



The capabilities of finance ministries: Sierra Leone

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Abbreviations

Abbreviation	Description
BSL	Bank of Sierra Leone
CPIA	Country Policy and Institutional Assessment index
EPRU	Economic Policy and Research Unit
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LTA	Local Technical Assistant
MoFED	Ministry of Finance and Economic Development
NPPA	National Public Procurement Authority
NRA	National Revenue Authority
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
RTPU	Revenue and Tax Policy Unit
SLIMM	Sierra Leone Integrated Macroeconomic Model
SSL	Statistics Sierra Leone

1. Introduction

The ‘Colony of Freetown’, the ‘Protectorate of Sierra Leone’ and, later, the ‘Republic of Sierra Leone’ have a long and turbulent history. Following the arrival of Europeans, the area has experienced the trans-Atlantic slave trade from the 1500s, the establishment of a settlement of freed slaves and Europeans in the ‘Province of Freedom’ in the late 1700s and the incorporation of Freetown (and later the up-country protectorate) into the British Empire, through to peaceful independence in 1961, the establishment of a one-party dictatorship and accelerating economic and political chaos in the 1970s to 1980s, and ultimately a decade-long civil war beginning in the 1990s.

In the period since the formal end of the conflict in 2002 the country has experienced a remarkable degree of political stability and military security compared to previous decades. This has included three broadly credible and peaceful elections and the democratic handover of power between the two main political parties in 2007. Many development indicators are moving in the right direction, albeit from low bases. Life expectancy at birth has risen from around 40 years to nearly 50, poverty rates have fallen from over 66% to just over 50% and more children are attending schools for longer (UNDP, 2013; GoSL, 2013). Impressively, within ten years the country has technically moved beyond the level of a fragile and conflict-affected state, as measured by the World Bank’s Country Policy and Institutional Assessment index (CPIA) (Diop, 2014).¹ However, amid this change important elements of continuity remain. Many commentators consider Sierra Leone’s post-war political system to share many of the same dysfunctional aspects as pre-war arrangements. The ongoing strength of patronage politics and the continued use of state resources to deliver selective benefits to supportive political networks (Robinson, 2008; Jay and Koroma, 2004; Brown et al., 2005) still risks negative outcomes regarding the equitable delivery of public goods (Lundgren, 2013).

Within this political and historical context sits Sierra Leone’s Ministry of Finance and Economic Development (MoFED, or ‘the Ministry’). The Ministry will naturally be affected by the legacy of this history; however, the importance of its role in overseeing government’s economic affairs means it also has a key role to play in shaping the future political and economic context of the country. This paper will use primary and secondary data sources to assess how the Ministry demonstrates achievement against a framework of capability. It will assess the Ministry’s analytic capability (the degree to which the institution can understand and analyse key policy trends), delivery capability (the ability to provide policy advice and other services), coordinative capability (the capacity to bring together disbursed actors and access knowledge across a number of areas) and regulatory capabilities (the ability to control the production of services by others), within its national context.

This study will proceed in four parts. Section 2 reviews a range of country-level macro-fiscal and public financial management (PFM) information to assess overall

¹ Despite passing the relevant CPIA threshold, Sierra Leone is still classified as a fragile and conflict-affected state by the World Bank due to the presence of a peace-building mission.

outcomes for which the Ministry is primarily responsible. These outcomes provide a high-level view of ‘capability’ in terms of broadly how the country’s macroeconomic outcomes and PFM systems for which the Ministry has a greater or lesser degree of control have performed. In Section 3 the report will consider the formal and informal powers of the institution itself and how effectively these powers might help the Ministry to deliver its objectives. Section 4 sets out two key Ministry of Finance processes – formulation of the revenue and expenditure envelope and consideration of a new spending request – that are reviewed as case study examples as to how capabilities play out in practice. The evidence from these various sources is then brought together in Section 5 through discussion of where and how the Ministry demonstrates capability against the various elements of the framework.

This document is based on research undertaken between April and July 2014. At that time, the Ebola virus was mostly affecting rural communities in the east of the country and had not yet spread nationwide.

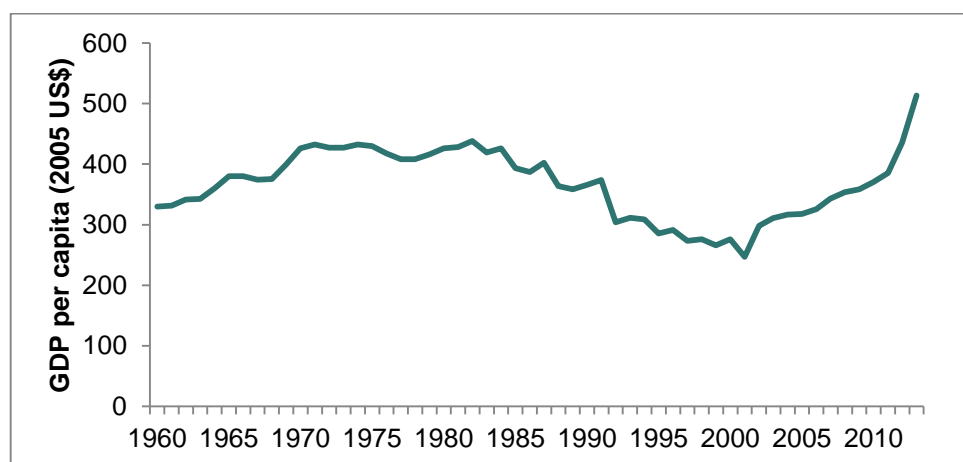
2. Macro-fiscal and PFM outcomes

This section will review key macro-fiscal outcome data alongside information from commonly used indices of country-level economic and financial management. Consistently positive results in these areas can be seen as prima facie evidence of Ministry of Finance capability, given that such results are unlikely to consistently occur by chance, although the impact of external factors in generating positive outcomes must also be taken into account. This high-level information will provide useful context and background for the more detailed exploration of capability in subsequent sections.

2.1 Recent macroeconomic history

The three decades that followed independence were characterised by political uncertainty and weakening economic performance. Economic growth slowed, while inflation accelerated. Per capita, economic growth of 2.2% in the 1960s faded in the 1970s and turned negative (-1.4%) in the 1980s. Measured using the GDP deflator, inflation rose from 4.6% in the period between 1965 and 1969 into double digits in the 1970s and early 1980s, before accelerating to an average of 87.8% in the period from 1985-89 – the last years of President Stevens’ autocratic rule. Civil war broke out in 1991 and lasted for ten years, causing over 50,000 deaths and the displacement of more than two million civilians (Sesay, 2014). Social and physical infrastructure was badly damaged and real GDP contracted by an average of 5.3% per annum in the 1990s. The trade deficit widened from 9% of GDP to 14.7% of GDP, partly due to the closure of the rutile and bauxite mines in 1994 (World Bank, 2004), while annual inflation rates consistently exceeded 20%. On GDP per capita measures, Sierra Leoneans were poorer at the end of the conflict in 2002 than they were at independence.

Figure 1: Sierra Leone GDP per capita



Source: World Development Indicators, 2014

In stark contrast, the post-war years have yielded the highest average economic growth rate since independence and improving macroeconomic outcomes. After falling from nearly \$440 per annum in the early 1980s to below \$250 in 2001, GDP per capita reached the levels seen at independence around 2006 and exceeded pre-war levels for the first time in 2013. This was achieved despite the impacts of the global economic crisis. The export base has been diversified from an almost exclusive concentration on diamonds to include other minerals and cash crops (World Bank, 2010a). However, the Government has found it more difficult to reduce inflation. Prices increased by over 10% in most of the past ten years, fuelled by expansionary monetary and fiscal policy, currency depreciation and global price shocks (IMF, 2013). There are some suggestions that inflation is moderating following the decision in 2011 to restrict central bank lending to government as a condition of the International Monetary Fund (IMF) programme (IMF, 2011).

Today, indices of economic management and business competitiveness suggest that Sierra Leone performs well in comparison to fragile states in the region but lags behind higher income African countries, as might be expected. The average CPIA scores for economic management and business regulation are similar to those in Liberia, and above the average for fragile states in sub-Saharan Africa. Sierra Leone also outperforms Guinea, Ghana and the Gambia in the Ease of Doing Business Index. However, the country holds a lower ranking in the Global Competitiveness Index and suffers from particularly poor scores in most indices of the quality and quantity of infrastructure, with one of the largest infrastructure deficits in Africa, according to the African Development Bank (AfDB, 2013).

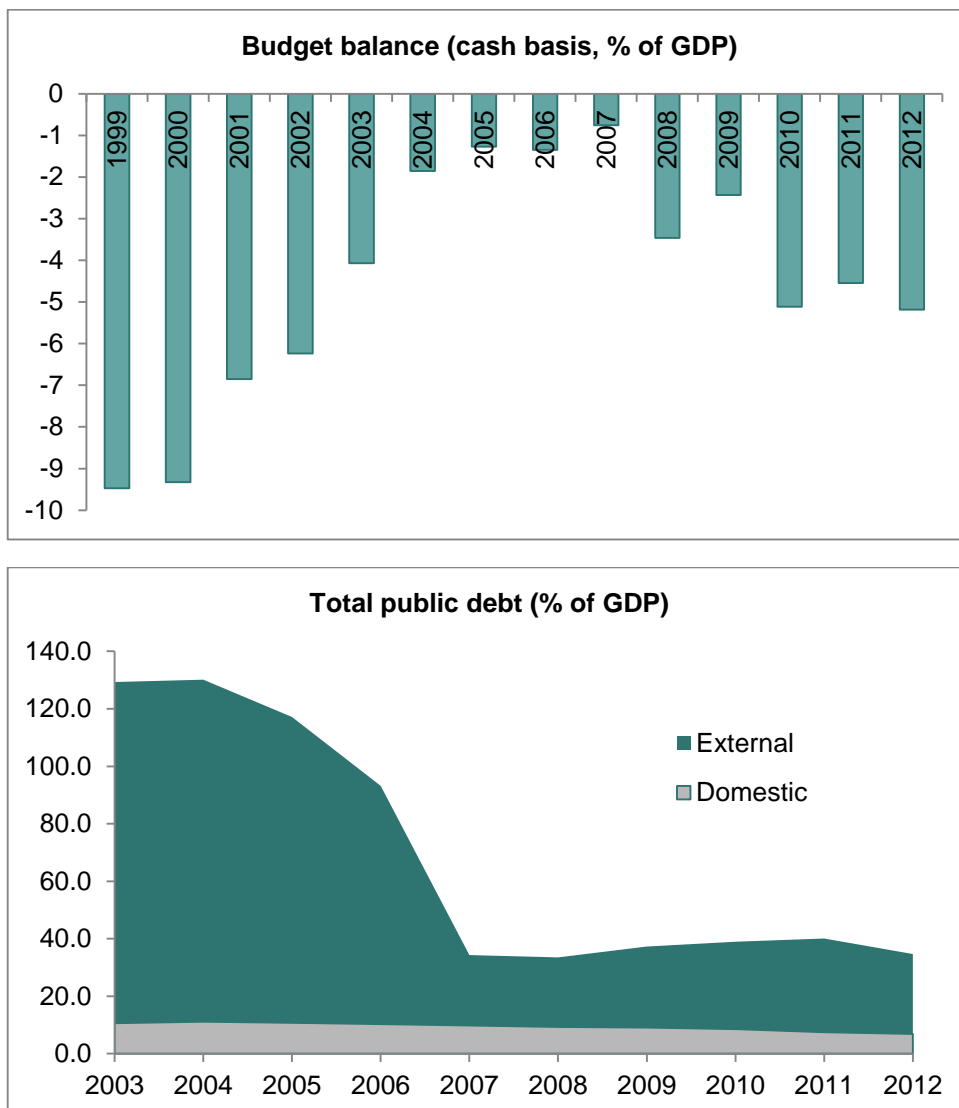
Table 1: Indicators of economic management and business environment (latest available year)

	<i>Best possible score</i>	Sierra Leone	Liberia	Gambia	Guinea	Ghana	Rwanda
Ease of Doing Business ranking (2013)	1	142	67	175	150	144	32
CPIA score – business regulatory (2013)	6	3.0	4.5	2.5	3.5	3	4.5
CPIA score – economic management (2013)	6	3.5	3.0	3.3	3.0	3.5	3.8
Africa Infrastructure Development Index score (2010)	100	7.6	11.1	24.7	12.4	21.1	19.1
World Development Indicators – power outages in firms in a typical month (2009)	0	13.7	1.7	21.0	31.5	9.5	9.9
Global Competitiveness Index score (2013-14)	7	3.0	3.5	3.7	2.9	3.7	4.2
Global Competitiveness Index rank (2013-14)	1	144	128	116	147	114	66

While the Ministry plays an important role in overall economic management, it is responsible particularly for fiscal performance. This has been mixed but generally sound. A notable achievement has been the broad adherence to successive IMF programmes since the end of the conflict. On aggregate, the budget deficit reduced almost every year as a proportion of GDP between 2001 and 2008 and external public debt fell from around 120% of GDP in the early 2000s to around 30% in 2010 after qualifying for debt relief (IMF, 2013). The stock of domestic payment arrears had also been steadily reduced, demonstrating improving fiscal controls (World Bank, 2010). The Ministry has also been able to incrementally change the composition of the budget, particularly out of the security sectors and into the productive sector (World Bank, 2010a) as the focus of public policy has shifted from basic security to longer-term development. However, despite this historic progress, interviews with respondents outside the Ministry suggested that the improvement in fiscal management has slowed. Since 2008, deficits have started to widen again and the Government significantly increased capital spending commitments before the 2012 elections in anticipation of a surge in revenues that has not yet materialised, building around \$50 million in arrears. Some arrears were reportedly cleared using central bank advances, which indirectly led to the imposition of the statutory limit on this practice in 2011. CPIA scores for fiscal policy have also fallen, from 3.4 to 3.0 between 2011 and 2013 (World Bank, 2014).

The external perception of deteriorating fiscal discipline is set against changing revenue dynamics. Foreign aid flows to government have fallen as a percentage of GDP as external financing for post-war reconstruction was phased out. The value of external assistance fell from around 15.5% of GDP in 2002 to 7% in 2008 – covering 34% of total government expenditures, compared to over 50% in the immediate post-war period (World Bank, 2010). However, declining external financing has not been matched by commensurate increases in domestic revenues despite the expansion of the tax base, most notably through the introduction of General Sales Tax. Data sources vary, but according to the World Development Indicators, domestic revenues fell from 11.4% of GDP in 2000 to 8.3% in 2007, before rising back to 11.4% in 2012. IMF statistics suggest that general government revenues have grown by around 2% of GDP, from 13.3% of GDP in 2000 to 15.2% of GDP in 2012. In either case, the decline in total resources (taxes and donor support) has been managed mostly by reducing spending. Total expenditures fell from over 28% of GDP in 2002 to around 21% in 2008 and 22% in 2011. Looking forward, after years of fiscal restraint, spending pressures are mounting in the expectation that domestic revenues will increase substantially in nominal terms as revenue from new natural resource industries investment comes on stream.

Figure 2: Selected fiscal indicators



Source: World Development Indicators, 2014; Bank of Sierra Leone, 2014; IMF, 2013; and authors' calculations

2.2 Public financial management performance

Given the close links between them, it is not surprising that external views of PFM reforms broadly echo the aggregate fiscal performance discussed above. As might be expected, the post-war starting point was relatively low. Overall institutional damage resulting from the civil war was significant – for example, the computerised accounting systems introduced in 1995 were destroyed (World Bank, 2002), and many skilled government workers fled the country (World Bank, 2004). Yet, despite the severity of the conflict, reports into Sierra Leone’s PFM systems immediately after the end of the war suggested that ‘a platform of competence in economic management remained intact’ (World Bank, 2002, p. 7). This provided a base for the large-scale financial and technical support for PFM that followed the end of the conflict and allowed for basic systems to be quickly re-established (Tavakoli et al., 2014).

Donors have supported public financial management and its reform since the end of the conflict in a number of ways. They have funded three consecutive PFM reform plans involving financial and technical assistance, and a further PFM programme –

the ‘PFM Improvement and Consolidation Project’ – is expected to start shortly. Although reform programmes have, historically, mostly been configured using donor diagnostics, they are considered to have been adequately supported by domestic champions and have been sustained through the change in government in 2007 and regular ministerial rotations (World Bank, 2013). Some respondents suggest that more recent reforms are underpinned by more ‘home-grown’ strategies. Importantly, external support to PFM reform has not just taken the form of providing training, equipment and advice. In order to support post-war systems development, a large number of ‘Local Technical Assistants’ (LTAs) were recruited, adding to the staff that were already operating basic processes in the Ministry during the conflict, and helping to retain high-quality personnel who might otherwise have left. These LTAs were relatively highly skilled, mostly local staff working in line positions on augmented salaries outside the formal civil service structure. Initially paid for by different donors, the LTAs have been absorbed onto the government payroll and continue to occupy almost all of the senior, and many of the middle-ranking, roles in the Ministry. Several other senior positions within the Ministry, such as ministerial special advisers and heads of donor-funded projects, are also held by staff on augmented non-civil service remuneration.

Box 1: Significant PFM reforms in the Ministry of Finance and Economic Development

Over the past decade a number of critical reforms have strengthened PFM and the capability of the Ministry. The following measures were highlighted in the three Public Expenditure and Financial Accountability (PEFA) assessments conducted in 2007, 2010 and 2014.

Legislative reforms: The Procurement Act was replaced in 2004 together with the Local Government Act, which began a programme for decentralisation. A year later, the Government Budgeting and Accountability Act was passed, followed by regulations in 2007. Further tightening of the legal framework is planned with a new PFM law, which currently includes arrangements for managing revenues from natural resource extraction.

Institutional reforms: The National Revenue Authority and National Public Procurement Agency have been created to support these specialised services. The Ministry of Finance and the Ministry of Economic Planning have been consolidated and a number of departments that were housed in different buildings have been moved to the new Ministry offices. New units have also been created in the Ministry, including the Internal Audit Department and a new Public Investment Unit so as to increase specialism in these particular areas.

The number and quality of staff have been increased. This has occurred in the main Ministry, the Audit Service of Sierra Leone and in the Parliament’s support services. One important example is the appointment of a new, qualified Accountant General and accounting team in the mid-2000s. This allowed the Government to clear the backlog in bank reconciliations dating back to 2002 and improve the quality, comprehensiveness and timeliness of financial reporting (annual and monthly). Another example is the hiring of budget support officers, who were deployed into key line ministries to support budget formulation. At the time of this research, the Ministry was preparing an internal restructuring plan.

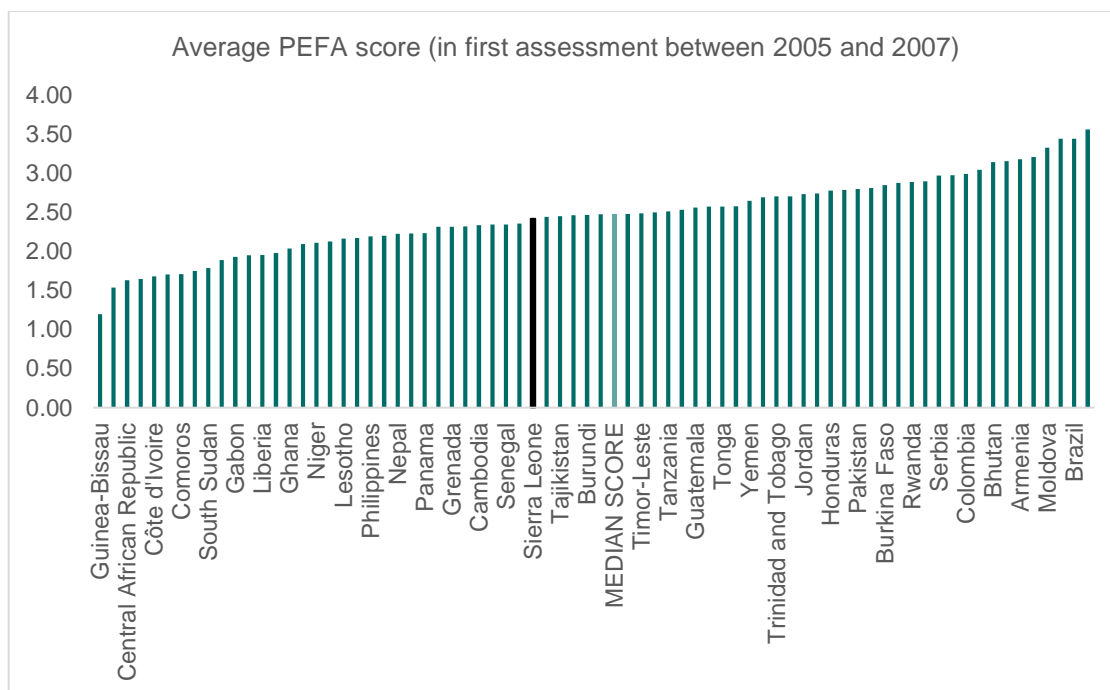
An integrated financial management information system (IFMIS) has been put in place. This has helped to strengthen and automate the financial control of the Ministry. The IFMIS has given the Accountant General power to enforce hard commitment limits on a quarterly (now semi-annual) basis and it has also helped strengthen reporting. However, it has not yet been rolled out to all line ministries and technical problems with the system have been raised by the

Auditor General in recent years. The payroll module was introduced in 2006 and was followed by extensive verification of payroll records.

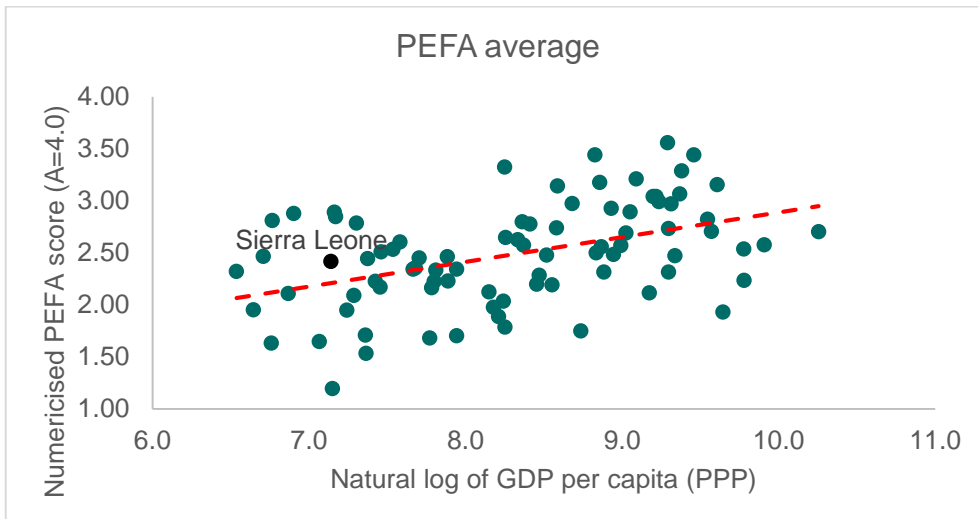
The Sierra Leone Integrated Macroeconomic Model (SLIMM) has been developed with technical support from the IMF. It follows a financial programming methodology to forecast revenues, expenditure ceilings and critical macroeconomic variables. A macro-fiscal unit and working group have been established to coordinate inputs.

As with overall fiscal performance, PFM improved rapidly in the period immediately after the end of the civil conflict. By the time the first PEFA assessment was conducted in 2007, the Government had implemented most of the recommendations made in 2002 by the World Bank (Short et al, 2008) and PFM institutions were compared favourably to others in the region (World Bank, 2007). A global comparison of PEFA scores from assessments conducted between 2005 and 2007 confirms this general sense and shows that Sierra Leone scored close to the global median. Certainly, Sierra Leone’s public finance systems scored better on average than its income alone would determine (see Figure 3:).²

Figure 3: Selected indicators of public financial management performance



² The analysis follows the methodology proposed by de Renzio (2009) to convert the letter scores from each PEFA assessment to a number: A, 4; B+, 3.5; B, 3; C+, 2.5; C, 2; D+, 1.5; D, 1. The analysis presented deviates from the original methodology by de Renzio by assigning a ‘no score’ with a numerical value of 0.5 in recognition that some systems can exist even if they cannot be easily measured or scored.



Source: Authors' calculations using PEFA Secretariat Data Portal and World Development Indicators

The two PEFA assessments conducted since 2007 suggest a changing picture of reform trajectory. While PEFA scores can only be used as a high-level indicator of actual functionality of PFM systems, comparing the surveys indicates that improvements continued in the period from 2007 to 2010, but that the impact of reforms slowed thereafter (World Bank, 2010a; Coffey, 2014). Table 2: below, using numericised scores, suggests that the average score may even have declined in 2014.³ This conclusion is also reflected in the World Bank's CPIA indicators. Since 2010, CPIA scores for quality of budgetary and public finance management have not increased, remaining at 3.5 out of a maximum of 6, and scores for economic management have fallen slightly, from 3.7 to 3.5 on the same scale. These surveys involve an element of subjective expert judgement so do not always clearly diagnose why scores have changed, but a number of respondents from outside government suggested that the Government has not shown the same level of engagement in PFM reforms after 2010 as it did earlier in the process. The reasons for this are unclear. Some interviewees speculated that the declining influence of donors and their funding, and the commensurate rise in Sierra Leone's own revenue from natural resources, may be reducing the pressure for reform. Others suggested that the early PFM reform programmes achieved all the available 'quick wins' and 'low-hanging fruit' that allows rapid and visible improvement in aggregate PEFA scores, meaning that later programmes can only show progress by addressing the underlying challenges that are much more difficult to solve.

³ Separate analysis of the PEFA studies suggests that performance against PFM outcome indicators, such as revenue and expenditure credibility, deteriorated while scores against the process-related indicators improved. This could indicate that economic conditions were becoming more difficult for the Ministry to handle, or that processes were being changed that are not (yet) addressing the root cause of weak budget credibility.

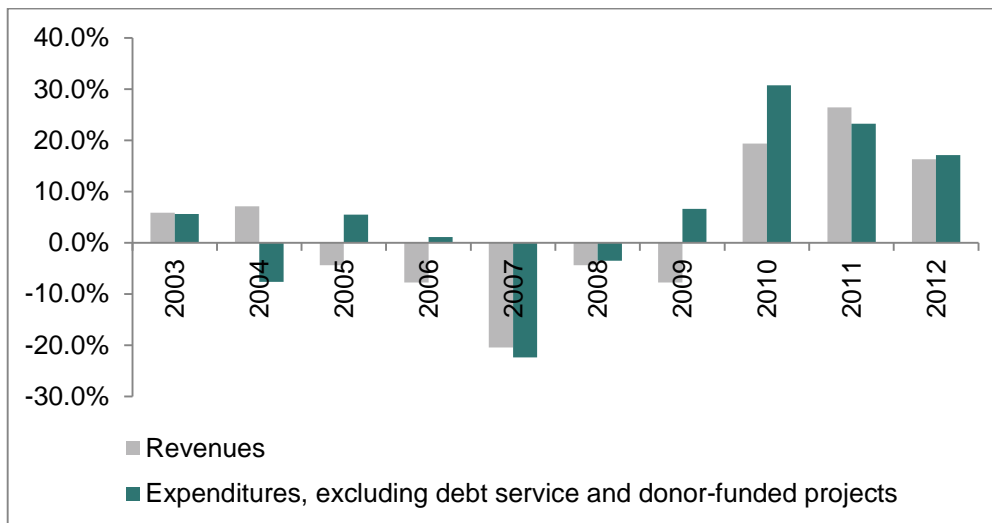
Table 2: Summary of PEFA results by indicator group

PEFA components	2007	2010	2014
Average across all indicators	2.2	2.4	2.3
A. Credibility of the Budget	2.1	2.1	1.8
B. Comprehensiveness and Transparency	2.4	2.7	2.6
C(i). Policy-Based Budgeting	2.0	1.8	2.0
C(ii). Predictability and Control in Budget Execution	2.1	2.3	2.3
C(iii). Accounting, Recording and Reporting	2.5	3.3	2.5
C(iv). External Scrutiny and Audit	1.8	2.0	2.2

Source: Authors' calculations using PEFA assessments

Institutional assessments and interviews for this case study raised specific concerns over the credibility of the national budget – a common feature in contexts like Sierra Leone (Simson and Welham, 2014). Aggregate deviations of revenue and expenditure from the original budget estimate have increased in recent years, showing a conservative forecasting bias in both revenues and expenditures (see Figure 4:). Underlying weaknesses in the budget process have almost certainly contributed to credibility challenges: macro-fiscal forecasting capabilities are still budding; the Ministry has not fully coordinated spending priorities with Cabinet; and most line ministries lack capacity for budget planning and managing capital projects in particular. Inaccurate budgeting means that the government is required to continually adjust its overall expenditure envelope and actual release of cash to meet unforeseen or poorly planned expenditures and stay on track with the IMF programme. The resulting delays in release warrants, cash-flow shortages and regular budget cuts (especially in the final quarter) create operational inefficiencies that reduce the quality service delivery (Short et al., 2008). These are described in greater detail in subsequent sections, but the result is significant uncertainties across government over resource allocations during the financial year, with commensurate challenges for budget credibility.

Figure 4: Summary of PEFA analysis for aggregate variance from original budget



Source: Short et al., 2008; World Bank, 2010; Coffey, 2014, with author's calculations

Several reasons for a lack of progress on establishing a clear trajectory of improvement regarding budget credibility were suggested by external commentators on the Ministry. Some respondents suggested that budget credibility is simply a much more difficult objective to achieve compared to fiscal stability, and therefore this is something that will naturally be tackled less quickly. This may be especially true while the Government depends heavily on volatile revenues, such as budget support and receipts from extractives industries. However, some respondents speculated that, having successfully established the basics of macro-fiscal management, the senior leadership of the Ministry are as yet unconvinced that tackling the issue of sub-aggregate budget credibility is worth the effort. Others suggested that the political economy of Sierra Leone is such that, while there may be a consensus on the need for basic fiscal stability, there is no such consensus on the need or desirability of a stronger rules-based budget system. As a result, technocratic reforms to bind the choices of powerful actors in the expenditure process more closely to the agreed budget are unlikely to succeed.

2.3 Conclusions

The decade since the end of the civil conflict has yielded clear improvements in economic and social indicators, albeit from a low base. Key macroeconomic indicators such as GDP growth have shown sustained improvement, although the story has been less positive on inflation, and budget deficits have begun to widen in recent years. The Government has established relatively effective basic PFM systems with significant support from donors and extensive use of LTAs. Aggregate fiscal controls have been put in place and significant amounts of debt written off. However, a number of external commentators raised concerns that progress in PFM systems strengthening has slowed, and that budget credibility is worsening as domestic revenues from extractive industries begin to grow. Taken together, this suggests a picture of a ministry that has the capability to produce outputs that support a relatively sound fiscal position, with oversight from donors and the IMF, but where second-order priorities such as budget credibility and PFM reforms are less confidently delivered. The next section will examine the formal and informal powers of the Ministry and how these might allow support or inhibit the demonstration of capability by the institution.

3. Institutional arrangements

This section reviews the formal and informal institutional arrangements within which the Ministry operates. The degree to which the Ministry is endowed with powers to achieve its objectives will naturally affect the capability of the institution. The section will firstly review the *formal* legal and regulatory powers of the Ministry, including the degree to which these are shared with other institutions, as well as its staffing and budget. It will then consider the degree to which the Ministry possesses and uses *informal* powers and influence to achieve its objectives, and in doing so demonstrate different forms of capability.

The assessment is set in the context of the wider history of the country and how it has shaped the institutional powers of the Ministry. The change of constitution in the 1980s to establish an Executive Presidency – and solidify the one-party state – centralised a great deal of power in the executive, including the Ministry of Finance. However, under Siaka Stevens’ regime, the Presidency, not the Minister of Finance, effectively controlled economic decision-making (Reno, 1995). The economic decline of the 1980s saw a large role for the IMF in overseeing – and determining – key macroeconomic choices, including successive structural adjustment programmes (Harris, 2013). As the civil conflict spread across the country from 1992 onwards, and many donors effectively withdrew support in the face of declining governance outcomes, the presence of formal state institutions in up-country Sierra Leone – already tenuous – disappeared. For long periods during the war the national government, and therefore the Ministry, was effectively reduced to administering Freetown and the Western Area adjacent to it. Indeed, even the most basic activities of the Ministry were significantly affected during the middle years of the conflict, most visibly when the Ministry of Finance building was burnt to the ground during the 1997 coup by the Armed Forces Revolutionary Council, and subsequently rebuilt with donor support.

3.1 Formal powers

As might be expected in a ‘hybrid’ executive Presidency/Westminster model, considerable power is vested with the executive for managing public expenditures, and in practice the lead institution is MoFED. The Minister of Finance is formally charged in the legal framework with presenting a budget to Parliament each year. While Parliamentary approval of annual budget estimates is the basis of formal approval to spend, the executive has two important legal powers for discretionary spending. First is a contingency vote that requires Parliament to only retrospectively approve spending up to a given level – something which has been substantial in recent years (World Bank, 2010). Second, the Constitution explicitly sets out a process of ‘Presidential Warrants’, also known as ‘executive directives’, allowing the President to execute spending for ‘urgent’ activities without seeking prior Parliamentary approval. Legally, both practices do require Parliamentary approval *ex post*. In practice, the executive does not always respect the formal legal requirements for legislative oversight, taking on significant informal powers in the

process. For instance, interviews raised examples of the Ministry entering into loans without formal approval of Parliament, and the recent PEFA assessment also suggests that Parliamentary authority is sometimes bypassed when granting customs duty waivers (Coffey, 2014), though the process is reportedly under review. Supplementary budgets were submitted in 2013 for the first time since the end of the war, despite aggregate spending exceeding budgeted levels in some years. Together, this suggests a weak level of parliamentary engagement in fiscal and budgetary oversight overall. In addition, after the Ministry was required to bail out poorly managed state-owned enterprises, it has extended formal controls over financial commitments made by public companies.

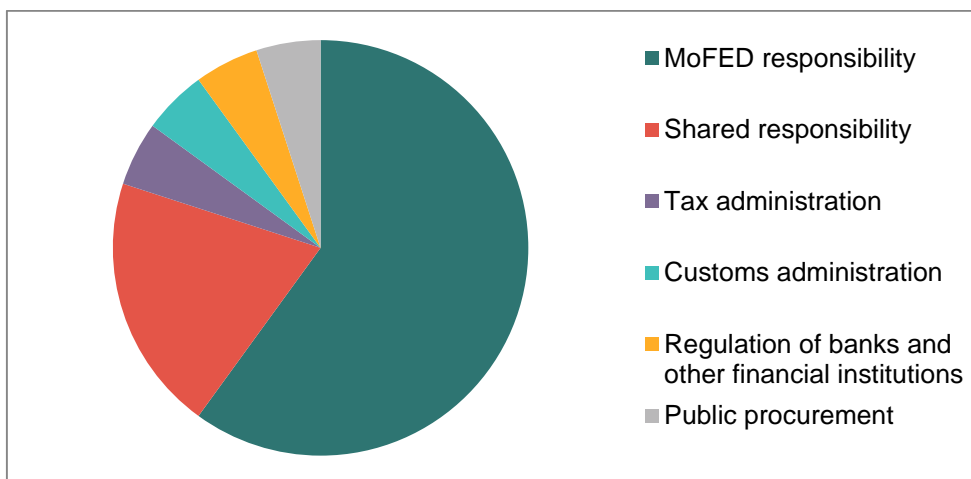
Box 2: The constitutional and legal bases of financial management

Formal powers and responsibilities for managing public finance are set out in a number of key documents. The 1991 Constitution of Sierra Leone establishes high-level responsibilities for PFM between different parts of government. More details on the PFM cycle are elaborated in the 2005 Government Budgeting and Accountability Act and the 2007 Financial Management Regulations. The donor-supported PFM reform programmes of 2003-07 paid significant attention to building and refining the legal and regulatory framework surrounding public finance; although later opinion appears mixed as to whether the current system is fit for purpose and requires systematic implementation, or requires further amendment (Tavakoli et al., 2014).

With support of technical assistance, the Ministry has been preparing a PFM Bill for Parliament which will clarify rules on supplementary budgets and the use of the contingency fund and will set basic principles for managing revenues from the exploitation of natural resources (IMF, 2013).

In terms of administrative practice, MoFED is a relatively centralised central finance agency. Reviewing the institution against responsibility for a list of central finance agency functions suggests a relatively high degree of concentration of authority (Allen and Krause, 2013).

Figure 5: Responsibility for 20 key central finance agency functions within the Government of Sierra Leone



Source: Authors' calculations

Table 3: Detailed list of responsibilities for key central finance agency functions

Function	Responsibility in Sierra Leone
Macro-fiscal forecasting and analysis	MoFED
Fiscal policy formulation	MoFED
Fiscal risk analysis	MoFED
Interface between monetary and fiscal policy	MoFED and BSL
International economic and financial relations	MoFED
Tax policy	MoFED and NRA
Budget preparation	MoFED
Treasury and cash management	MoFED and BSL
Internal control	MoFED
Internal audit	MoFED
Accounting policy	MoFED
Debt management	MoFED and BSL
Tax administration	NRA
Customs administration	NRA
Intergovernmental fiscal relations	MoFED
Regulation of banks and other financial institutions	BSL
Management of public assets, including public enterprises	MoFED
Public procurement	NPPA
Public investment planning	MoFED
Donor grant management	MoFED

Source: Authors' analysis

The Ministry also contains within its line structure several fiscal and economic management units that in some other comparable countries are separate institutions. The Ministry has now absorbed the previously separate ministry responsible for economic planning, allowing it the potential to operate as a unified finance and economics ministry. The body responsible for local government financing, the Local Government Finance Department, is a department of the Ministry itself, and not a separate institution. And while the Accountant General's Department has its own vote, the Accountant General is a senior official who leads his own department within the Ministry, and not leader of a separate Ministry as in other countries. However, not all powers have been consolidated under MoFED. The National Revenue

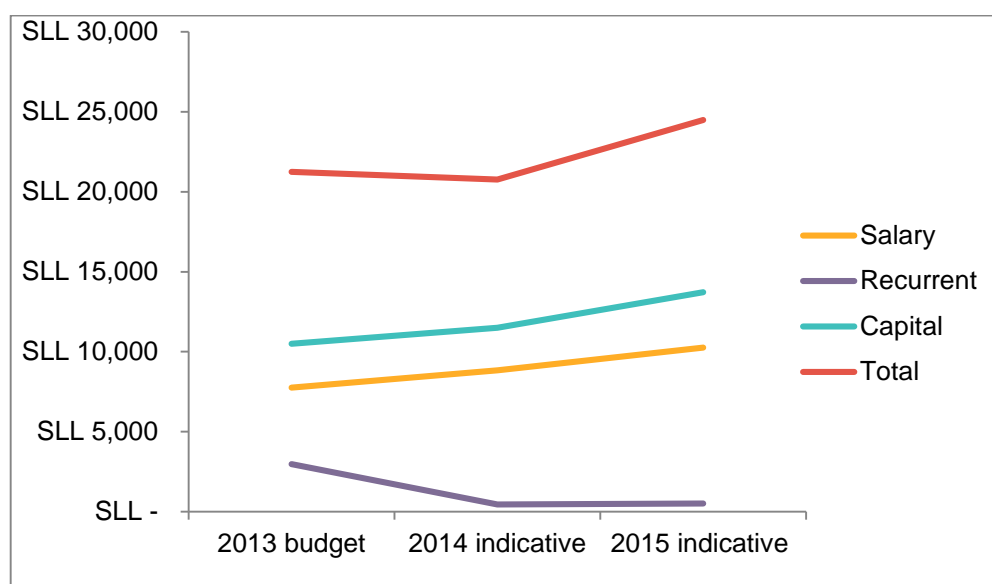
Authority (NRA) was established in 2002 as a semi-autonomous revenue authority, and the National Public Procurement Authority (NPPA) established in 2004 to oversee public procurement activity. Their leaders are appointed directly by the President, not the Finance Minister, and they are operationally independently of the Ministry – though the Ministry is represented on the board of each. Despite their functional links, interviews noted that the working relationship between the NRA and MoFED was frequently strained, suggesting that straightforward Ministry of Finance authority over all key PFM processes cannot necessarily be assumed.

The Ministry operates a tight degree of formal oversight on day-to-day expenditure management. The IFMIS allows for significant central control over aggregate spending allocations to line ministries, and over what individual transactions are approved. The Accountant General is the Chief Accounting Officer, with the ability to scrutinise all vouchers (from any ministry) before payment. In addition, non-IFMIS commitment systems have been further tightened. For example, the Ministry has individually informed major private sector suppliers that a ‘genuine’ commitment by the government to pay invoices is only guaranteed by the addition of a Ministry of Finance stamp to the necessary paperwork, although some suppliers are reported to still extend credit to government on the basis of an informal agreement to pay at some point. The decision as to how much funding to release each period to spending agencies is controlled by MoFED and operationalised and enforced through the IFMIS. However, the Ministry does not currently use the full functions and controls available to the system. After a number of years, the IFMIS is still used mostly for maintaining payments within available cash resources rather than managing forward-looking commitments, and is still in the process of being rolled out to some spending units (World Bank, 2010a). As the IFMIS is extended to additional spending agencies, and perhaps additional functions within the system are activated, the degree of direct Ministry control and oversight of government spending is likely to increase.

3.2 Bureaometrics

Data on the budget and staffing for MoFED is only available publically at aggregate level and from a number of different sources, which makes detailed analysis difficult. This section therefore draws heavily on budget data and anecdotal information from interviews. Overall, the 2011 budget showed an increase in the allocation for MoFED, particularly for salaries and capital spending, although this did not include donor funding through the ongoing PFM reform programme, which was highlighted as a substantial source of quasi-discretionary expenditure for the institution. In US dollar terms, this suggests a budget rising from around \$4.8 million to \$5.6 million over the three years presented. However, caution must be used in relying on outer year budget estimates given the relative lack of credibility of vote level budgets, even on an annual basis, as discussed in the next section.

Figure 6: Ministry of Finance budget (2013 budget to 2015 indicative), millions of SLL



Source: Government of Sierra Leone Annual Budget profile FY2011 to FY2015

In terms of staffing, according to government figures for the 2013 budget, the Ministry (excluding the Accountant General's Department) had 242 staff as at December 2012 and aggregate payroll information is as in Table 4.

Table 4: Payroll budget summary for MoFED

	Average staff monthly basic pay	Average staff annual basic pay	Composite allowances	Salary grants	Total	Total salary cost per year divided by no. of staff	Multiple of 2013 US\$ GDP per head ⁴
Millions of Leones	146	1,981 ⁵	4,554	1,215	7,750 ⁶	32	N/A
In US\$ ⁷	33,563	455,402	1,046,897	279,310	1,781,609	7,362	9.1

Source: Calculated from GoSL Annual Budget profile FY2011 to FY2015; World Development Indicators, 2014

As can be seen in Table 4:, and in common with other countries in the region, remuneration for civil servants is made up of a mixture of basic pay and additional grants and allowances, although these may not be spread evenly between staff; senior

⁴ US\$ GDP per capita at current US dollars.

⁵ Average annual basic pay does not equal 12 times the average monthly basic pay. These are the figures as originally presented in the government budget.

⁶ The figures in this series do not add up to the total. These are as originally presented in the government budget.

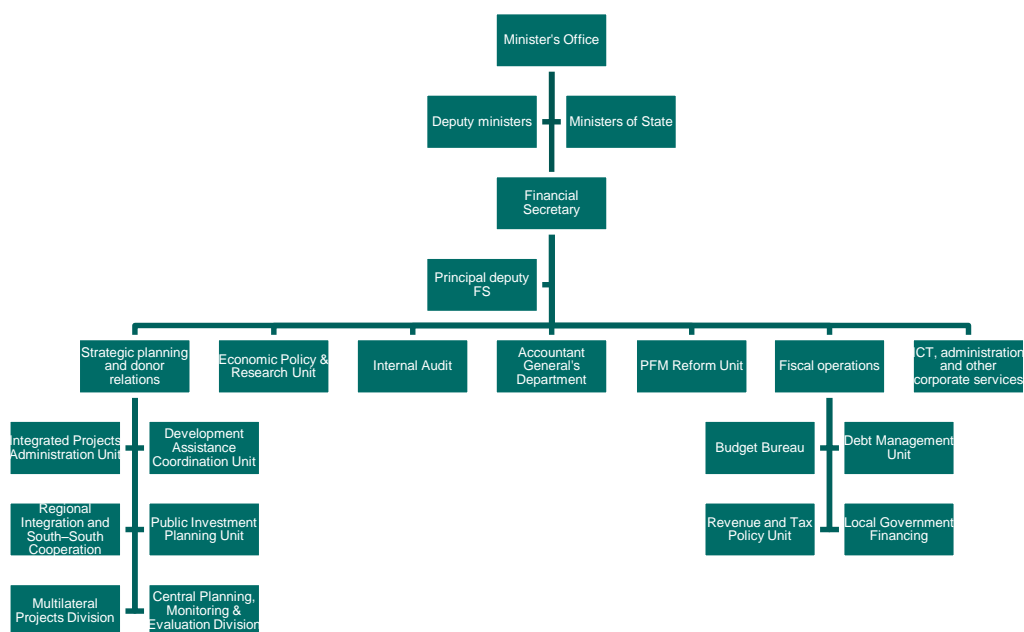
⁷ Calculated on an exchange rate of US\$1 = SLL4350.

staff typically receive a greater share of discretionary allowances and grants (Nkamleu and Kamgnia, 2014). No information was found on the provision of

in-kind benefits, such as subsidised housing, which are regularly used in other countries to remunerate civil servants and were reportedly available to some non-LTA staff in the Ministry.

The research could not obtain an official organogram of the Ministry. However discussion with key informants and reference to older documents suggested that the broad structure of the institution is as shown in Figure 7. Though it is difficult to determine the precise hierarchy of positions, the Ministry has separate departments that cover macro-fiscal forecasting and management, budget preparation and execution, debt management, tax policy, public investment and aid coordination.⁸ Nearly all these units are headed by an ex-LTA or an official on similarly augmented remuneration, and interviews suggested that most critical departments report directly (informally or formally) to the Financial Secretary.

Figure 7: Organisation chart



Source: Government of Sierra Leone Public Sector Reform Unit, 2012; authors' estimation based on interview responses

Discussion with respondents confirmed that ex-LTA staff had been absorbed onto the government payroll at their enhanced salary level. Donors had recommended this to MoFED for several years, although the Government had initially thought it impossible without first undertaking comprehensive civil service reform out of concern it would antagonise other technical grades in the civil service. Some estimated that there were between 40 and 45 of these staff at the Ministry, meaning up to a fifth of staff in MoFED are not part of the regular civil service pay structure, even before considering other highly paid posts such as the Minister's aides. Respondents informally confirmed that practically all senior staff in the Ministry operate outside regular pay structures. Actual pay rates for these ex-LTA (and other

⁸ The current functions still partly reflect the old Ministry of Finance (headed by the Financial Secretary) and Ministry of Planning (headed by the Development Secretary) structures, and may change further in the future as the Ministry undergoes a planned restructuring exercise.

‘special’) staff are not publicly available. Informal information suggests they are paid between one thousand and several thousand dollars a month, depending on their level of seniority. As a point of comparison, in 2008 52 LTA posts funded by the donor–government PFM reform programme cost \$68,000 a month (excluding DFID-funded staff). If this is the case, and the payroll data above includes the funding for augmented salaries for ex-LTA staff, then the majority of this funding will be used to pay for the higher salaries of the ex-LTAs, with very little remaining for ‘regular’ civil servants. As such, the ‘average’ figures presented in Table 4: may be misleading in terms of understanding what the ‘ordinary’ (non-ex-LTA) staff member receives. Certainly, according to budget data, the average remuneration in the Ministry of Finance is double, on aggregate, what it is in the Accountant General’s Department and, as shown, is many multiples of GDP per capita.

The research could find no public breakdowns of staffing and payroll data below this aggregate level in order to analyse further the wage compression between grades in the Ministry. As some form of context, research into the civil service structure in Sierra Leone in 2008 and 2011 suggests an exceptionally bottom-heavy grade distribution within the civil service, with Sierra Leone having far fewer middle- and senior-level officials relative to junior officials in comparison with other countries (World Bank, 2012).

Table 5: Composition of civil service, 2008 and 2011

Category	Grades	2008		2011	
		Number	% of total	Number	% of total
Low	1-5	13,255	92.2	11,881	87.3
Medium	6-10	995	6.9	1,559	11.4
High	11 and up	134	0.9	117	1.3
Total		14,384	100	13,617	100

Source: World Bank, 2012

Firm figures for the tenure of key officials could not be fully determined. However, it was repeatedly confirmed in interviews that the key senior leadership figures of the Ministry, who are almost all ex-LTA staff on augmented salaries, had worked in or around the Ministry for around a decade, and longer in many instances. This long tenure within the Ministry has resulted in a particularly close-knit circle of long-term colleagues occupying senior positions. Ministers have been rotated more often, though with significant periods of continuity. From the end of the war in 2002 until 2014 the Ministry had five Ministers, with the two longest serving in post for around four to five years each (John Oponjo Benjamin, 2002-2007; Samura Kamara, 2009-2013) and shortest for just a few months (J.B. Dauda, 2002). Most Finance Ministers coming to the role brought some form of relevant background, with some having extensive relevant experience. Of the five Ministers since 2002, four had a previous professional background in finance, economics or public administration in Sierra Leone or overseas; although it should be noted that in the political context of Sierra Leone a Finance Minister’s technical knowledge may be less important than their leadership qualities and political standing in determining whether their objectives will be achieved.

These figures paint a picture of a bureaucracy with several key features. According to budget figures, MoFED does not have a particularly large number of staff. However, the available raw data on staffing remuneration is clouded by the divide between ex-LTA and regular civil service staff, making the use of ‘average’ figures difficult. The research suggests that ex-LTA staff make up the overwhelming majority of senior officials and many mid-level officials, and are well paid by Sierra Leonean, and in some cases international, standards. Most of the remainder of the Ministry’s staff – regular civil servants – work alongside the ex-LTAs on significantly poorer salaries, and if the Ministry follows the same grade distribution as the rest of the public service, many of these will be concentrated in lower grades. This structure allows for staff with good capacity and exceptional levels of experience and institutional memory to be retained as ex-LTAs; however, it also imposes costs on the Government, both in terms of financing substantial ex-LTA remuneration and in dealing with the demoralisation and resentment among other staff that large pay differentials can cause. These dynamics may change in the medium-to-long run as a cross-government civil service pay and grading reform programme and separate functional review of MoFED are completed.

3.3 Informal powers

Discussion with stakeholders, both internal and external to the Ministry, suggested a number of key issues regarding how and if the Ministry is able to use its non-statutory or non-legislative powers to achieve its objectives.

The Ministry has demonstrated an ability to take advantage of the typical opportunity open to a finance ministry in adopting an informal leadership role in some aspects of cross-government activity. As an example, the current Poverty Reduction Strategy Paper, the ‘Agenda for Prosperity’, was coordinated and drafted by the Ministry, and cross-government aid policy is also controlled by the Ministry.

The nature of the staffing complement of the Ministry contributes to its ability to influence other agencies. Respondents were clear that part of the reason for the Ministry’s ability to influence other institutions was the strong technical skills of key senior staff in the Ministry, most of whom are ex-LTAs. These officials operate on augmented salaries, have been in or around the Ministry for many years, work well as a team according to well-placed insiders, and have access to important information that is not widely disclosed. This ‘personalisation’ of real authority and knowledge within a circle of a few talented individuals may have drawbacks in terms of long-term capability-building (as discussed below), but it allows for effective influencing and relationship management for the Ministry in the short term.

However, the relative capability of senior MoFED staff needs to be put into perspective against the relative *non-capability* of most of the rest of government. Some respondents raised the idea that weak leadership in many line ministries explains in large part the apparent relative strength of the MoFED’s influencing capability. Counter examples were raised where the Ministry’s informal leadership capability was lacking. Within the natural resources governance sector, for example, the Ministry is one player among many and cannot always get its way. Several other agencies in this sector are also able to operate non-civil service pay grades to attract capable staff, or are so close to the nexus of political and economic interests that they attract talented individuals. Indeed, the sometimes chaotic and contradictory approach to natural resource governance in Sierra Leone might suggest that no institution, including MoFED, has managed to establish itself as the leader of coherent policy in this area (Gberie, 2010) – assuming such leadership is even possible in the contemporary politics of Sierra Leone. Relations between the Ministry of Finance and State House – another institution with skilled staff – are also

uncertain, with the MoFED seemingly not always able to control the flow of economic and financial information that will determine key decisions.

The relationship between donors (particularly the IMF) and the Ministry also represents an area of ‘informal’ power for the Ministry. MoFED clearly and unquestionably takes the lead in dealing with these institutions, and they remain important to macroeconomic management of the country. Examples were given where senior Ministry staff had actively used the threat of non-compliance with the IMF programme as a reason to get other government institutions to comply with their wishes. Even more interestingly, examples were raised where senior officials had used the threat of an IMF sanction (the technical reasons for which only they understood) to successfully motivate their own ministers to change their behaviour. Successive PFM reform programmes have also given the Ministry access to substantial donor funds over many years to support internal reform, which may give it an advantage in negotiations with other institutions that do not receive such favourable treatment.

3.4 Conclusions

The formal powers of the Ministry are relatively extensive in the legal framework, and in practice most key central finance agency functions are concentrated in the Ministry or its subordinate agencies. Informal powers to achieve objectives are also evident, particularly as a result of the quality of senior staff working at the Ministry compared to most other government institutions and the importance of the donor relationships that these officials lead. Periods of long-standing incumbency for the position of Minister of Finance and substantial tenure for senior staff have preserved institutional memory in close-knit personal networks, but seemingly not in depersonalised knowledge-management systems. While information on personnel is not fully transparent, the Ministry does not appear to be particularly large in terms of staffing or budget.

4. Review of core processes

The previous sections have set out a discussion of Sierra Leone's high-level macroeconomic outcomes in the recent past and what this might suggest in relation to the Ministry's capability. They have also analysed in more detail the powers, formal and informal, of the institution itself and how these might impact on its ability to demonstrate capability. This section moves to a further level of detail and looks specifically at how the Ministry manages two key steps in the budget process so as to further understand how the capabilities of the Ministry play out in practice. The first case relates to how the Ministry coordinates inputs to establish an aggregate resource envelope. The second concerns how the Ministry responds to an unbudgeted expenditure request and regulates the spending behaviours of line ministries.

4.1 Setting the revenue envelope and expenditure ceilings

Two key elements regarding MoFED capability emerge from the review of the process by which revenue and expenditure envelopes are determined. First, it was widely agreed that technical capability for establishing a sound macro-fiscal framework, and therefore the revenue and expenditure envelope, has improved since the end of the civil conflict in 2002, although this improvement should be seen in the context of starting from a low base. Second, and despite this improvement, a great deal of both the process for developing the revenue and expenditure ceiling and the actual technical content of these ceilings continues to heavily involve the IMF.

In terms of process, the actions needed to establish the fiscal framework are coordinated by the Economic Policy and Research Unit (EPRU) using a forecasting model (the Sierra Leone Integrated Macroeconomic Model, SLIMM) built with technical assistance from the IMF in 2009 (World Bank, 2010a). The EPRU is headed by an ex-LTA and contains at least two more working below him. To ensure consistency across economic data, this unit is supported by a steering committee comprising officials from the Ministry, the Bank of Sierra Leone (BSL), Statistics Sierra Leone (SSL) and the NRA (IMF, 2011a). This has helped to improve the in-house understanding of how the different economic sectors interact, though coordination between actors is not always smooth and there are reportedly tendencies for actors to guard and withhold important information within the technical process.

Forward estimates of GDP are produced by the EPRU and the BSL/SSL on the basis of annual company and economic surveys. These estimates are agreed through negotiations with the IMF. One interviewee suggested that the IMF would present a 'story' for a specific growth figure, based on their modelling, and the Sierra Leone authorities would be expected to fit this story. Others suggested that this may have been the way the system operated in the past, but increasingly the Ministry is able to develop, and argue for, its own forecasts. The exact balance of influence cannot be easily established, but all respondents noted the importance of IMF input in defining – and ultimately agreeing – the macro-fiscal forecasts.

Revenue analysis and projections are the responsibility of the Revenue and Tax Policy Unit (RTPU) working closely with the NRA. Forecasts are based on the GDP figures negotiated with the IMF, but interviews suggest that revenue forecasts from the Ministry and the IMF have become increasingly similar, with disagreements focused on specific areas, such as revenues from iron ore extraction. The World Bank (2013) comes to similar conclusions in its recent evaluation of Integrated Public Financial Management Reform Project, which noted that robust progress has been made in strengthening capacities for fiscal policy and planning, especially in the EPRU and RTPU.

Once macroeconomic, debt and revenue forecasts are agreed and in compliance with IMF programme targets, the resulting residual expenditure envelope can be determined. However, like in many low-income countries, the Ministry faces challenges using this single estimate to develop more detailed spending allocations. Forward-looking expenditure estimates are theoretically prepared through a medium-term expenditure framework, but in reality the budget remains annual and projections for spending are not robust or linked to policy and plans (World Bank, 2013; Coffey, 2014; OECD, 2008). It was repeatedly pointed out that with, very few exceptions, Ministries are not able to produce realistic and costed activity plans to form the basis of technically informed expenditure allocation decisions. As a result, once the annual aggregate expenditure figure is determined, lower-level budgets are instead adjusted incrementally by the Budget Bureau based on historical expenditure trends, known commitments and any further adjustments needed to maintain compliance with fiscal targets. In doing so, the process prioritises the Ministry's objectives of macroeconomic balance over any line Ministry interests in allocative or operational spending efficiency.

Importantly, the capability of the Ministry with regard to setting the revenue and expenditure envelope is growing but remains closely intertwined with the processes of the IMF. While the budget approved by Parliament towards the end of the year will contain macro-fiscal plans, including the revenue and expenditure envelope, this is not the end of the story. IMF visits are scheduled twice a year, around March/April and again around September/October.⁹ During these missions, the key macro-fiscal variables that underpin the Budget and IMF programme are reforecast and in some cases reset. By resetting these key variables, the overall revenue and expenditure envelope will effectively change during the course of the year. Indeed, one respondent went so far as to say that the annual budget approved by Parliament is basically replanned during the March/April IMF visit based on the previous year's outturns, and modified again in the August/September visit. Others believed that while amendments are made at these visits it did not amount to a full rebudgeting exercise. On either interpretation, the role of the IMF is significant both to the technical proficiency of the *initial* key macro-fiscal forecasts, including revenue and expenditure, and to the timing and process by which these forecasts are *subsequently updated* in their twice-yearly visits.

⁹ The Extended Credit Facility is monitored mostly against quantitative macro-fiscal targets for end-December and end-June, as well as agreed changes to policy and processes during the year. The March/April visit reviews the end-December targets using year-end outturns, while the September/October visit considers end-June targets using half-year preliminary outturns.

Box 3: Natural resources and public investment in Sierra Leone

As Sierra Leone transitions from a fragile state, reliance on budget support is expected to further decline and be replaced by revenues from natural resources. Sierra Leone is known to have large quantities of diamonds, gold, bauxite, rutile and iron ore and natural resource revenues are forecast to grow from less than 1% of GDP in 2011 to 17% of GDP by 2020 (EITI, 2014). Economic growth surged in 2012 when large-scale mining of iron ore began (IMF, 2013). This has added further uncertainty to projections of economic growth and government revenues, even with IMF support: real GDP was initially expected to grow by 51% in 2012 whereas the final outturn was around 15%. Officials are concerned that the mining boom is coming before the Government is truly ready to manage it.

As domestic resources increase, particularly from natural resources, the Government is also scaling up domestic public investment to meet demands for infrastructure. Whereas actual domestic spending on capital projects had not typically exceeded 1.5% of GDP in the recent past, it was more than doubled in 2010 to around 3.5% of GDP. However, processes for managing public investment have not been adequately strengthened, as reflected in recent IMF advice; and capital spending has become a source of uncertainty, characterised by overspending and limited controls over the number and quality of capital projects being implemented. The Government has introduced a Public Investment Plan alongside the budget and established a Public Investment Unit in order to better manage a government-wide public sector investment programme; however, it is expected that this will take time to develop into formalised processes that better guide government behaviour.

4.2 Considering a new spending request

The consideration of a new spending proposal carries a very different meaning in Sierra Leone than in countries with stronger budget processes, such as Germany and the UK. In the latter, allocations are typically supported by firm political commitments that maintain the government's fiscal and budgetary credibility with Parliament and the general public. As a result, a 'new spending request' can usually (and certainly in theory) be distinguished from what has *already* been agreed as an institution's spending limit – either as a change in the existing political commitment to allow for greater activity, or as a response to a genuinely unforeseen expenditure need. In contrast, the budget process in Sierra Leone is characterised by greater ongoing technical, political and economic uncertainties.

Agreeing initial budget allocations

Limited upfront political prioritisation, competing processes for agreeing expected results and weak planning capacity in line ministries compromise the credibility of initial budget allocations. The national Agenda for Prosperity, coordinated by MoFED through wide consultation, provides high-level political priorities, but is too broad to guide budget allocation decisions; respondents also suggested that it can be effectively ignored for pressing commitments. Alongside the Agenda for Prosperity, Ministers agree a system of cascading 'Performance Contracts' with the President where they commit to delivering certain priority objectives and are subject to quarterly monitoring against progress by a high-profile unit in the Office of the President. Respondents suggest these Performance Contracts are seen as the guiding priority for Ministers, but this system is not integrated into the budget process and there is no explicit system for accounting for the costs of Performance Contract priorities in initial allocations. In addition, budget ceilings are sent to line ministries without first engaging Cabinet, and by the time Cabinet is involved in September, the time for strategic planning has passed and there is limited opportunity to incorporate changes. Though some respondents suggested that the Ministry has a

good understanding of the established priorities in each sector, interviews also suggested that priorities differ markedly between the Ministry and State House, especially on capital projects. The concept of an agreed baseline of expenditures is further compromised by capacity constraints in line ministries, which is generally regarded as poor – certainly outside donor-funded project implementation units.

The credibility of ‘agreed’ budget allocations as a planning tool is further undermined by both fiscal uncertainties and the need to stay ‘on track’ in the IMF programme. In terms of fiscal uncertainty, the sections above have already highlighted the volatility of revenues and economic forecasting. Alongside this, the need to replan aggregate expenditure as a result of reforecasts made alongside the twice-yearly IMF visits may yield stronger macro-fiscal forecasts, but results in changes to departmental allocations being made just as official consultations with line ministries are concluding, therefore negating some of the earlier planning and negotiation process (Coffey, 2014). For some ministries, last-minute tinkering means that their final allocation will only be revealed in the Budget Speech, which limits their ownership. Overall, the initial budget submissions are regarded by ministries as mainly ‘a form-filling exercise and a bid for resources which they know will be allocated later’ (World Bank, 2010, p. 45).

In-year budget changes

As can be seen, in the current context of Sierra Leone there is a relatively weakly constituted ‘baseline’ above which ministries may submit a ‘new spending request’. Instead, expenditures are typically (re)prioritised based on the availability of cash on a weekly or monthly basis. This process is managed through a high-level Cash Management Committee, comprising the Financial Secretary (the most senior official in MoFED) and the heads of the main divisions (including EPRU, RTPU and the Budget Bureau), the NRA and the BSL, among others. As important stakeholders, the World Bank, IMF and other donors have also been permitted to observe discussions.

Outside the Cash Management Committee, budget claims are managed mostly between the Financial Secretary and a handful of senior MoFED officials, such as the Director of the Budget Bureau and the Accountant General. Numerous Financial Secretary Letters are issued each week to request the Accountant General’s Department to prioritise specified payments. The Financial Secretary and the Director of the Budget Bureau reportedly keep a mental tally of who has been paid and who has not, and use a number of informal means to placate suppliers and ministries who are due payments in order to keep operations moving. Some interviewees noted that ministries and agencies with powerful sponsors are better at accessing funds from the Ministry than those without.

In addition to the informal constraints of cash availability, there are a number of other ways in which formal changes can be made to the budget. Ministries requiring changes within a programme may ask the Financial Secretary for a virement up to a certain limit. Unforeseen expenditures may be implemented and charged to the miscellaneous contingency allocation – Head 501 – or be allocated to the Contingency Fund and approved retroactively by Parliament. The Minister may also present supplementary estimates to change the agreed allocation for a vote, which is followed by a Supplementary Appropriation Bill. As a demonstration of the executive’s informal powers, most of the relevant regulations have been breached in the past decade: in the seven years from 2002 to 2008, Head 501 overspent its allocation each year by between 22.7% and 750.1% (World Bank, 2010); and historically, changes were made to vote ceilings without the formal authorisation from the legislature until 2013 and 2014, when supplementary estimates were provided.

Unusually, the Constitution allows entities to circumnavigate the Ministry of Finance's spending controls through the President, who may issue 'executive directives' to incur urgent expenditures even if they are not supported by a budget appropriation. This power is used frequently, sometimes without consulting MoFED. In the past these have been used to support capital spending commitments and, at the time of research, one source claimed that several presidential warrants had already been approved in the first six months of 2014. The use of executive directives allows the President and influential stakeholders to access the consolidated fund without forcing a trade-off through the budget process. There were suggestions that the Ministry was adapting to the use of these powers by using more conservative budget assumptions to increase the likelihood of having extra free fiscal space during the year. It is reasonable to expect that the use of executive directives further undermines the incentives for government institutions to engage comprehensively in the annual budget cycle.

The overall system greatly centralises budget execution decisions in a small number of high-level officials, who must attend to a constant cycle of relatively minor expenditure decisions. On the positive side, this allows for a high degree of personal responsiveness to the Financial Secretary and the Minister and facilitates effective coordination among senior officials. However, there are risks in a system whereby most critical decisions are made via personal relationships of senior individuals. Top officials from the Ministry suggested that day-to-day management of spending priorities occupies nearly all of their time and other external respondents believe this severely limits space for strategic thinking. Such an approach does not encourage the longer-term institutionalisation of depersonalised and rule-based expenditure systems that might be more predictable and therefore support greater budget credibility, allocative efficiency and operational efficiency. Respondents claimed that the scope for real delegation is limited: the need for senior managers to be personally accountable (and available) to the Minister and to other senior officials reportedly makes it difficult to pass responsibility to more junior officials.

Box 4: Impact of cash rationing on spending units

The regular reprioritisation of the budget affects some spending units more than others. It was suggested that ministries and agencies with significant non-tax revenues are less affected by delays or reductions in budget releases. Without a treasury single account, these revenues are not pooled and may be largely unknown to the Ministry. Similarly, ministries and agencies with access to funding from donors have developed coping strategies. These institutions may request funds from both MoFED and its donor partners. Donor disbursements are reportedly quicker, and if domestic resources do arrive they can then be diverted to new spending pressures. There is very little clarity in MoFED about what ministries and agencies receive from donors, which makes it hard to accurately include an assumption of external funding into their decisions.

As a result, when cuts and reductions in expenditure are made, MoFED does not know the likely effects on service delivery and may even intentionally deprioritise some institutions on the assumption that they have alternative sources of revenues. For agencies with subventions, payment delays are sometimes accommodated by holding over 'savings' from previous allocations. For others, cash rationing reportedly encourages an accumulation of expenditure arrears and informal commitments, in the expectation that future cash releases will clear the bills. Though no quantitative evidence was available during the research, this 'stop-start' approach reportedly has negative consequences for service delivery.

4.3 Conclusions

The review of the critical processes for establishing the budget envelope and managing changes to budget priorities reveals a number of important conclusions about the capability of the Ministry. First, there is growing analytical capability regarding the basics of macro-fiscal forecasting, but key elements of the fiscal framework are determined jointly with the IMF on a semi-annual basis. While these IMF reviews may improve the accuracy of aggregate fiscal forecasts, they almost certainly undermine the expenditure planning process for line ministries by changing the budget ceilings after consultations have been mostly concluded in September and by encouraging a reprioritisation of the budget during the financial year. Both create uncertainty for line ministries that already have weak capability for budget planning. Second, the Government as a whole has not established a way of institutionalising its priorities within the budget. At a technical level, most line ministries struggle to provide costed multi-year plans for their activities. At a political level, Cabinet is involved in budget formulation at a time when consultations are already concluding, with limited space to deliberate on strategic issues. State House may not share the priorities of the Ministry, and operates its own parallel system of performance contracting. Third, the real process for prioritising within the budget does not involve institutionalised budget planning, but instead comes from highly personalised in-year decisions made by a small number of senior (ex-LTA) officials over individual cash releases that sometimes operate on the fringes of correct procedure and often with little external oversight. In practice, the MoFED executes the budget in an environment constrained on the one hand by cash shortages and on the other by varying economic circumstances and changing macro-fiscal targets agreed with the IMF. The process prioritises achievement of fiscal balance to support macroeconomic stability, but does little to encourage – or even allow for – improvements in allocative and operational spending efficiency.

5. Analysis of capabilities

The above discussion has surveyed the history and formal and informal powers of the Ministry of Finance, and reviewed how two key economic and PFM outcomes are delivered. This information has provided examples across several areas of where the Ministry demonstrates varying abilities to deliver its mandate. This section considers the implications of the above analysis with regard to the four-tiered capability framework discussed in the introduction – namely, the degree to which MoFED demonstrates analytical, delivery, coordinative and regulatory capability.

5.1 Analytical capability

With regard to analytical capability, the Ministry demonstrates a clear improving trend, notably in the area of macroeconomic management. There was a clear consensus from the research that in the past the Ministry had a limited ability to, first, develop its own robust economic and fiscal projections and, second, to engage in a technical discussion with the IMF on these issues. However, capability has grown, in part through iterative learning, but also through explicit efforts in capacity-building. This can be seen as a success for both donors and government; although the IMF remains a critical and integral part of the process of macro-fiscal management in Sierra Leone. The analytical success is less clear on the expenditure and budget management side, where evidence suggests that the Ministry still struggles to produce realistic budgets for Parliamentary approval.

Analytical capability also appears to vary between parts of the Ministry. The research indicated particular improvements in the ability of the Ministry to forecast and manage public debt. Other aspects of the Ministry's work, most notably the public sector investment programme, appear at a much earlier stage. This is perhaps to be expected: it is only in the past few years that the Government has significantly increased domestic capital spending, rather than relying on donor resources. Though improving, the analytical capability of MoFED to review and select investment projects is under pressure from rising political and public expectations, and remains behind that of other parts of the Ministry.

No discussion of analytical capacity within the Ministry is complete without acknowledgement of the role of the ex-LTA staff within the institution. This cadre, of which nearly all major senior decision-makers in the Ministry are part, was routinely cited as being the 'core' of the Ministry's ability to produce analysis of Sierra Leone's economic and fiscal position. Indeed, opinion was mixed as to whether meaningful analytical capacity exists beyond the 40-45 ex-LTAs and a few other technical assistants and special advisers within the Ministry. Some voices suggested that capability is 'thin' and only found in senior levels, whereas others suggested that the Ministry was not utilising fully the latent analytical potential at lower grades.

Discussion of analytical capability in Sierra Leone must also take into account the critical political economy dynamics. In a competitive political system based on patronage, as found in Sierra Leone (Brown et al., 2005), there will be strong pressures from senior politicians to push for additional spending and looser fiscal policy. Recent fiscal history in Sierra Leone demonstrates increasing willingness to

run budget deficits that can perhaps be linked to this broader political dynamic – most notably in the run-up to the 2012 elections, when the government increased capital commitments quickly in response to optimistic (and ultimately false) expectations of a surge in domestic revenues. In this context, unpicking ‘poor analytical advice’ from ‘poor political decision-making’ is difficult and beyond the scope of this research. However, examples were raised by well-placed insiders that suggest the Ministry is capable of providing strong technical and analytic advice, even if this is then ignored at a political level.

5.2 Delivery capability

With regard to MoFED’s delivery capabilities, the picture is less clear. A key part of the Ministry’s ‘deliverables’ will be the quality and timeliness of policy advice to Ministers, which is confidential. Indeed, the informal bureaucratic culture within the Ministry – with decisions made by a small number of senior officials cooperating on the basis of long-standing personal connections – might put less of a premium on delivery of ‘formal’ written advice. Examples were given during the research of good quality analytical outputs produced by the Ministry that had been shared with donors (indeed, sometimes with the goal of influencing donors to support the technical side of the Ministry against its political overseers), suggesting that good delivery capability in terms of policy advice is possible in the right circumstances.

In terms of key PFM products, the Ministry does deliver a national budget each year that is approved by Cabinet and submitted to Parliament for approval. Although the above discussion has noted the significant challenges with the budget process, not least the credibility of the final allocations and execution, the fact that the process occurs regularly each year, and some elements such as civil society engagement appear to be improving, represents some form of basic ‘delivery’ capability. Notably, budgets have increasingly been approved before the start of the fiscal year, unlike most years from 2003 to 2010, and the Ministry has recently begun the practice of taking supplementary budgets to Parliament. Still, late submission of the budget documents to Parliament was raised by a number of respondents as a significant barrier to the quality and scope of legislative debates.

In terms of ‘delivery of specific services’ rather than advice, the Ministry may have a relatively positive story to tell on one aspect of its responsibilities. Debt management operations are one economic service under the formal responsibility of MoFED, working with and through the BSL. Again, the relative strength of the Government’s debt management was highlighted in the qualitative research and supported by examples of procedural improvements, such as an improved debt issuance calendar and more astute disclosure of information to the market in order to get a better deal for government.

Reviewing the more broadly defined ‘delivery of high-level outputs’, there are clearly grounds for recognising the Ministry’s capability. Having emerged from a destructive civil war, the Ministry has guided the process by which the country has managed to (just about) stay within the IMF-determined macroeconomic programme and continue to receive budget support. Core macroeconomic variables are broadly positive, and have been for a long period. Taking on board the usual caveats of the difficulty of identifying which outcomes are due to Ministry decisions and which are due to external action, positive macroeconomic outcomes can be seen as an example of effective high-level output delivery over the long term.

5.3 Coordinative capability

Reviewing the coordinative abilities of the Ministry reveals a mixed picture. Taking coordinative to mean ‘overall coordination of economic actors’, the Ministry has demonstrated capability by being able to stay on an IMF programme for over a

decade. This requires some level of coordination between economic management actors in government, under the ultimate leadership of the Ministry of Finance. However, this reasonably effective macroeconomic level coordinative capability does not appear to be matched by coordinative abilities in processes that are less intensively monitored by external stakeholders, such as budget preparation and execution. The inability of some line ministries to prepare credible sector plans, the limitations of a cash budget and the realities of political involvement in spending decisions would no doubt challenge even the most capable of central finance institutions. However, there was little sense of a clear trajectory of improvement in sub-aggregate budget management. This is despite innovations such as ‘Budget Support Officers’ being placed in larger line ministries to support budget formulation. Significantly, cash management systems appear to operate with a time horizon of no more than a month, and the budget – even as approved by Parliament – is, to a degree, reprofiled twice a year through IMF programme visits. Line ministries do not rely on the formal budget as a credible guide to likely funding. It was noted by respondents that even within relevant parts of the Ministry there is also no clear ‘single version of the truth’ with regard to budget execution progress in-year and key information is held closely by a very small number of senior figures.

More speculatively, this variance in coordinative capacity might be linked to the higher-level political context of Sierra Leone. Based on the actual behaviour of successive governments, there is a clear political priority placed on maintaining at least minimal compliance with the IMF-directed programme. Such compliance provides an internationally recognised ‘stamp of (minimal) approval’ regarding basic economic management, including for potential investors, and ensures that donor funding continues to flow to government. Such behaviour therefore increases the ‘size of the pie’ in terms of resources flowing into the country; lack of compliance would risk shrinking the pie considerably and generally reducing perceptions of state effectiveness. However, beyond this high-level priority, it can be argued that the strength of patronage politics and fragmentation of the political elite do not allow budgeting institutions to make binding decisions on spending allocations. In the absence of this high-level political centralisation and discipline, and in the presence of endemic capacity constraints throughout the public sector, the Ministry may have concluded that delivery of technically proficient and credible budgets is simply not possible.

In addition, there are also suggestions that the Ministry is effective at coordinating line ministries within the spending system, but less capable of coordinating actors in other economic policy areas, such as natural resources. The relative lack of line ministry capability and clear levers within the spending system naturally puts the Ministry – aided by its cadre of long-term skilled technocrats – in a stronger position. Its ability to exercise this kind of technical and policy coordinator role with other central government agencies that are less dependent on the Ministry’s goodwill – notably State House – is less clear; in part because these institutions possess their own relatively highly capable staff.

5.4 Regulatory capability

‘Regulatory’ capability within the Sierra Leonean context can be interpreted as the ability of MoFED to run public financial and economic management systems with and through other agents once policy has been determined. The *direct* regulatory responsibility of the Ministry – for example in terms of regulating financial services markets as other finance ministries do – is less relevant in the Sierra Leonean context, and not part of the core expenditure management functions being considered here.

Certainly, the capability of the Ministry appears mixed in this regard, as far as can be determined from the outside. It has productive relationships with some key

institutions that are responsible for regulating economic and financial management, for example the BSL and major line ministries. However, relations appear less strong with other key economic regulators, such as the Audit Service of Sierra Leone, the Anti-Corruption Commission and the NRA, even though the goals of all these institutions are very much aligned with the stated goals of the Ministry of Finance. The reasons for this are not immediately clear in each case, since the Ministry is certainly capable of engaging with these institutions on technical or analytical grounds.

Regulatory capability also relates to the ability of a Ministry of Finance to guide and direct the financial behaviour of other actors. The regulatory capability of the Ministry in terms of spending control has certainly increased in recent years. The roll-out of IFMIS to increasing numbers of line ministries, and tighter commitment procedures in line ministries and enhanced supervision of loans by state-owned enterprises have strengthened the hand of the Ministry with regard to the mechanics of spending control. However, the regulatory capability of the Ministry beyond 'stop-go' spending control is less clear. Certainly, it was raised by several respondents that while stop-go powers of spending control located in the hands of a few long-standing and closely collaborating senior officials are effective in the short term at ensuring aggregate budget control, it is less clear if this approach can simultaneously build an impersonal and rule-based regulatory environment that might result in a smoother and more credible budget formulation and execution process as a whole.

Once again, however, the political economy realities of Sierra Leone must be taken into consideration. Where there is little political consensus on the desirability of binding budget allocations, the national budget is particularly exposed to the typical 'common pool' budgeting problem. Transparency and formal rules designed to guide the regulation of spending may, in fact, exacerbate common pool budgeting problems by advertising more clearly the resources that are in theory available for spending, and setting out exactly how they can be accessed. It may be that Sierra Leone is a country where a closed system of relatively opaque procedures for budget management held by a close-knit circle of trusted advisers might be the most 'capable' response by a fiscally disciplined Ministry of Finance to the politics of the situation.

5.6 Conclusion

The discussion above has set out some of the key conclusions regarding the Sierra Leonean Ministry of Finance and its capabilities across the framework. As might be expected, the overall picture is mixed. The institution has relatively extensive formal and informal powers to enable it to achieve its objectives. The Ministry appears able to use them to deliver at least the basics of macroeconomic stability required by an IMF plan, and successfully regulate and coordinate the rest of government towards this particular goal. Notably, key high-level macroeconomic indicators have been broadly positive for many years. However, the research suggests interest in PFM reforms may be waning, even as the four-year PFM Consolidation and Improvement Project begins. Equally, it is not clear that more complex and challenging systems – most importantly credible budget preparation and execution – are on the same upwards trajectory. In reality, the current political context of Sierra Leone may make long-term institutionalisation of budgeting rules simply impossible to deliver, suggesting perhaps that, below aggregate level, budget credibility is sacrificed for a degree of political stability.

All interviews pointed to a key driver of good performance across all four dimensions of capability being the presence of the long-standing cadre of well-paid ex-LTAs working closely together in senior and mid-levels within the Ministry. It was repeatedly suggested in interviews that without these staff the Ministry would be

operating at a much lower level of capability. However, this driver of capability comes with both a resource cost and a cost in terms of the cohesiveness of the institution in the long term. The Ministry's current way of operating – with key decisions made informally within a small circle of trusted and long-standing ex-LTA senior officials – appears to deliver on the basics of economic management, but it works against the long-term development of rules-based budgetary institutions that might deliver a step change in other areas. The heavy reliance on this cadre of ex-LTAs also raises important questions about long-term capability of the Ministry if more formalised workforce management and succession planning is not introduced. Nevertheless, in any reading of the situation, when set against the general chaos of early 2000s post-war Sierra Leone and the physical destruction of the Ministry itself in 1997, the progress made by these ex-LTAs, supported by donors, in guiding the Ministry to deliver basic key economic and financial management capability represents a considerable achievement.

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