of implementations of audit recommendations (tbc)	
		State of teachers' management system	Not operational	Operational (progressive improvements – steps tbc)	
	Improved services in the education sector (quality, access)	Proportion of unapproved schools		Progressive decrease (tbc)	
		Status of TVET policy	More than 50 %		
			Ban	Progress with regard to implementation of the policy (steps tbc)	
		Access of pregnant girls to school		Ban cancelled (steps tbc)	
		% of budget spent in the sector	tbc		

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
	<p>Improved services in the agricultural and food security sector</p> <p>Strengthened monitoring and evaluation capacity of MoFED and targeted line ministries to enhance capacity for measuring and assessing progress in the implementation of national development and sector policies</p>	<p>Status of sector policies in the agricultural and food security sector</p> <p>% of budget spent in the sector</p> <p>Characteristics of M&E systems</p>	<p>tbc</p> <p>tbc</p> <p>Incomplete M&E systems (insufficient skills)</p>	<p>tbc</p> <p>tbc</p> <p>tbc</p> <p>Reinforced M&E systems (frameworks and HR skills – steps tbc)</p>	