



**DFID Multi-Donor Budget Support
to Sierra Leone 2004 -2007**

Review Report

**DFID Budget Support to Sierra Leone,
2004 - 2007: Achievements & Lessons
for the Future**

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**Report to the UK Department for International
Development**

August 2007

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Disclaimer

This report has been prepared by Andrew Lawson of the Overseas Development Institute, UK (ODI), who was commissioned to undertake an independent review of the provision of DFID Multi Donor Budget Support (MDBS) to Sierra Leone. Work was carried out in the context of the preparation of Project Completion Reports for the DFID Budget Support operations of 2005-06 and 2006. The report provides a brief overview of personal observations developed from desk work undertaken for this purpose as well as from a week of discussions/ interviews with staff of DFID, Sierra Leone, the Government of Sierra Leone, CSO representatives and officials of the IMF and the other budget support providing agencies – the African Development Bank, the European Commission and the World Bank. The report should not in any way be understood as comprising a formal evaluation but rather a set of judgements, informed by comparative experience in the use of budget support.

I am indebted to all the individuals who gave of their valuable time during the mission to Sierra Leone and to the particular support provided by Richard Hogg, Head of DFID Sierra Leone, as well as Pietro Toigo, Denise Hill, Charlotte Duncan and Ada Holloway. All errors and omissions are clearly my own responsibility, however.

Work has been financed by the UK Department for International Development (DFID) but responsibility for the opinions presented in this report rests exclusively with the author and should not be attributed to DFID, the Government of Sierra Leone or to the MDBS partners.

Abbreviations

AAP	HIPC Expenditure Tracking Assessment & Action Plan
AfDB	African Development Bank
BoSL	Bank of Sierra Leone (Central Bank)
CAP	Common Action Plan (for PFM reform)
CHOGM	Commonwealth Heads of Government Meeting
CSO	Civil Society Organisations
DACO	Development Assistance Coordination Office
DFID	Department for International Development
EC	European Commission
GBAA	Government Budgeting & Accountability Act
GBS	General Budget Support
GoSL	Government of Sierra Leone
HIPC	Heavily Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
MDBS	Multi-Donor Budget Support
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NAP	National Action Plan
NPPA	National Public Procurement Authority
OAG	Office of the Auditor General
PAC	Public Accounts Committee (of Parliament)
PAF	Performance Assessment framework (for the MDBS)
PCR	Project Completion Report
PEFA	Public Expenditure & Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PRGF	Poverty Reduction & Growth Facility (IMF)
PRSC	Poverty Reduction Support Credit (WB)
PRSP	Poverty Reduction Strategy Paper
SDPS	Service Delivery Perception Survey
TA	Technical Assistance
UN	United Nations
WB	World Bank

DFID Budget Support to Sierra Leone, 2004 - 2007

Achievements & Lessons for the Future

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1 Introduction and Scope of Report

1. This short report has been prepared as an accompaniment to the preparation of Project Completion Reports (PCRs) for the 2005/06 and 2006 DFID Budget Support operations to Sierra Leone. Project Completion Reports are a mandatory requirement for all DFID operations above a minimum size, and their primary focus is on the analysis of the output to purpose links originally specified in the Project Memorandum. In the case of budget support, they follow a particular format, which gives less attention to specific outputs and more to changes in the overall context for budget support, especially to changes in the overall assessment of underlying risks. The two Project Completion Reports prepared under this exercise are included in Annex A.

2. In parallel with the preparation of PCRs, the author was commissioned to provide a more general overview of progress with budget support, focusing on the most significant achievements to date and on the continued challenges faced by such operations in the context of Sierra Leone. The intention has been to draw out the most important lessons to be learned from the experience with a view to providing recommendations on the design and management of future operations.

1.1 Overview of Budget Support to Sierra Leone

3. DFID have provided General Budget Support to Sierra Leone since 2001 when an amount of £30 million was pledged for the period 2001/02 – 2003/04. With the signing in 2002 of a 10 year Memorandum of Understanding (MoU) between the Government of Sierra Leone (GoSL) and the UK Government, an additional £5 million performance tranche became available annually (in addition to the £10 million annual baseline) assessed against progress in the MoU benchmarks. The 3 year agreement was followed by two one-year interim facilities of up to £15 for 2004/05 and 2005/06, again divided between £10 million base and £5 million performance tranches. In parallel with these DFID operations, budget support was also provided by the World Bank, under a PRSC operation, by the European Commission, under a Macroeconomic Budget Support arrangement which also included fixed and variable tranches, and by the African Development Bank (AfDB), both through Balance of Payments Support and through co-financing of the PRSC.

4. Table 1.1 shows the macroeconomic significance of GBS disbursements over 2001 to 2006. As a proportion both of GDP and of total expenditure, its importance has increased quite sharply since 2004. A telling statistic of its significance to Government is to consider it as a proportion of domestically financed capital expenditure and discretionary recurrent expenditure (excluding interest payments). This gives a sense of its significance as a proportion of those resources over which the Government has real choice. With the exception of 2003, GBS has been consistently above 26 % of discretionary recurrent and domestic capital expenditure. The significance of GBS would exceed this figure only in Mozambique, Tanzania and Uganda – the most ‘mature’ of current GBS recipient countries. In Ghana, for example, GBS amounts to some 10 per cent of total spending and no more than 15 per cent of discretionary spending.

5. Budget support has thus been a very important component of government financing in the post-conflict period. It has also been the most significant focal point for policy dialogue between GoSL and its development partners. Up to 2006, this dialogue was structured around bi-lateral arrangements – in the case of DFID linked to the 10-year Memorandum of Understanding. In 2006, the first joint annual review of budget support was undertaken and

later in the year, the AfDB, DFID, the EC and the World Bank signed a joint MoU and prepared a shared Performance Assessment Framework (PAF). A second joint annual review was held in May 2007¹.

Table 1.1: Macroeconomic significance of General Budget Support, 2002 - 2006

Fiscal indicators	2001 (Actuals)	2002 (Actuals)	2003 (Actuals)	2004 (Actuals)	2005 (Actuals)	2006 (Proj)
	(% of GDP, unless stated)					
Domestic revenue	13	12.2	12.5	12.3	11.9	12.5
Grants & Loans 1/ of which GBS (grants & loans)	11.9 3.6	15.4 2.2	11.8 1.7	14.2 3.9	10.9 5.4	20.2 5.3
Total Expenditure & Net Lending of which discretionary recurrent & domestic capital expenditure	29.5 13.6	28.6 8.3	26.9 12.1	24.8 15.6	24.6 14.9	21.4 14
<i>GBS as % Total Expenditure & Net Lending</i>	12.2	7.7	6.3	15.7	22.0	24.8
<i>GBS as % discretionary recurrent & domestic capital expenditure</i>	26.4	26.4	14.1	25.1	36.2	37.9
Nominal GDP (millions of Leones)	1,600,169	1,964,627	2,310,767	2,894,262	3,504,900	4,361,200

Source: For 2004 – 2006 data: IMF(February 2007), 2006 Article IV & First PRGF Review. Earlier data from OPM (2006).

1.2 Scope and Objectives of this Report

6. The significance of budget support to Sierra Leone and the fact that DFID has now been providing such support for over five years both point to the need for some sort of assessment of its achievements. With general elections being held in Sierra Leone during August 2007, DFID and other development partners are hopeful of being able to consolidate and deepen the existing development partnership. Budget support is likely to remain a significant part of this partnership but with the renewal of the arrangements for GBS provision, there will come an opportunity to rethink its scope – both in financial and policy terms, and to reconsider the design of disbursement modalities and associated monitoring arrangements. In the case of DFID, the review of policy towards the provision of budget support to Sierra Leone is expected to take place in early autumn 2007 after the results of the general election are known.

7. The primary objective of this report is to contribute to this process of reflection over the future of DFID budget support to Sierra Leone. It thus provides a summary assessment of achievements to date, a review of the key challenges which have emerged and some recommendations for consideration by DFID and other development partners.

8. It should be stressed that the report is based on only one week of field work in Sierra Leone, supported by analysis of background documents and related evaluations. It most certainly does not constitute a formal evaluation. Rather it should be taken as a set of independent observations for consideration by those familiar with Sierra Leone.

¹ Field work for this report coincided with the start of the review mission. The author sat as an observer at two joint review meetings and was later given access to the joint review aide memoire.

Chapter 1: Introduction and Scope of Report

9. In addition to interviews with staff of the IMF and of the four agencies providing budget support, the author was able to speak with key interlocutors within the Ministry of Finance, DACO and the Office of the Auditor General. Over and above these discussions, information and ideas were drawn from four key sources:

- DFID's own documentation on its GBS operations, including the Project Memoranda and related disbursement requests, as well as the documented PAF assessments and aide memoires from the 2006 and 2007 joint reviews.
- The IMF's 2006 Article IV Consultation and PRGF Review, dated February 2007.
- DFID's Country Governance Assessment of April 2007 and the related "Drivers of Change" report of March 2005.
- Three independent evaluations/ assessments of different aspects of the budget support process:
 - OPM's study of the effectiveness of budget support performance tranches in Sierra Leone of June 2006.
 - The assessment of the performance of the long-term partnership agreement (MoU) between the GOSL and the UK Government. (Balogun & Gberie, 2005)
 - The discussion draft (April 2007) of the Sierra Leone Public Financial Management Performance Assessment report, using the PEFA methodology.

10. Following this introduction, the report is structured around two subsequent chapters. Chapter 2 assesses the principal achievements and shortcomings of budget support as well as the key challenges for the future; chapter three then presents recommendations for improvements to GBS design and management.

2 An Assessment of Budget Support in Sierra Leone

11. This chapter provides a summary of the key achievements and shortcomings of budget support in Sierra Leone and an overview of the key challenges for the future. It focuses on macroeconomic performance, service delivery, and the effectiveness, accountability and responsiveness of government.

12. This report is not an evaluation so we do not assess questions of causality and attribution in any detail. However, it is important to understand how the relevant causal associations operate between budget support and improvements in different aspects of government performance. We therefore begin with a brief discussion of the objectives of budget support and of the means of assessment before addressing the substantive issues.

2.1 Objectives of budget support, transmission mechanisms and means of assessment

2.1.1 Overview: how budget support works

13. General Budget Support provides unearmarked resources to the national treasury for the purposes of public spending directed at poverty reduction. The extent to which GBS can be effective in achieving this purpose depends upon the quality of the national policy and budget system at the outset of the GBS operation and on the extent to which its quality can be improved either by GBS itself or by underlying processes of reform, to which GBS may or may not contribute.

14. A structure for the assessment of these effects is provided by the GBS evaluation framework developed under the auspices of the OECD-DAC's evaluation committee (Booth and Lawson, 2004). The framework was enhanced during the subsequent DAC evaluation of General Budget Support in seven countries (IDD and Associates 2006) and used again for the Ghana MDBS evaluation. It is based on a logical framework which sets out a hypothesised sequence of effects of budget support and allows them to be systematically tested. There are five main levels to the framework, as illustrated in Figure 1.1.

15. The evaluation framework considers GBS as a package of inputs. These inputs are made up of GBS funds paid into the national budget, policy dialogue linked to the budget funds (including any related conditionality), technical assistance or capacity building linked to the GBS, and efforts to align GBS support with national policies and systems and/or to harmonise GBS management systems across the GBS providers. The framework identifies two main streams of effects, created by GBS:

- i) "Flow-of-funds" effects deriving directly from the budget support funds themselves; and
- ii) Policy and institutional effects resulting from the interplay of budget support funds and the non-financial GBS inputs with domestic processes of policy-making, budget formulation and budget execution. These in turn can be divided between:
 - a. 'Endogenous effects' deriving from changed incentives within the Government decision-making process, and
 - b. 'Exogenous effects' deriving from the external influence of budget support providers, exerted either through new types of donor-Government dialogue,

through disbursement conditions, or through the provision of capacity building support linked to the GBS arrangements.

16. The “flow of funds” effects derive from the additional funds which are made available to the national budget through GBS. Depending on the relative significance of these flows and on the extent to which they are earmarked, these may permit either additional levels of public spending or reduced levels of borrowing. In the case of Sierra Leone, as we have seen in Figure 1.1, they have permitted a substantial increase in public spending. Depending upon the timeliness of their disbursement, GBS funds may also reduce the costs of financing the budget, by reducing the need for within-year treasury operations to meet cash flow requirements (hence reducing the need for Central bank overdrafts or for Treasury Bill issues, or for accumulation of payment arrears.) They may also have macroeconomic effects, in particular on interest and exchange rates but also on the rate of economic growth.

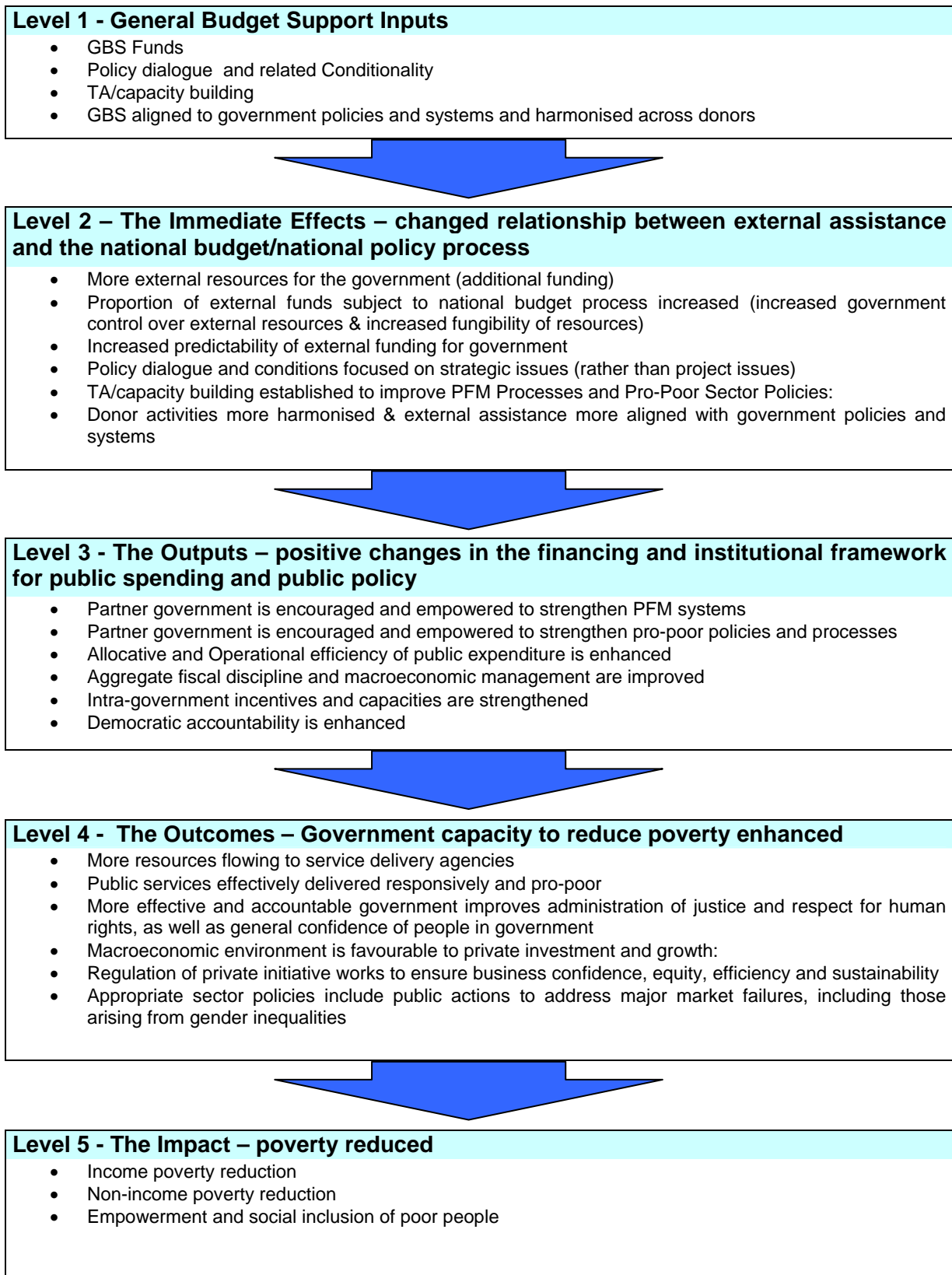
17. Policy and institutional effects are the effects on policies and on institutional processes which budget support might generate. ‘Endogenous effects’ arise from the increased use of the national budget process as opposed to the use of aid modalities which are more off-budget. Depending on the relative scale of budget support provided (and the extent to which its effects are reinforced by restricting growth of off-budget aid modalities), it may have positive institutional effects by restoring importance to the national budget and to the related processes of accountability. The relative significance of these effects will be determined by the quality, transparency and comprehensiveness of the budget process at the outset, by the extent to which there is a genuine shift from “off-budget” to “on- budget” decision-making and the extent to which the Executive is compelled to respond to democratic pressures – from Cabinet, Parliament and Civil Society, to improve resource allocation and management.

18. ‘Exogenous’ policy and institutional effects will result from the new external influence which is exerted through the GBS arrangements. These result directly from the new processes of policy dialogue with Development Partners, from the budget support disbursement conditionalities and from the external capacity building support, which might be provided. For example, one would expect that the combination of dialogue, disbursement conditions and capacity building support which have been focused on improving PFM systems in Sierra Leone would have promoted a more intense implementation of PFM reforms than might otherwise have been the case.

19. It is not necessary to distinguish precisely the ‘flow of funds’ and policy and institutional effects; nor to disentangle those effects which are ‘exogenous’ and those which are ‘endogenous’. In practice, there is interplay between these effects. Yet it is important for an understanding of how budget support works to recognise that it is this range of effects and their interaction with external factors which drives the systemic changes which budget support aims to stimulate. It is also important to recognise the limits to the influence which budget support dialogue may have. Exogenous influence on policy and institutions is only one of the three streams of effects which budget support may have. GBS evaluations in Tanzania, Mozambique, Uganda and Ghana² have all found that it is the other two streams of effects – namely “flow of funds” effects and “endogenous” policy and institutional effects, which tend to be more important. This is a point of some relevance to the situation in Sierra Leone.

² See Lawson et al (2004), IDD & Associates (2006) and Lawson et al (2007).

Figure 2.1: Summary of OECD-DAC Evaluation Framework for Budget Support



2.1.2 Objectives of budget support and expected transmission mechanisms

20. The purpose of DFID's budget support to Sierra Leone, as presented in the relevant Project Memoranda was: "To improve the effectiveness of the Government Budget as the principal instrument for achieving poverty reduction and growth objectives consistent with the Sierra Leone Poverty Reduction Strategy". Four "sub-objectives" were identified as indicators of progress towards these objectives:

- The achievement of a favourable, stable macro-economic environment stable.
- Improved government service delivery, focused on the needs of the poor.
- Development of a more effective, responsive and accountable government; and
- Maintenance of peace and security.

21. The precise intervention logic by which budget support was expected to achieve these objectives is not well specified in the various DFID project memoranda. Nevertheless, from the way budget support arrangements have evolved, it seems clear that the DFID team had clear ideas of what they expected the transmission mechanisms to be. A key objective was to provide a sufficient volume of budget support to make a positive difference to macroeconomic management and to quickly restore an operational budget process in the post-war period. This in turn was expected to make a positive difference to peace and security both by stimulating growth and by providing the necessary resources to finance an expanded wage bill for the police and defence forces.

22. The injection of budget support funds was also expected to have positive knock-on effects on service delivery and on the effectiveness, responsiveness and accountability of government. The expected effects in these areas were re-inforced by substantial technical assistance and by embedding improvements within these areas within the benchmarks of the 10 year MoU. Achievement of those benchmarks was in turn established as the condition for the receipt of an additional performance tranche of budget support, worth £5 million annually.

2.2 Assessment of Macroeconomic effects

2.2.1 The contribution of GBS to faster growth in the post-conflict period

23. The promotion of economic growth in post conflict Sierra Leone was probably the single most important potential contribution of budget support. The empirical links between poverty and conflict are well established, but the positive effects that fast growth can have in reducing the chances of violent conflict even in a poor country make the achievement of fast growth in Sierra Leone especially important. For example, Paul Collier (2007) estimates that a low income country faces a risk of conflict in any five year period of approximately 14 per cent *but each percentage point added to the real growth rate knocks off a percentage point from this risk.*³ Thus, by growing in real terms at 17.9, 27.5 and 9.3 per cent respectively in 2001, 2002 and 2003 and continuing to grow at a rate in excess of 7 per cent per year in real terms, Sierra Leone has substantially reduced the chances of a return to conflict. Because the experience of having been through a civil war roughly doubles the chances of another conflict, this high real growth rate was especially important for Sierra Leone⁴. Moreover, it is a growth performance that places Sierra Leone amongst the top performing post-conflict

³ Collier (2007), pp.18-20.

⁴ Ibid, pp 26-27.

countries in SSA, which as a whole achieved average real growth of 4-5 per cent over 2004 to 2006⁵.

24. To what extent can GBS be said to have been a significant contributory factor in this growth process? Without proper econometric analysis, one cannot answer this question with any precision. However, in 2001 and 2002, GBS as a whole comprised 3.6% and 2.2% respectively of GDP. At this time in the post-conflict period before there was sufficient business confidence for investment rates to pick up, the value of this demand stimulus is likely to have been significant. As a source of non-inflationary government funding, it would have fed quickly through as an increase in real effective demand. The fact that inflation remained quite low in this period (well below 10 per cent) suggests that the supply response of the economy was relatively elastic and that a non-inflationary response to this demand stimulus was possible. In so far as the demand generated through increased government spending on salaries and goods and services is likely to have fed through to increased demand for foodstuffs, building materials and simple consumer goods which could either be easily imported or locally produced, one can understand why this would have been so. Indeed, the annual rates of growth registered for 2001 and 2002 in excess of 25 % for production of rice, cassava and other staples and also for artisanal domestic fish catch support this hypothesis. (IMF, January 2007.)

25. The confidence-boosting effects of DFID's early decision to provide budget support and to enter into a long term partnership with the new government are also likely to have been important as a boost to growth. In particular, this would have helped to ease the concerns of foreign investors (particularly in mining) as well of resident and expatriate Sierra Leoneans, with resources to invest. Certainly, domestic investment picked up relatively quickly in the post conflict period and in 2004 comprised 10.7 % of GDP, rising to 17.4 % in 2005 and 15.1 % in 2006. Private investment has been the lion's share of this, with government investment steady at around 5 % of GDP over this period.

26. With domestic investment projected by the IMF to reach 18.1 % of GDP in 2007 and 15.1 % in 2008, the importance of the direct contribution of budget support to the growth process is clearly diminished. Indeed, efforts to boost growth rates by stimulating domestic demand are more likely to hit supply constraints and therefore to generate inflation. Similarly, with foreign exchange receipts now deriving from trade and investment flows, the risk of Dutch Disease effects from the appreciation of the real exchange rate is higher; and with domestic revenue collection capacity re-established, the risk of disincentive effects on domestic revenue collection becomes more relevant. In short, as Sierra Leone moves out of the post-conflict phase into a more normal development phase, there is a need for greater caution over the scale of external assistance as a whole and of budget support as a significant component of this. The justification for continuing budget support needs to rely more on evidence of its positive effects on fiscal management and upon the level and quality of public spending and service delivery. We turn to these issues below.

2.2.2 The effects of GBS on budget financing and treasury management

27. One of the important potential contributions of budget support derives from its ability to reduce the annual costs of budget financing, by making available in a timely manner unearmarked funding for budget spending. Matching budgeted spending requirements with available funding sources is a major challenge for budget execution in many developing countries. Domestic revenue collections generally follow a seasonal pattern and in most cases this seasonal pattern is substantially different from the pattern of cash-flow requirements needed to support budgeted spending. Treasury operations are then needed

⁵ IMF (2007). The post conflict SSA countries include Burundi, Central African Republic, Congo (Rep. of) Congo (DRC), Guinea-Bissau, Rwanda and Sierra Leone.

to bridge the short-term financing gaps, which may take the form of overdraft financing through 'ways and means' advances from the Central Bank, the issue of short-term Treasury Bills, or the deliberate building up of payment arrears. Each of these methods will carry financial and economic costs, especially in relatively small economies with thin financial markets, where short-term "spikes" in government demand for financing from the banking sector will quickly push up interest rates, thus generating a longer term domestic debt financing problem. Where budget support funding can be provided near the beginning of the fiscal year so as to provide the Treasury with a cash float for financing of the budget, the costs of budget funding can be dramatically reduced and the efficiency of budget execution significantly increased.

28. Unfortunately there are few examples of budget support actually working in this manner⁶. It demands a well organized Treasury, which is able to anticipate its financing needs and transmit these clearly to its budget support providers so that a favourable schedule of budget support disbursement is established. It demands discipline on the part of the budget support providers so that real efforts are made to avoid administrative delays in the authorization of disbursements and it demands a structure of conditions for budget support disbursement, which can be feasibly fulfilled by the government and can be assessed in a structured way, which does not generate unnecessary delays. Where these conditions are not in place, budget support can actually exacerbate the budget financing problem because it leads to a higher level of planned spending, without improving the predictability of funding flows.

29. What sorts of financing effects has budget support had in Sierra Leone? Unfortunately, the record in terms of timeliness and predictability of disbursements is poor. This has been well documented in OPM's report of June 2006⁷:

- Non-disbursement of planned budget support by the EC and AfDB in 2003 meant that aggregate disbursements of GBS comprised only 62 % of the forecast⁸. This led to a corresponding expansion in domestic debt, creating substantial new debt servicing obligations for subsequent years.
- The problem was compounded by the late release of GBS disbursements within year. In 2004 and 2005, 68 % and 62 % respectively of GBS was disbursed in the final quarter, as compared with projected disbursements of 15% and 48%. (See table 2.1)
- Although there has been some restraint on domestically financed capital expenditure, the principal response of GoSL has been to borrow from the Central Bank in the early part of the year, with the consequent unbudgeted interest payment obligations, being either paid off from GBS performance tranche disbursements or converted into Treasury Bills.

⁶ Tanzania is the major success story in this respect, although Rwanda and Mozambique have also achieved good results, and Ghana has succeeded in creating predictable funding flows, albeit at a smaller relative scale. See IDD & Associates (2006) and Lawson, Gerster and Hoole (2005).

⁷ Apart from the comprehensive discussion in the text, this report provides two very useful annexes: Annex C which presents a comprehensive schedule of budgeted and actual disbursements by GBS donor and Annex F which comprises an analysis of GBS effects on public expenditure and macroeconomic indicators.

⁸ We have not investigated the reasons for this non-disbursement and make no judgement on whether this was justified. Our concern is simply to illustrate the fiscal and macroeconomic consequences.

- As a consequence, domestic borrowing exceeded its target by 2.4 % of GDP in 2003 and by 0.33 % in 2005⁹. Over 2003 to 2005, domestic interest payments comprised 3.5 %, 3.6 % and 2.7 % of GDP respectively, well over 10 per cent of total expenditure.
- The pattern of government borrowing, involving substantial use of Ways and Means advances from the Central Bank, has also generated excessive monetary expansion with inflationary consequences. Over 2003 onwards, inflation has run consistently above 10 % and year-on-year rates have twice peaked at 15 %.

Table 2.1: Budgeted & Actual GBS flows as % of annual GBS disbursements

	Q1		Q2		Q3		Q4	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
2003	0%	1%	13%	25%	60%	74%	27%	0%
2004	45%	0%	16%	13%	23%	19%	15%	68%
2005	18%	50%	16%	0%	18%	33%	48%	62%

Source: OPM (June 2006), based on data from GoSL authorities.

30. The impact of these developments on growth and investment does not appear to have been so serious. Certainly, GDP growth and domestic investment have remained high, as we noted in section 2.2.1. The rise in government borrowing pushed interest rates from a real rate of approximately 5 % in September 2003 to 18 % in the second quarter of 2005, and it is surprising that a more substantial negative effect on investment is not discernible. However, it seems clear that domestic bank borrowing is not a major source of investment financing. Secondly, real interest rates did not remain at these levels for long and have fallen again in 2006. As for inflation, one could also argue that highs of 15 % are not excessive in a fast growing post-conflict economy, just so long as a spiral of rising inflation is not created – something which the Central Bank has been successful in preventing.

31. The real cost of unpredictable budget support disbursements has been from the crowding out of productive public expenditures due to the expansion of domestic debt servicing. At the outset of 2003, the medium term fiscal position was consistent with a level of domestic interest payments of 0.5 – 1 % per year. In practice, domestic interest payments have been 2-3 % of GDP higher than this, thus squeezing domestic spending and undermining the quality of service delivery.

32. To what extent can this outcome be attributed to inefficient or inappropriate budget support disbursement practices? In comparative international terms¹⁰, a first point to stress is that the extent of late or non-disbursement of budgeted GBS flows is not excessive. In aggregate, disbursements have actually exceeded projections¹¹ (comprising 119% and 132% of projections in 2004 and 2005), and within year delays have usually been of one or two quarters, with one case (DFID in 2003) of disbursements actually being brought forward one quarter. However, it is notable how few GBS disbursements were actually scheduled for the first quarter and notably none of DFID's disbursements. This is a design fault rather than

⁹ In 2004, the government was a net creditor as higher than expected GBS payments were used to pay off the previous year's rolled over debt.

¹⁰ See for example the discussion of the experiences of Mozambique and Tanzania (in the early phases of the PRBS) in Lawson, Gerster and Hoole (2005).

¹¹ This is in part because performance tranches have not been fully included in projections.

an operational management problem but from the perspective of the authorities, it leads to the same sorts of financing problems and clearly needs to be addressed.

33. It should also be stressed that Sierra Leone is by no means a typical developing country and in the early post-conflict period was suffering a number of constraints which seriously undermined its ability to cope with unpredictable budget support disbursements. The capacity of the Ministry of Finance to restrain expenditure in response to financing shortfalls was constrained not only by the powerful (and justified) social demand for increased public spending but also by the presence of unplanned spending demands. For example, right through the period in question the bill for salaries and pensions was pushed up by the numbers of (unexpected) returning civil servants. The monetary management tools of the Central Bank were seriously limited by the small size of the market for Treasury Bills, by the low value of commercial bank deposits and by the lack of foreign exchange reserves¹². Arguably, the GBS donors should have been more conscious of these limitations and of the implications which a lack of predictability over GBS disbursements would have in this context.

34. There are two particular features of the design of budget support which need attention if unpredictable disbursements are to be avoided in the future. Firstly, the distinction between the fixed and performance tranches of budget support¹³ needs to be made more clear-cut so that the conditions for fixed tranche disbursement can be clearly and comprehensively understood by the authorities in advance and so that their disbursement is simpler. Secondly, the timing of annual assessments needs to be adjusted so as to permit firm decisions on the fixed tranche disbursements prior to the beginning of the fiscal year and so as to programme the bulk of disbursements for the first two quarters of the fiscal year.

35. The presence of a performance tranche might appear at first sight to be a source of unpredictability. In the case of Sierra Leone, it has not proven to be a direct source of such because disbursements of this tranche have not been programmed within the budgeted levels of revenues and grants. Thus, in contrast to fixed tranches, these have not generated a budgeted expenditure commitment prior to the outset of the fiscal year. However, there has been more recent discussion about including at least a portion of performance tranches within budget projections of grants. This would introduce a new source of unpredictability if the assessment of the eligibility for performance tranche payments was to continue to be done within year, as it is now. Moreover, it should be remembered that the dialogue over performance tranches is not so easily separated from the dialogue over fixed tranches. One interpretation of the recent delays in release of fixed tranches (particularly in late 2006 and early 2007) is that the distrust generated by the continuing failure of the authorities to meet in full the performance tranche benchmarks is encouraging the GBS donors to either introduce more fixed tranche conditions or to be more bureaucratic in their interpretation¹⁴. We will consider these questions in more detail in chapter 3.

2.3 Improvements in Service Delivery

36. Budget support can support improvements in service delivery firstly by permitting an expansion in public spending and secondly through domestic and external pressure to focus

¹² Over time, these constraints have been reduced and certainly the tools of fiscal and monetary management are substantially more effective than they were but there is still a substantial qualitative difference in comparison with the more mature GBS recipients in SSA.

¹³ It should be noted that this is not a distinction which is made in the management of World Bank PRSC operations. This presents quite particular problems for the Bank in striking an appropriate balance between predictability and performance incentives. We touch on this issue in chapter 3.

¹⁴ This viewpoint was expressed quite forcefully to the author by a senior GoSL official.

those increases in public spending on the higher priority public services. During the period of budget support to Sierra Leone, public spending has certainly grown. This can be seen most clearly by examining public spending net of externally financed project investments. Donor-financed project spending tends to be subject to large fluctuations due to the scope and scale of projects and the time period needed for design, mobilization of finance and project start-up. These fluctuations may distort the underlying trend in public spending, which will be driven predominantly by recurrent spending and by the levels of domestically financed capital spending. In Sierra Leone, a functional classification of domestically financed capital spending is not easily available but it is in any case small (equivalent to less than 5 per cent of total recurrent spending and significantly less than 1 per cent of GDP), so we have therefore concentrated our analysis on total recurrent spending.

Table 2.2 Sierra Leone Recurrent Spending by Function 2000 - 2005

Functional Classification	2000	2001	2002	2003	2004	2005
	(% total recurrent spending)					
General Public Services	16.3	20.1	20.6	21.7	21.7	21.9
Defense	16	16.4	11.9	13.8	11.2	11
Education	19.4	18.8	18.1	21	20.3	21.9
Health	4.7	6.5	7	8.3	6	6.1
Social security	2.3	2.4	4.2	4.2	3.8	4
Housing	0.3	0.4	0.4	0.3	0	0
Other Community services	1.6	1.3	1.6	1.2	1.4	1
Economic Services	5.4	7.8	6.8	8	8.4	8.1
Public Debt Interest	27.5	20.1	21.8	17.2	23.3	20.2
Other Purposes	6.4	6.3	7.5	4.4	3.9	5.9
Total Recurrent Spending (Leones millions)	304,848	362,907	480,331	486,092	555,045	620,728
as % of GDP		22.7%	24.4%	21.0%	19.2%	17.6%
Annual % Change		19.0%	32.4%	1.2%	14.2%	11.8%
CPI Annual Average	-0.9%	2.2%	-3.7%	7.5%	14.2%	12.1%
GBS disbursements (Leones millions)	0	57,606	43,222	39,283	112,876	189,980
GBS as % of Tot Recurrent		15.9%	9.0%	8.1%	20.3%	30.6%

Source: IMF, (January 2007), Sierra Leone Statistical Appendix

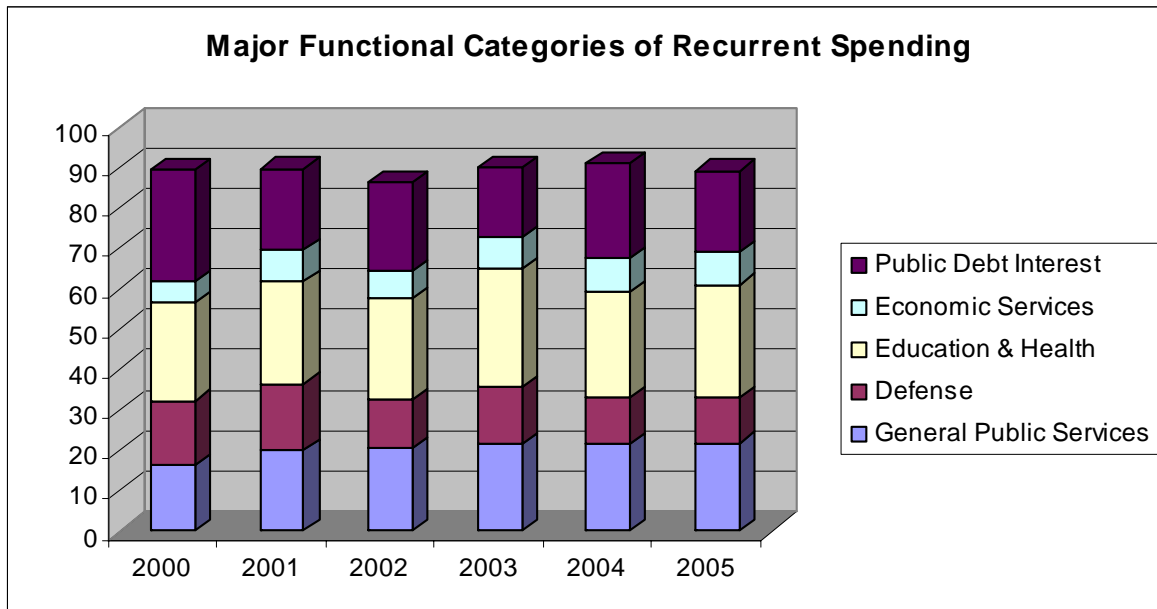
37. A number of clear trends emerge in the pattern of recurrent spending, as illustrated in Table 2.2 and Figure 2.2 :

- Total recurrent spending grew substantially over 2000 to 2002 both as a proportion of GDP and more especially in real terms (given that GDP growth was very fast in this period.)
- It subsequently stabilised in 2003 and has probably maintained its real value over 2003 – 2005, despite comprising a declining proportion of GDP¹⁵.
- GBS disbursements comprised 16 % of recurrent spending in 2001 and clearly permitted higher levels of spending than would otherwise have been the case. However, their significance declined quite sharply in 2002 and 2003 before rising again over 2004 and 2005, when they represented over 30 % of recurrent spending.

¹⁵ It is difficult to determine what is the most appropriate deflator for recurrent spending but a simple comparison with the CPI suggests that its real value was broadly preserved. The CPI being based on Freetown prices only would probably be an over-estimate of the relevant deflator.

- The stabilisation of real recurrent spending at its 2003 level can be explained essentially by the difficulties in achieving continued increases in domestic revenue collection as a proportion of GDP. This peaked in 2001 at 13 % and subsequently stabilised at around 12 % of GDP. The decline in the relative value of GBS disbursements in these years would also have been a contributory factor.
- In terms of the functional breakdown, Defence spending shows a clear declining trend, falling from 16% of recurrent spending in 2000 to 11% in 2003.
- Health and education spending shows a steady upward trend from 24.1% in 2000 to 28% in 2005.
- Spending on Economic Services also rose - from 5.4 % in 2000 to 8.1% in 2005.
- However, the most striking statistic is the high proportion of total recurrent spending dedicated to the payment of interest on (predominantly domestic) public debt. In most years, the value of interest payments has been in excess of the value of GBS disbursements and generally represented the largest functional category within recurrent spending, effectively squeezing out more productive spending in other areas.

Figure 2.2 Evolution of key Functional Categories of Recurrent Spending 2000 - 2005



38. The renewed surge in interest payments after 2003 is particularly striking. This can be directly attributed to the expanded domestic debt servicing commitments created by the non-disbursement of the GBS flows expected in 2003 and by the late disbursements made in 2004 and 2005. (See 2.2.2) The impact of these developments would be still more noticeable in the absence of the reduction in interest on foreign debt made possible by HIPC debt relief.

39. Notwithstanding these negative effects, it is still clear that real recurrent spending over the period has been higher than it would have been in the absence of GBS and secondly that a growing proportion of this has been dedicated to spending on health and education and on economic services. The data available on health and education outcomes points to substantial increases in gross enrolment rates (particularly following the abolition of primary school fees) as well as significant reductions in infant mortality rates. (See Project Completion reports in annex for more details.)

40. The Government has sometimes hit and sometimes missed its annual targets on poverty reducing spending agreed with the GBS donors. The fact that these were being measured and discussed publicly is clearly of some importance. Similarly, the fact that outputs and outcome targets were monitored and that process improvements identified through the Public Expenditure Tracking Surveys (PETS) were a subject for public discussion is also highly relevant. Overall, the impression is that efforts were made by the Government to protect poverty reducing spending, even in times of fiscal constraints, and it is probably the case that the level of scrutiny over such spending helped to stimulate this level of protection. Nevertheless, it should be remembered that significant additional financing constraints were generated by the lack of predictability in GBS disbursements. More predictable budget support would have considerably facilitated the task of protecting social spending.

2.4 Effectiveness, responsiveness and accountability of government

41. Both policy dialogue around budget support and the specific progress targets chosen for the DFID and EC performance tranches have been focused predominantly on issues related to the effectiveness, responsiveness and accountability of government. A good many of these targets have been missed and dialogue over these issues has often been fractious so, at first sight, there is an impression of limited progress in these areas. However, performance targets are only a means to an end: a method of benchmarking progress so as to create incentives for faster reform. The fact that they are only partially met may be as much a reflection of the ambitiousness of the chosen targets as of the underlying progress in reform efforts.

2.4.1 Progress in strengthening PFM systems

42. In relation to public finance management (PFM) processes and outcomes, a more objective measurement of progress over time is provided by the recent PEFA assessment of PFM systems (REPIM, April 2007). Whilst recognizing the continuing need to implement and deepen ongoing reforms, the report identifies a number of important advances which have been made in recent years:

- A new Government Budgeting & Accountability Act was approved in 2005 and work on the corresponding Financial Regulations is now close to completion.
- An Integrated Financial Management System (IFMIS) has been developed and installed for all central government departments.
- Qualified staffs have been appointed to the Accountant General and Deputy Accountant General positions and the outstanding back-log of annual accounts was finally cleared in May 2007.
- There have been significant efforts to strengthen external auditing and Audit reports on the 1996-99, 2000-2002 and 2003 accounts have been prepared by the OAG.
- Following the 2004 Procurement Act, the first members of the National Public Procurement Authority (NPPA) were appointed in May 2005. Procurement planning processes have been introduced within each sector, based upon the use of standard bidding documents.
- Annual Public Expenditure Tracking Surveys (PETS) for Health and Education have been conducted since 2003 and are now regarded as a central component of the

monitoring system, stimulating improvements in expenditure recording and in district level management processes.

43. There remains much more to do and major weaknesses still exist. As a whole, reforms are still at an early stage, with the focus being still upon the institutionalisation of an appropriate legal and regulatory regime. In many cases, new procedures and systems have yet to be actually implemented. This is especially true with regard to procurement, where NPPA's ability to monitor compliance is weak and many aspects of the new legislation are still not in place. However, even in relation to accounting where more progress has been made, there are important aspects of the control system, notably in relation to payroll and commitment controls, which are not fully functional. The IFMIS system is also some way from achieving full functionality and a substantial training challenge remains as the 'roll-out' proceeds. Similarly, regarding external audit, the combination of uncompleted annual accounts and staff shortages has meant that as of May 2007, annual audit reports had only been completed for 2003, 2004 and 2005. The 2003 report has been before the Public Accounts Committee for some time and the Audit Services' interpretation of a Parliamentary Standing Order means that neither this report nor the 2004, 2005 and 2006 reports will be published until after PAC review is complete and Parliamentary approval for publication has been granted. This is not consistent with international best practice and somewhat diminishes the impact of the OAG's work.

44. These are important qualifications to the overall picture. Nevertheless, we would contend that the improvements introduced over the last 3-4 years represent an impressive set of achievements – especially given the complexity of the working environment in Sierra Leone and the accompanying human resource constraints. Figure 2.3 provides some substantiation of this judgement. It presents a comparison of the results of the 2007 PEFA exercise with the 2004 HIPC Expenditure Tracking Annual Assessment and Action Plan (HIPC AAP), prepared by the staff of the IMF and World Bank. Although the precise assessment methodologies differ, the set of 31 indicators developed for the PEFA was quite explicitly structured so as to include 15 of the 16 indicators used in the HIPC AAP¹⁶. The two scoring systems can be adapted to a percentage scale and in this way, it is possible to develop a standard scoring system to permit comparison of the rankings for the 15 aspects of the PFM system covered by both methodologies. (See Annex B for fuller details of the scoring system and of the individual scores.)

45. As may be seen from Figure 2.3, over the period 2004 – 2007 Sierra Leone achieved improvements in 10 of the 15 indicators, no change in one and modest declines in 4 indicators. This is an impressive record, which compares well with the more limited progress achieved in neighbouring Ghana over the same period¹⁷.

46. To what extent may this positive progress be attributed to the GBS process? To a significant extent, we would say. PFM issues have been a major part of the dialogue around budget support and many of the Government's targets in its own PFM Common Action Plan have been taken up as targets or triggers within the performance tranche arrangements of DFID and the EC and, more recently, within the joint PAF. Several of the GoSL officials interviewed pointed to the importance of these targets as a mechanism for keeping the attention of senior GoSL staff and political leaders focused on PFM reform issues.

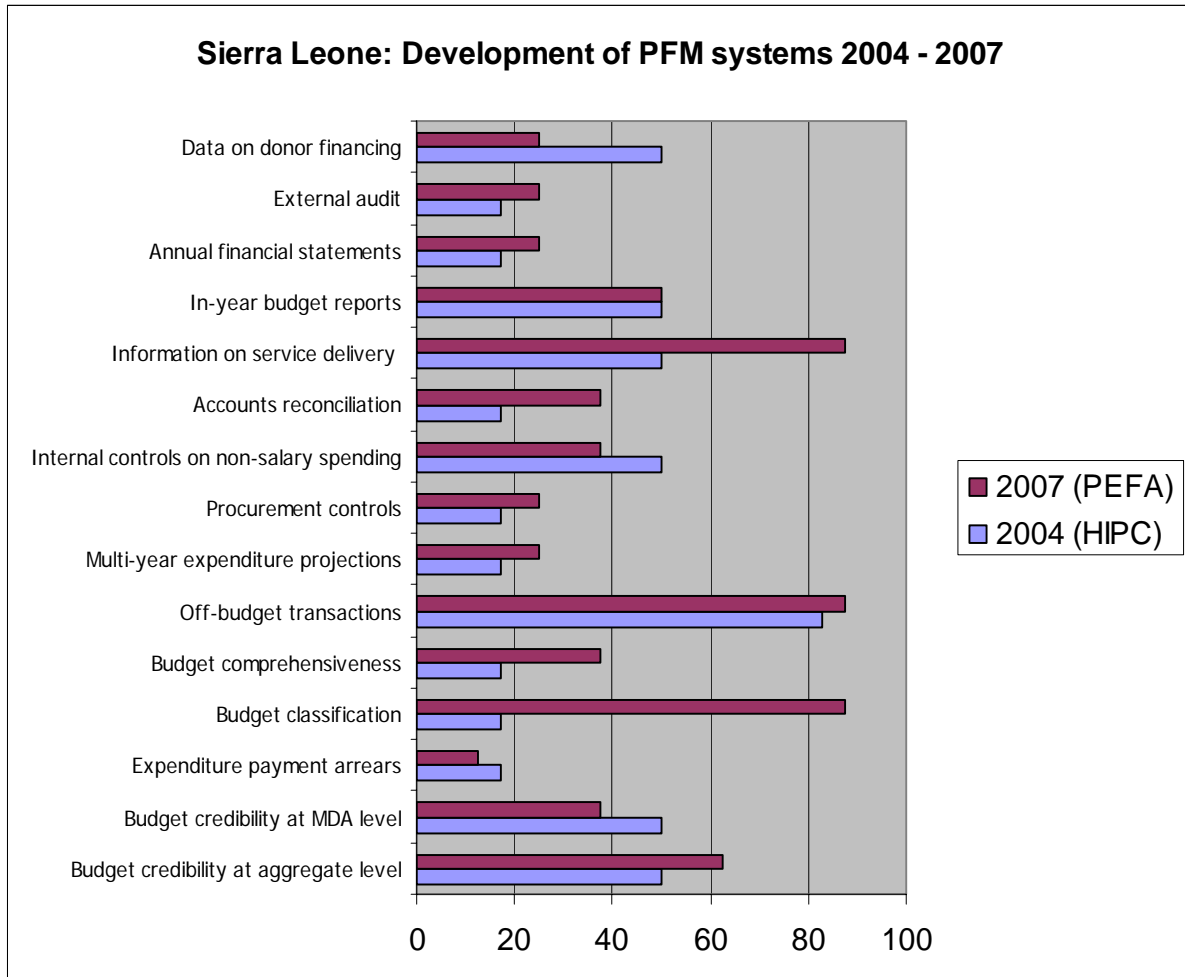
47. Technical assistance support has played an important role in the design and implementation of PFM reforms and continues to be crucially important to further progress. It

¹⁶ The one which was omitted was the one relating to the ability to track "poverty-reducing expenditures". The original formulation of the indicator in the HIPC AAP was seen as being too simplistic to be useful.

¹⁷ See Lawson et al (2007).

is probably the case that several of these technical assistance initiatives would have been pursued even in the absence of a GBS operation but the TA staffs interviewed were of the unanimous opinion that they would not have been able to progress so fast in the absence of GBS arrangements.

Figure 2.3 Sierra Leone: PFM systems development 2004 - 2007



48. Notwithstanding the general view that GBS dialogue and conditions have made a difference – in other words, that things would be worse without GBS, none of our interviewees went so far as to say that the GBS dialogue had helped to create a real political commitment to PFM reform. Clearly, there is a strong commitment at the technical level and it is this that is driving progress but there is not yet a firm, whole of government commitment to reform implementation. The difficulties experienced in developing an effective senior oversight committee for the PFM National Action Plan provide a good illustration of this problem. It is another of the key issues which will need to be borne in mind in future arrangements for GBS.

2.4.2 Progress in broader aspects of Governance

49. Public Finance Management issues have been the prime focus of concern within the GBS dialogue but attention has also been given to broader governance issues. In particular, there has been attention to different aspects of the Anti-Corruption agenda. These issues had a relatively high profile in the 10 year GoSL-UK government MoU and continued to be an important part of DFID's budget support arrangements, forming a significant part of the conditions for annual performance tranches.

50. Concerns over manipulation of the May 2004 local elections led to demands by DFID and other agencies that there should be an investigation into the results by the National Electoral Commission and the International Fund for Electoral Systems. The investigation found evidence of widespread and blatant manipulation of results by electoral staff, which led to the withholding of 60 per cent of the £5 million performance tranche available for 2004/05. At the time, this was seen as a clear signal to Government that such practices would not be tolerated. The quality of the conduct of the August 2007 elections will be the acid test of whether improvements in electoral practices have genuinely been instituted.

51. Outside of a general concern for democratization and human rights expressed both in the 10 year GoSL-UK Government and MoU and the more recent MoU for the MDBS, performance tranche conditions have focused on five aspects of governance:

- The establishment and strengthening of the Anti-Corruption Commission
- Streamlining of the legal procedures for selection of ACC cases for prosecution and for ensuring that the State is able to contest appeal cases effectively.
- Increasing the transparency of public information on accountability issues, in particular by ensuring prompt publication of procurement notices, of public accounts and of the annual reports of the Auditor General.
- Related initiatives to improve information on service delivery at the local level both through the PETS surveys and their follow-up and through an annual Service Delivery Perception Survey (SDPS).
- Pursuit of the Extractive Industries Transparency Initiative, through official adoption of the EITI by the Government and subsequent development of a work plan for implementation of the EITI principles.

52. In terms of progress in these five areas, the picture is mixed. In two, namely the PETS/SDPS initiatives and the EITI, there has been genuine progress. GoSL has signed up to the EITI initiative and a work plan for implementation of the EITI principles is under development. The PETS initiatives have now become an important part of the annual monitoring of the PRS and of related accountability initiatives and several of the recommendations of past PETS surveys have been acted upon. A joint GoSL/ Civil Society Task force was established to lead the Service Delivery Perception Survey and the survey was conducted in 2006/ 07 by Fourah Bay University and CESPAC with support of the PETS team.

53. In other areas, progress is less clear-cut. A number of specific actions have been fulfilled but these actions have not been followed through in a way that would guarantee real results. The Anti-Corruption Commission is perhaps the best illustration of this. The Commission has been set up, staffed and given a legal mandate but its ability to actually pursue cases for prosecution has been continually undermined. Initially, this was because of the apparent reluctance¹⁸ of the Attorney General to submit cases for prosecution. As a consequence, a 'fiat' mechanism was agreed upon the insistence of DFID by which the ACC's own special prosecutors could make a binding decision on whether cases should proceed to prosecution. Even following this agreement, the number of cases actually pursued has fallen short of the modest benchmarks agreed for the performance tranche. In the meantime, two convictions from previous ACC cases had been overturned on appeal.

¹⁸ It is not straightforward to interpret this 'reluctance' because clearly the Attorney General has a role in ensuring that prosecutors' time is not wasted on cases which lack sufficient evidence but the DFID staff monitoring these issues were convinced that there was an unjustified reluctance.

54. The failure to publish the annual reports of the Auditor General is another example of the same syndrome. Substantial resources have been expended to strengthen the Office and to recruit an adequately qualified Auditor General and Deputy Auditor General. Progress has also been made in addressing the backlog of outstanding annual reports. However, as the result of the interpretation of Parliamentary Standing Order 75, the OAG's annual reports have been withheld from publication until after the completion of the Public Accounts Committee review and the subsequent tabling of the annual report before Parliament. As a result, the latest available annual report of the OAG available to the public is for 2002. Delays of this nature clearly diminish the impact of the Auditor General's work and compromise transparency and accountability.

55. How are these outcomes to be interpreted? The views expressed by those working on governance within DFID, the other GBS donors and amongst Sierra Leonean civil society are quite clear and virtually unanimous on this question. The DFID-funded drivers of change study for Sierra Leone (Brown et al, March 2005) also expresses the same view: politics in Sierra Leone continues to be based on patronage, in which senior positions within political parties and within Government are gained and maintained by distributing resources and opportunities to supporters and allies. The continued ability to distribute resources and favours could be maintained through personal wealth but in Sierra Leone, it has historically relied upon the use of public resources for personal gain and upon the manipulation of public decisions over procurement, award of licenses, etc – in short, upon corruption in government. Any actions that directly threaten the continuation of these practices or that threaten the exposure of these actions, in a way which is likely to result in sanctions have naturally enough been resisted by the political leadership of Sierra Leone and will almost certainly continue to be resisted.

56. Faced with an environment of this kind, it is important to ask whether it is appropriate to provide budget support at all and, if so, whether it is useful to include governance conditions as part of the arrangements. We address these points more fully in Chapter 3 but by way of a conclusion, we make two points here:

- Firstly, notwithstanding all of the difficulties in securing real improvements in governance, most informed commentators appear to agree that some progress has been made over the past five years. DFID's governance assessment of April 2007 captures this perception most succinctly:

'..Five years from the end of the 10-year civil war, Sierra Leone constitutes a mixed picture in terms of governance. There have been improvements in capability, accountability and responsiveness but starting from an extremely low base at the end of the war. The trajectory of change is positive but slow and much remains to be done.'

- Secondly, the strategy towards tackling corruption has already evolved and with it the relative place of budget support as a lever in this struggle has diminished. The EC Governance Profile undertaken jointly with all donors and discussed with Government in 2006 has been an important part of this process. It recommended a broadening of the anti-corruption struggle so as to reduce the heavy focus on the Anti-Corruption Commission and increase attention to the petty corruption faced more commonly by all citizens, particularly in attempting to access government services or in dealing with government regulatory processes. In part in response to this, DFID is currently rebalancing its programme 'to give more support to basic service delivery and to put more focus on accountability and responsiveness, through a number of new interventions working with civil society and the media'. (DFID, April 2007)

57. This broadening of the anti-corruption strategy seems to us to be timely and appropriate. It will have implications for the place of budget support and for the possible role

for governance conditions within budget support. We will address these questions in Chapter 3.

2.5 Harmonisation & Alignment of Budget support arrangements

58. Over time, the process of budget support provision has become increasingly harmonised between DFID and the other budget support providers – the AfDB, EC and the World Bank. This began with the recognition in 2005 that the continuation of separate disbursement and monitoring arrangements was generating unacceptably high transaction costs for GoSL and the consequent agreement of a shared set of principles for the delivery of budget support.

59. In 2006, the various disbursement triggers of the different GBS providers were grouped into a single Performance Assessment Framework and progress against the common PFM benchmarks was monitored at a first joint annual review, with individual agencies monitoring other targets separately. A formal MoU was signed between the GBS providers later in the year and a more fully integrated PAF – including all the individual GBS donors' targets - was developed. Efforts were made to reduce the number of targets and triggers so as to make it a manageable matrix. . A second successful joint review was held in May 2007.

60. These harmonisation efforts are seen by all parties as important in ensuring that budget support can be as predictable as possible and that non-productive transaction costs can be kept to a minimum. Nevertheless, as emphasis has shifted towards the joint PAF, the role in DFID budget support of the 10-year bi-lateral MoU has started to be a source of potential confusion and remains one of the outstanding issues within the GBS arrangement.

3 Conclusions: the Budget Support dilemma in Sierra Leone and what might be done about it

61. Our assessment of the experience to date with the provision of budget support to Sierra Leone leaves DFID and other budget support providers with a dilemma over future strategy. A clear and explicit understanding of the dilemma seems to us to be essential to the design of an effective policy for the future. In this chapter, we consider the nature of this dilemma and the type of strategic policy response which it might demand.

3.1 What is the budget support dilemma?

62. It should be clear from the assessment presented in Chapter 2 that the provision of budget support to post-conflict Sierra Leone has brought genuine benefits:

- Most notably, it contributed to sustained fast growth in the post conflict period by providing a non-inflationary boost to public spending, which helped to stimulate domestic demand directly, whilst also improving business confidence.
- It allowed for a higher real level of recurrent spending, a significant part of which was channeled into health, education and economic services, with a diminishing share accruing to defense.
- Higher spending in these areas helped to secure improvements in service delivery and in sector outcomes. The monitoring of outcomes and service delivery processes (through the PETS and other methods) and the associated policy dialogue probably contributed to these results.
- Significant improvements were made to public finance management systems, partly as a result of well targeted TA but also as a consequence of the prominence given to these issues in GBS policy dialogue and disbursement conditions.
- GBS dialogue and disbursement conditions may also have contributed to maintaining a positive trajectory of change on governance issues, even if progress has been slow.

63. There are good reasons to suppose that similar benefits could be obtained from a continuation of budget support – indeed the potential benefits may be still higher. Because the economy is now substantially bigger, it will be more difficult for GBS to generate an effective demand stimulus but the need for higher public spending and expanded service delivery is every bit as great. There are still major gaps in service coverage and major deficiencies in public infrastructure. With higher levels of investment and higher levels of economic activity, the economic benefits of addressing these gaps quickly will be that much greater. Similarly, if the gains achieved in PFM systems can be consolidated through the comprehensive implementation of new systems and processes, then real gains can be expected in resource allocation and expenditure control processes.

64. On the other hand, despite the benefits already achieved and the potential for greater benefits in future, the fiduciary and other risks associated with budget support do not appear to be any lower in 2007 than they were in 2002. The positive changes in PFM systems and governance processes over the past five years have helped to introduce a more appropriate legal and regulatory regime but, in many cases, new procedures and systems have yet to be actually implemented. There are important aspects of the control system, notably in relation

to procurement, payroll and commitment controls, which are not fully functional. Oversight of accountability processes is still very weak. In short, fiduciary risks remain very high.

65. Macroeconomic risks also remain. GBS may generate three significant negative macroeconomic side-effects¹⁹. These are:

- The potential for ‘Dutch disease effects’ arising out of the appreciation of the real exchange rate as a consequence of foreign exchange inflows from budget support.
- The related short-term problem of ‘sterilising’ the monetary effects of GBS inflows so as to prevent excessive expansion of the domestic money supply; and
- The potential disincentive effect on governments to raise domestic revenue collections.

66. It might be argued that with the experience of budget support which has been gained by the Central Bank, these risks should be lessened. But, with higher foreign exchange flows now coming from other sources – notably mining, the problems of monetary and exchange rate management may well be greater. Indeed, the real exchange rate has been steadily appreciating since 2005. (IMF, February 2007). Similarly, with domestic revenue generation at 12% of GDP, the easy gains in revenue collection (for example, from taxes on trade and on mining) have now largely been made. The administration of revenue collection processes will need to be tightened to reach higher percentages of GDP and the tax base will need to be widened, in particular through the introduction of VAT. This will start to threaten political interests and will probably generate stronger incentives to seek higher grant financing as an alternative to new tax measures.

67. To a large extent, it is possible to guard against macroeconomic risks and indeed the structure of policy dialogue between the IMF and the Central Bank is intended to do just that. However, fiduciary risks are more difficult to reduce in the short term. This is particularly because most informed commentators suggest that it is unrealistic to expect any significant change in the governance context to arise out of the national elections. Politics is almost certain to remain patronage based and, as a result, sources of discretionary power and avenues for corruption will continue to be important. The systemic changes in procurement and other control systems and the improvements in transparency and accountability currently being put in place can only be expected to have an impact upon corruption over the medium to long term.

68. So the dilemma for DFID and other agencies is whether to opt for a high risk – high benefit strategy based on the continuation (and potential expansion) of budget support or to adopt a structure of aid interventions which brings lower but more certain benefits. In so far as DFID and the other agencies working in Sierra Leone have relatively large portfolios, then it is possible through a balanced portfolio of interventions to achieve a little bit of both. Yet, in the end, a choice needs to be made: the benefits of budget support require a minimum critical mass so “small scale budget support” is not an option. And if the choice is made to avoid budget support, overall disbursement rates will need to be lower, unless project design and supervision budgets can be quickly increased so as to obtain a similar scale of disbursements through a project based portfolio, something which is almost certainly not feasible in the short to medium term.

69. Accepting that there is a real dilemma - a real policy trade-off, is the first step towards an effective future policy. Past GBS practice in Sierra Leone has been characterized by a

¹⁹ To a degree, these side effects apply to all forms of external assistance flows but they are generally more acute with GBS, due to its scale and the ‘lumpiness’ of its disbursements.

fundamental policy ambivalence: the UK Government has wanted to secure the substantial benefits offered by budget support without wanting to assume the risks associated with it. This should not continue if the gains of budget support are to be maximised.

70. Budget support inevitably carries risks because it involves transferring unearmarked resources to Developing Country governments to be allocated and managed through their own budgetary systems – systems which are likely to be subject to fiduciary weaknesses. In certain contexts, there are good reasons for taking these risks and DFID itself has now probably assimilated the arguments for budget support, whilst also developing a good understanding of the risks. The UK Government as a whole, and most notably its Parliament, does not appear to share this understanding. As a result, the Secretary of State for Development has frequently felt pressure to reduce the risks associated with budget support. In Sierra Leone, this led to a structure where DFID tried to put in place the maximum number of supposed “safeguards”: a substantial performance tranche with an associated set of governance conditions, a framework for decisions on the fixed tranche disbursement which retained a maximum of control in London and a structure for regular political input into the budget support process.

71. The end result was a GBS design which could not guarantee predictable disbursements and which on frequent occasions generated tension in policy dialogue. The lack of predictability provoked a high level of unplanned domestic borrowing, which threatened the very benefits of budget support. In our judgement, if a similar structure for GBS was to be followed in the future, it would be better to stop budget support altogether and shift to a lower risk, project-based aid strategy. The decision over the level of risk to accept cannot and should not be “fudged”. Below, we consider the most appropriate design for each of these strategies.

3.2 Plan A: a Budget Support strategy for the future

72. If DFID and other agencies do opt for a high risk - high benefit strategy focused on budget support, what should be the key features of that strategy and how should it differ from current arrangements and what should remain? We consider each of these questions in turn.

3.2.1 What should remain from the current arrangements?

73. A first point to stress is that for the most part budget support in Sierra Leone is working well and has achieved some significant results. There are aspects of the current design which should be changed but one should not attempt to fix what isn't broken! In particular, the following key aspects of current arrangements need to be retained:

- ***A harmonised budget support arrangement based on a shared Memorandum of Understanding, a common Performance Assessment Framework and a joint annual review.*** The budget support architecture has been well designed and generally appears to work efficiently as a framework for delivering budget support in a manner which is aligned and harmonised. The recommendations below may require some minor modifications of content but nothing major needs to be changed.
- ***A continued division between a Fixed and a Performance tranche.*** There is a strong logic behind the division between a predictable, relatively easy to access fixed tranche and a performance tranche which seeks to give extra incentives to accelerate reforms and improve service delivery outcomes. This logic is well

understood and accepted within the Sierra Leone Government. Moreover, so long as the Ministry of Finance continues to exclude performance tranche disbursements from its cash-flow projections – a practice we strongly recommend should continue – then the performance tranche need not be a source of unpredictability. Some change is needed in the nature of the conditions which form the focus of the two types of disbursement but there is no reason to change the basic structure.

- **A continued focus on improvements in fiduciary control, transparency and accountability through TA support, dialogue and performance conditions focused on the PFM National Action Plan.** PFM issues currently take centre stage in the GBS process and this is very much as it should be just so long as PFM reforms do not become too technical and narrow. The current focus which includes attention to broader questions of transparency and accountability looks right.
- **A continued focus on service delivery outcomes as a key goal of the budget support process.** The focus on service delivery outcomes and the related setting of outcome targets against which to assess Variable Tranche disbursements have been primarily an initiative of the European Commission. The scheme and its rationale appear to be well understood by Government and, although it is not yet clear whether the EC's variable tranche has actually induced behavioural change, it has kept attention on service delivery outcomes. There are therefore good reasons for its retention.
- **The continued use of technical assistance to support the government reform programme.** The improvements in PFM outcomes identified in chapter 2 have probably been facilitated by the budget support dialogue but would certainly not have occurred in the absence of technical assistance. There are understandable concerns about the sustainability of a heavy reliance on technical assistance and these demand greater attention to the development of an adequately remunerated Senior Executive Service but for the medium term it will be important for high levels of technical assistance provision to continue.

3.2.2 What should be changed?

74. The guiding principle for change should be an understanding of whence the future benefits of budget support are most likely to derive. A return to the basic principles of budget support may facilitate a reflection on this question. We would suggest that budget support should be considered an investment in a partner government, which would be justified by three criteria:

- The potential for high social returns from increased public spending;
- The will and the capacity within government to expand the services or undertake the investments which bring these high returns; and
- The inability to raise the necessary financing efficiently from increased domestic taxation or from expansion of other aid modalities.

75. The key contribution of budget support should be to permit higher levels of public expenditure – particularly on service delivery – and a more predictable, fungible base of funding for the budget, which should reduce within-year financing costs and facilitate more efficient resource allocation by avoiding earmarking. Policy dialogue and disbursement conditions should be focused on those systems most important to securing these gains –

namely PFM and service delivery systems. Even within the relatively unfavourable governance environment of Sierra Leone, it should be possible to achieve gains in these areas because the expansion of public spending and the improvement of service delivery represent common points of interest for both Government and the budget support donors. What needs to be changed to obtain this type of focus?

- ***The predictability of budget support disbursements needs to be increased so as to achieve regular 1st Quarter disbursements.*** The costs of unpredictable past disbursements have been comprehensively described in Chapter 2. The potential savings in budget financing costs of turning around the current situation so as to achieve regular fixed tranche disbursements in the 1st Quarter of the fiscal year could be very substantial. Three specific changes will be needed to achieve this:
 - The annual assessment process will need to alter its focus so that rather than providing the basis for a decision on current year disbursements as at present, it would seek to provide a decision on the disbursement of the fixed tranche for the future budget year. Thus, during year t , a decision is made over the fixed tranche disbursement for year $t + 1$, based upon performance in year $t - 1$. Such a system has successfully been adopted in Tanzania, Mozambique and Ghana and is now increasingly accepted as best practise for budget support²⁰. In Sierra Leone, it would not require any change in the timing of the annual review but, in the initial phase of ‘confidence-building’ might require a second review in October or November at which GBS donors would confirm the disbursement decisions reached in May.
 - Secondly, a sharper distinction is needed between the Fixed tranche and the Performance tranche, so as to ensure that a lack of progress on conditions related to the latter does not alter the mode of assessment of the former. The Fixed tranche should be dependent upon maintenance of the essential conditions for the continuation of budget support – sometimes these are described as eligibility conditions or “due process” conditions (See below).
 - Thirdly, a similar separation of conditions needs to be introduced into the PRSC so as to permit consistency with the wider arrangement. A possible way of doing this would be to define the base set of “eligibility” or “due process” conditions for the fixed tranche as PRSC “triggers”, against which the majority of the PRSC could be disbursed and then a small set of additional “targets” could be established for the balance.
- ***There needs to be an increased focus on the national budget itself and on the resource allocations which it generates and less attention to broader policy and governance reforms.*** Budget support is provided to facilitate higher public spending on the areas which generate the highest socio-economic benefits. There are various ways in which this might be interpreted, drawing on the Sierra Leone Poverty Reduction Strategy and other relevant documents. In any event, there needs to be a debate on budget priorities between GoSL, the Budget Support donors and potentially other stakeholders. Thereafter, the funding of these budget priorities and the achievement of the corresponding service delivery outcomes should become a major focus of attention for dialogue and disbursement conditions. In this process, the range of reform areas covered by the GBS dialogue and related disbursement conditionalities should be deliberately narrowed, so as to simplify

²⁰ The approach is described in more detail in Lawson, Gerster and Hoole (2005).

dialogue and sharpen the incentives which the use of a performance tranche might provide. More political questions – security, justice, elections, and anti-corruption efforts – should be separated out from the process and made the focus of a political dialogue, which would take place separately from the GBS assessment process.

- ***The performance tranche should be made smaller in relative terms and disbursement conditions simplified so as to focus primarily on budget allocations, PFM reform and service delivery outcomes.*** Although to date there have been no comprehensive evaluations of the impact of variable or performance tranches, existing experience suggests that the type of incentives they provide tend to be quite simple and not necessarily closely related to the value of the performance tranche. Often the public criticism that might follow from achieving a low variable tranche disbursement is quite sufficient to increase attention to its conditions²¹. A second general finding is that where the conditions for disbursement are too complicated, then any incentive effect is essentially ‘drowned out’. This points to the need for simplicity and, we would recommend, for a focus on an achievable set of targets linked to PFM reform, budget allocations, service delivery targets and, possibly, revenue collection. In order to keep the assessment process simple and avoid high transaction costs, it is recommended that the assessment of the performance tranche disbursement should be undertaken at the annual GBS review. With the review taking place in the 2nd Quarter, it should still be possible for the agreed level of the performance tranche to be disbursed in the 3rd or 4th Quarter of the same year. (Thus, the annual review would determine disbursements of the performance tranche for year t and of the fixed tranche for year $t + 1$.)²²
- ***Achievement of revenue collection targets needs to become an additional focus of attention for budget support.*** Although in general the tendency should be to simplify and not to add new policy issues into the GBS dialogue, the stagnation in domestic revenue mobilisation witnessed over late 2006 and early 2007 suggest that the availability of GBS funding may be creating disincentives for the collection of domestic revenues. It may therefore be useful to introduce revenue collection targets and revenue collection measures into the GBS dialogue and possibly into the conditionality framework for the performance tranche.
- ***The role of the GBS process as a focal point for domestic discussion of budget allocation and public sector reform issues needs to be enhanced so that it is not solely a mechanism for external accountability.*** Many of the changes in governance and accountability structures which GBS has attempted to promote in the past cannot successfully be sustained until there is a sufficiently strong domestic coalition in favour of such change. External accountability alone is not sufficient to achieve changes in those areas of governance which most directly threaten the *status quo*. The GBS process can help to strengthen domestic pressure for change if it is deliberately used as vehicle for communicating GoSL budget and reform plans and achievements to the general public. This can be done a) by allowing Parliamentarians and civil society to have access to the GBS annual

²¹ See Lawson, Gerster and Hoole, 2005.

²² An alternative format, used in Mozambique for example, is for the assessment of performance tranche disbursements to take place at the Half-Yearly Review. According to the Sierra Leone budgetary calendar, this would need to take place in October or November (with the Annual Review still in May) and would thus allow for a decision on the value of the performance tranche to be disbursed in the 2nd Quarter of fiscal year $t + 1$. This same half yearly review would permit a confirmation on the decision for the Fixed tranche due in the 1st Quarter of fiscal year $t + 1$.

review discussions; and b) by deliberately publicising the results of the annual review through press conferences, etc.

- **More effort needs to be made by GBS donors to improve understanding of budget support and its potential amongst domestic Parliamentarians and civil society groups.** There still remains a degree of ignorance over budget support within the Legislatures of the GBS donor countries and amongst civil society more broadly which can potentially undermine its effective management. This risk needs to be addressed through properly structured information and education campaigns.

76. The cumulative effect of these changes would be to make the budget support process simpler and more predictable. Underlying this is the notion that there are limitations on the scope of influence which budget support can have. Respecting these limitations makes the management of the GBS process simpler, sharpens the incentives which it might provide for faster reform and leaves more space for domestic actors to engage in the process of monitoring government performance and lobbying for institutional and policy changes. The resulting structure of dialogue might thus involve four ‘tiers’ as shown in Table 3.1:

- An overarching framework for Public dialogue between Sierra Leonean citizens and their government which would focus on the demand for accountability and where donors would act only as observers and stimulators of debate, not as participants.
- A framework for Political dialogue for GoSL and its international partners, separated from the GBS dialogue and focussed on strategic issues of security, justice, elections, anti-corruption efforts, and perhaps the monitoring of IGAP.
- A structure for dialogue over Performance, with implications for performance tranche disbursements but including sector ministries, private and NGO service providers and representatives of the users of government services.
- The Budget Support dialogue which would focus on the eligibility or “due process” conditions for budget support.

Table 3.1: The Four Tiers of Dialogue

	Content	Main Participants	Location/ Timing
Public Dialogue	The Demand for Accountability	GoSL representatives & Citizens – esp. women’s groups, youth networks, CSOs and Parliamentarians (Donors as observers)	Different periodic and Ad Hoc events
Political Dialogue	Security, Justice, elections & Anti-Corruption; Progress with IGAP	Government to Government discussions at highest level (GoSL and main international partners)	Probably structured to take place as ‘side discussions’ at CHOGM, IMF, WB & AfDB Annual meetings, etc
Performance Dialogue	Performance on service delivery, PFM reforms, & revenue collection, with implications for Performance tranche disbursement.	MDBS donors, MoF, Sector Ministries, NGO & Private Service Providers, Representatives of service users	Main discussions at either the Annual or Half Yearly GBS review, with subsidiary quarterly events.
Budget Support Dialogue	Eligibility or “Due process” conditions for Budget Support to determine disbursement of Fixed tranche.	MDBS donors & GoSL with IMF and UN agencies as observers	Main discussions at Annual Review, supported by discussions at Half Yearly review and at quarterly events.

77. The definition of the “due process” or eligibility conditions to determine the disbursement of the Fixed tranche should be a relatively simple process. At present, there are three such conditions defined, as summarised in the Joint Aide Mémoire of the 2007 Review of the MDBS Performance Assessment Framework:

- Continued good macroeconomic performance, as evidenced by satisfactory progress under an IMF program.
- Satisfactory progress in PRSP implementation, assessed on the basis of annual PRS progress reports and the annual MDBS review of mutually agreed benchmarks.
- Continuous improvements in Public Finance Management (PFM), assessed on the basis of applicable evidence including annual reports on National Action Plan (NAP) implementation.

78. In the short term, there is probably no need to change or adapt these conditions but some reflection on their adequacy and appropriateness is probably necessary. In the first place, they are not comprehensive, in that there are issues not covered by these conditions – such as the conduct of free and fair elections – which have in the past had an impact on fixed tranche disbursement decisions and are likely to continue to do so. Some of these issues are captured within the listing of ‘underlying principles’ included in the MDBS MoU but it may be helpful to make them more explicit. Secondly, some of these conditions are in practice quite open-ended (the mutually agreed benchmarks for the PRSP for example) and can end up covering quite a wide range of policy and institutional reforms. Similarly, they may end covering both questions of principle – such as the publication of annual audit reports – and questions of performance or of policy choice, such as the implementation of the private sector development strategy. There is an important qualitative difference between failing to respect a key principle of democratic accountability and simply being inefficient or slow in policy design and implementation.

Box 3.1 - Dimensions of ‘due process’

The GoSL and MDBS partners are asked to consider an arrangement in which annual disbursements of MDBS fixed tranches would rest exclusively upon observance by the GoSL of the following principles:

- i. Continued respect for democracy and human rights.
- ii. Maintenance of fiscal and monetary policies consistent with macro-economic stability and growth.
- iii. Adherence to a clear poverty reduction strategy and allocation of resources in line with this.
- iv. Respect for national budgetary and procurement legislation and the related systems to ensure that spending is in line with the approved budget and follows required procedures.
- v. Continuing reforms to improve the quality of these systems and raise value for money.
- vi. Transparent measurement of the results of public spending and use of these to improve sectoral policies.
- vii. Continuous strengthening of the quality of governance and public administration, and periodic public assessments to assess progress.

79. The notion of “due process” tries quite explicitly to capture the points of principle which underlie the budget support partnership. Essentially, respecting ‘due process’ means that Government is doing what it ought to do to respect the underlying partnership compact of the MDBS. It entails an assessment that Government is acting in good faith and following its own legal requirements as well as international norms of transparency and fiscal discipline. In general, respecting due process conditions should not present a problem but if they are broken then that should be an acceptable justification for stopping MDBS payments altogether. GBS arrangements can generally be structured around eight ‘due process’ requirements, presented in Box 3.1.

80. These ‘due process’ requirements are drawn from recommendations made for the Ghana MDBS, as part of the evaluation concluded in May 2007. In the case of Sierra Leone, adherence to the principles of the Extractive Industries Transparency Initiative might be included as a further ‘due process’ principle.

3.3 Plan B: a Project-based strategy for the future

81. Sierra Leone represents a high risk environment for the provision of budget support. This fact needs to be very explicitly acknowledged in designing a future country strategy for DFID and for other MDBS partners. In this context, to choose not to provide budget support would be perfectly rational and justifiable. Even if budget support were to continue to be provided, it would be wise to embed it within a wider country strategy, involving several other intervention strategies. Not only would this allow the benefits of budget support to be reinforced by other types of actions but it would also allow for a pre-existing “Plan B” which could be expanded in the event that budget support had to be suspended.

82. In practice, all of the MDBS partners already have relatively broad-based country strategies, which they expect to continue developing in future years. These strategies tend to include the following elements:

- Technical assistance support to various areas of public sector reform, including PFM and civil service reform, as well as decentralisation.
- Project-based investment in infrastructure
- Project-based investment in natural resource management.
- Support to sector strategies – in particular for sectors with off-track MDGs (health, education and water/ sanitation). This would be expected to take the form of project financing or common basket financing but ideally working within a programme-based or SWAp approach.
- Support to civil society to raise the demand for accountability and to address service delivery issues, which cannot be effectively addressed through government.

83. A project-based strategy of this type will continue to have relevance and validity in the Sierra Leonean context, and at the very least should be maintained as a complement to budget support. It also represents a real and genuine alternative to a budget support based strategy for those MDBS donors who might decide that the fiduciary risks in the post-election period were too high to continue with budget support.

3.4 The need for an explicit political decision over Budget Support

84. Budget Support provides the potential for real development benefits for Sierra Leone. In the first phase of budget support over 2002 - 2007, many of these benefits have been realised – certainly sufficient to justify the budget support experiment. At the same time, the way in which budget support was managed also created unnecessary costs – particularly in terms of the high domestic borrowing, which was required to compensate for the unpredictability of GBS disbursements. In order to maximise the potential benefits of budget support, one would want to avoid a repeat of this experience. That will require a different set of management arrangements – in particular a set of management arrangements, which reduces the degree of control over Fixed tranche disbursements retained by MDBS donor headquarters in order to increase the predictability of disbursements to GoSL.

85. The decision to proceed with such an arrangement needs to be explicit and needs to be entered into freely by both GoSL and its MDBS partners, recognising both the risks and the opportunities which budget support offers. There is a viable Plan B, which also offers real benefits to Sierra Leone at lower risk. The potential benefits are not as great, however, and inevitably there will be costs in terms of a relative loss of ownership and in terms of the increased transaction costs which project-based strategies are likely to have.

86. Whatever choices are made by GoSL and its MDBS partners, it is probably wise to plan over the medium to long term (5-10 years) for a scaling down of budget support. The primary source of recurrent budget funding should be domestic revenue and, as this grows, it would be appropriate to reduce the relative scale of budget support. Depending on the rate of growth of the economy and of domestic revenue, the relative value of budget support disbursements should probably be reduced over a ten year period to 10 % of total expenditure and net lending. In the short term, one would want to balance a desire to maximise the gains of higher public spending and improved infrastructure and services with the recognition that in the fragile environment of Sierra Leone, it is also wise to anticipate occasional difficulties with budget support – difficulties which might lead to the suspension of disbursements. For these reasons, it probably makes sense over the short to medium term to plan for an aggregate level of budget support including both fixed and performance tranches of no more than 20 % of total expenditure and net lending, with the value of fixed tranches not exceeding 15% of total expenditure and net lending.

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Annex A: DFID PRBS Project Completion Reports for 2005/06 and 2006.

Project Completion Report (PCR) - Budgetary Support / SWAPS only

Part A - Programme Data

Programme Short Title	Sierra Leone Budget Support 2005/06		
Benefiting Country / Region	Sierra Leone	MIS code	057-020
Current Project Officer Name	Denise Hill	Approved Commitment	£15,000,000
Actual Start Date (dd/mm/yyyy)	10/11/2005	Spend To Date	£15,000,000
Planned End Date (dd/mm/yyyy)	14/12/2005	Date of Review	17 May 2007
Donor Partners	European Commission, World Bank, African Development Bank		

Part B – Programme Scoring Assessment

Purpose Statement	Progress
<p>To improve the effectiveness of the Government Budget as the principal instrument for achieving poverty reduction and growth objectives consistent with Sierra Leone PRS</p>	<ol style="list-style-type: none"> 1. <u>Macro environment</u> stable with real GDP growth of 7.4 % 2004 and 7.3 % 2005; GoSL on track with IMF PRGF since inception in 2002. 2. <u>Government service delivery</u>: GER estimated at 120% following abolition of school fees; steady improvements in infant mortality rates (284/1000 1999 to 265/1000 2004) also suggest improved services. Spending on H & E has been a steady 35 % of non-interest recurrent spending over 2003, 04 & 05, hence growing in real terms. 3. <u>More effective, responsive & accountable Govt.</u>: Extensive, ambitious programme of governance & PFM reforms, which are progressing reasonably well, with 10/15 UK-GoSL benchmarks being met , 2/15 being partially met or met after the deadline and 3 not being met. 4. <u>Maintenance of peace & security</u>: UNAMSIL provided effective peace-keeping role over 2001 - 2005, with law & order and peace-keeping roles successfully transferred to GoSL police and defence forces in 2006.

<p>Purpose Rating- General /Overall progress assessment *</p>	<p>Overall score of 2 (out of 5) : Objectives likely to be largely achieved.</p>
<p>Justification *</p>	
<p>Individual scores: Macroeconomic objectives – 1 (out of 5) likely to be completely achieved; Govt Service Delivery: 2 (out of 5) likely to be largely achieved; Effective responsive & accountable government: 2 (out of 5) Likely to be largely achieved; Peace & Security: 1 (out of 5) Likely to be completely achieved.</p> <p>With the two most important objectives (Macro stability and peace & security) scoring 1 and the other two scoring 2, overall progress has been impressive, particularly in the context of a post-conflict country with severe institutional and human resource limitations. However, PFM systems are, not surprisingly, weak and fiduciary risks are judged as high so there is a need for faster progress with systems reforms. The control of corruption has a special importance in restoring legitimacy to the state and is also rightly given attention in the reform programme. DFID and the PRBS partners are rightly concerned over mixed progress in these areas, even if the overall set of targets is ambitious.</p>	

State how far the programme has helped to deliver the objectives of the Country Assistance Plan (where appropriate)

The 2004-05 and 2005-06 DFID PRBS allocations were provided in support of the ten year MoU (Long Term Partnership Agreement) between the UK and GoSL signed in 2002. Budget Support has clearly assisted in maintaining peace, growth and macroeconomic stability – i.e. in advancing the fundamental objectives of the MoU, and may also have accelerated the achievement of the specific MoU bench marks. The key instrument to achieve influence in these areas has been the performance tranche of the DFID PRBS, backed up by close monitoring of progress and high level political dialogue in respect of progress (at the level of the Vice President and President.) Experience suggests that the political dialogue has probably been most influential. The degree of influence which the “performance tranche” would have was probably over-estimated by DFID. In the absence of clear GoSL political leadership of the reform programme, transmitted and articulated through an effective cross-government administrative process, the variable tranche has been of limited influence and potentially may have undermined the quality of dialogue. In 2006-07, DFID has shifted towards a joint PRBS performance assessment framework and towards a simplification of performance targets. This tendency should continue and further reflection on how to apply the performance tranche is required. (See accompanying report, Lawson 2007).

What improvements have there been to central/sector financial planning and management?

GoSL adopted a PRSP in June 2005 and undertook the first annual review in 2006. A new Government Budgeting & Accountability Act was approved in 2005 and work on the development of an Integrated Financial Management System (IFMIS) initiated to support its implementation. Qualified staff have been appointed to the Accountant General and Deputy Accountant General positions and work has been initiated to clear outstanding back-log of annual accounts. Internal Audit Unit has been established in MoF and 6 MDAs had recruited Internal Auditors by end 2006. Annual Public Expenditure Tracking Surveys (PETS) for Health and Education have been conducted since 2003 and steady improvements in expenditure recording have been registered. Efforts to strengthen external auditing have also been made and Audit reports on 1996-99, 2000-2002 and 2003 accounts made by OAG.

Evidence of DFID’s contribution.

DFID has monitored progress in the implementation of the Common Action Plan for PFM reform as an aspect of the conditions for the PRBS performance tranche and through the 10 year MoU Benchmarks. Extensive technical assistance has also been provided.

What has been the improvement to government procurement systems?

Following the 2004 Procurement Act, the first members of the National Public Procurement Authority (NPPA) were appointed in May 2005, although full staff complement still not reached by end 2006. Procurement planning processes have been introduced within each sector, based upon the use of standard bidding documents. However, the NPPA’s ability to monitor compliance is weak and many aspects of the new legislation are still not in place.

Evidence of DFID’s contribution

DFID has monitored progress in the implementation of procurement reforms as an aspect of the conditions for the PRBS performance tranche and through the 10 year MoU Benchmarks. Extensive technical assistance has also been provided.

What priority reforms remain to be completed

Reforms as a whole are at an early stage, with the focus in most cases being still upon the development of an appropriate legal and regulatory regime. In many cases, new procedures and systems have yet to be actually implemented. This is especially true with regard to procurement but also in respect of accounting where at end 2006 there remained a backlog of uncompleted annual accounts and in external and internal auditing, where the combination of staff shortages and missing accounts meant that coverage at end 2006 was still limited. Over 2007 and beyond, it will be important to advance reforms in each of these areas. The development of an effective Anti Corruption Agency capable of investigating and prosecuting cases effectively is another key gap.

Output Rating - General /Overall progress assessment *

Overall score 2 – Likely to be largely achieved

Justification *

Outputs specified are a) the fulfillment of the 10-year MoU Benchmarks, meriting a score of 2 – likely to be largely achieved; and b) development of a PAF acceptable to donors, covering the priority areas of Governance, PFM, Poverty Reduction and Human Rights. This Output is scored as 1 – Likely to be completely achieved.

Comment on to what extent

1. Achievement of Purpose is attributable to programme outputs from DFID

The principal achievements at the Purpose level (ie Macro stability, improvements in service delivery and peace and security) have certainly been facilitated by the budget resources made available through DFID PRGS and by the boost to public (and business) confidence which the continuation of DFID budget support provides. These are not formally included as programme outputs but in a more precisely structured Log Frame, certainly would be. Outputs are specified essentially in terms of the achievement of the MoU benchmarks and the preparation of the Sierra Leone PRS. Progress has also been relatively good at these levels and would appear to have been positively influenced both by the policy dialogue linked to DFID PRBS and by the related technical assistance.

2. How programme outputs financed by others are contributing to achievement of the SWAP or Budgetary Support

The resources provided by other PRBS partners have also contributed significantly, representing in total some 30 % of the GoSL budget, and approximately 50 % of the discretionary budget (excluding interest payments). Technical assistance by these agencies has also been important. PRBS dialogue has generally been conducted jointly so the effects of other DPs in this area cannot be distinguished. As with DFID, it seems clear that the effects of dialogue and the use of the 'performance tranche' have fallen short of expectations, yet it is probably also true that reforms would have been slower and less focused in their absence.

Part C – Risk Management

Risk Category*	Medium
Has the Risk Category changed since the last review? If so explain why.	
No – the risk category remains the same.	
What were the Key Risks identified by the programme?	
<ol style="list-style-type: none"> 1) Withdrawal of UNAMSIL forces at end 2005 results in deterioration of peace and security (Low probability, high impact) 2) Internal and external shocks lead to GoSL going off-track with IMF (Medium probability, high impact). 3) Failure to re-orientate budget expenditure consistent with PRS policy commitments (Medium Probability, High Impact) 4) MDBS arrangement with low transaction costs fails to materialise. (Low probability, High Impact.) 5) GoSL fail to make sufficient progress on PFM reforms (Medium probability, High impact.) 	
What action was taken to monitor / manage these risks	
<ol style="list-style-type: none"> 1) HMG re-equipped and retrained GoSL security forces and Security Sector Review recommendations implemented. 2) GoSL included contingency reserve in 2005 budget and regular dialogue over budget helped to improve predictability. 3) PRBS partners increased alignment around budget and PRS review cycle, with allocations to PRS sectors a PRBS condition. 4) Signing of MoU committed partners to operating in line with MDBS principles. 5) Progress against PFM reform central to PRBS conditionality. Establishment of PFM Oversight Committee supported by DFID-WB financed PFM advisor. 	
How was Fiduciary Risk being managed?	
PFM and governance reforms were a major focus of PRBS dialogue and also supported by substantial TA. In addition, £5 million of the DFID PRBS was provided as a performance tranche linked to improvements in PFM and governance specified in the MoU. 50 % of this tranche was disbursed	
Method of Scoring – state the team composition, the methods used to conduct the review, how the scoring was agreed upon, and whether partners and stakeholders were involved. *	
Team consisted of one external consultant (Andrew Lawson) who assessed available documentation and evidence and undertook interviews with GoSL, with other PRBS partners and with CSO and private sector representatives.	

Part D – Lessons Learned

- You can no longer input general lessons learned. You need to specify at least one of the categories of lessons learned in sections 1,2 and 3 below.

Lessons learned, and suggested dissemination.*	
1. Working with Partners	Development of a shared assessment framework (a PAF), a common assessment process and calendar and an integrated disbursement calendar are important to effective multi-donor budget support.
2. Best Practice / Innovation	The Sierra Leone PRBS has been unusual in having a significant performance tranche, equivalent to 50 % of the fixed tranche. In contrast to the Ghana MDBS, this has not been linked mathematically to specific triggers but rather to a holistic assessment of a pre-defined set of triggers. Although the incentive effect of the performance tranche was less effective than expected, all commentators (including GoSL and CSOs) agree that in the absence of the performance tranche and related dialogue, reforms would have been slower and less focused.
3. Project / Programme Management	Management of the Sierra Leone PRBS has clearly benefited from the establishment of a DFID country office.

Key Issues / Points of information
The predictability of both Fixed Tranche and Performance Tranche payments has been rather less than desired and has generated unnecessary budget financing costs for GoSL which could have been avoided. Every effort needs to be made to avoid such an outcome in future. (See Oxford Policy Management (2006), Provision of Budget Support to Sierra Leone.)

What key documentary evidence is available to support the conclusions of this report? List any supporting documents annexed to this report.
A fuller review report has been prepared to accompany this report (Lawson,2007) which includes a full bibliography.

Notes for completion

- Where ratings are required please consider the following:

1. = Likely to be **completely** achieved. The outputs /purpose are well on the way to completion (or completed)

2. = Likely to be **largely** achieved. There is good progress towards purpose completion and most outputs have been achieved, particularly the most important ones.

3. = Likely to be **partly** achieved. Only partial achievement of the purpose is likely and/or achievement of some outputs.

4. = Only likely to be achieved **to a very limited extent**. Purpose unlikely to be achieved but a few outputs likely to be achieved.

5. = **Unlikely** to be achieved. No progress on outputs or purpose

X. = It is impossible to say whether there has been any progress towards the final achievement of outputs or purpose. This score should not be used unless they meet at least one of the following criteria:

- Project is postponed because of conflict
- External Constraints
- Recruitment delays

Other reasons: contact PRISM support

Project Completion Report (PCR)

- Budgetary Support / SWAPS only

Part A - Programme Data

Programme Short Title	Sierra Leone Budget Support 2006
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Benefiting Country / Region	Sierra Leone	MIS code	DFID to confirm
Current Project Officer Name	Denise Hill	Approved Commitment	£15,000,000
Actual Start Date (dd/mm/yyyy)	May 2006	Spend To Date	£12,500,000
Planned End Date (dd/mm/yyyy)	December 2006	Date of Review	17 May 2007

Donor Partners	European Commission, World Bank, African Development Bank
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Part B – Programme Scoring Assessment

Purpose Statement	Progress
<p>To improve the effectiveness of the Government Budget as the principal instrument for achieving poverty reduction and growth objectives consistent with Sierra Leone PRS</p>	<ol style="list-style-type: none"> 5. <u>Macro environment</u> stable with real GDP growth of 7.4 % 2004 and 7.3 % 2005; GoSL on track with IMF PRGF since inception in 2002, although final review of 2006 did require certain prior actions to be completed prior to IMF Board approval. 6. <u>Government service delivery</u>: GER estimated at 120% following abolition of school fees; steady improvements in infant mortality rates (284/1000 1999 to 265/1000 2004) also suggest improved services. Spending on H & E comprised 35 % of non-interest recurrent spending over 2003, 04 & 05, hence growing in real terms. 7. <u>More effective, responsive & accountable Govt.</u>: there is an extensive, ambitious programme of governance & PFM reforms but progress is mixed with good progress on 4/12 UK-GoSL benchmarks, some progress on 4/12 and no progress on 2. Overall PAF benchmarks show 6/14 fully met or with acceptable progress, 6 not met and 2 showing some progress. 8. <u>Maintenance of peace & security</u>: UNAMSIL provided effective peace-keeping role over 2001 - 2005, with law & order and peace-keeping roles successfully transferred to GoSL police and defence forces in 2006.

<p>Purpose Rating- General /Overall progress assessment *</p>	<p>Overall score of 2 (out of 5) : Objectives likely to be largely achieved.</p>
<p>Justification *</p>	
<p>Individual scores: Macroeconomic objectives – 1 (out of 5) likely to be completely achieved; Govt Service Delivery: 2 (out of 5) likely to be largely achieved; Effective responsive & accountable government: 3 (out of 5) Likely to be partly achieved; Peace & Security: 1 (out of 5) Likely to be completely achieved.</p> <p>With the two most important objectives (Macro stability and peace & security) scoring 1 and service delivery scoring 2, overall progress has been impressive, particularly in the context of a post-conflict country with severe institutional and human resource limitations. However, PFM systems are, not surprisingly, weak and fiduciary risks are judged as high so there is a need for faster progress with systems reforms. The control of corruption has a special importance in restoring legitimacy to the state and is also rightly given attention in the reform programme. DFID and the PRBS partners are rightly concerned over mixed progress in these areas, even if the overall set of targets is ambitious. Mixed progress here led to a disbursement of £2.5 million of the £5 million performance tranche.</p>	

State how far the programme has helped to deliver the objectives of the Country Assistance Plan (where appropriate)

The 2005-06 and 2006-07 DFID PRBS allocations were provided in support of the ten year MoU (Long Term Partnership Agreement) between the UK and GoSL signed in 2002. While Budget Support has clearly assisted in maintaining peace, growth and macroeconomic stability – i.e. in advancing the fundamental objectives of the MoU, it is less clear that it has accelerated the achievement of the specific MoU benchmarks, where, as noted above, progress has been quite mixed. The key instrument to achieve influence in these areas has been the performance tranche of the DFID PRBS and experience suggests that the degree of influence it would have was over-estimated by DFID. In the absence of clear GoSL political leadership of the reform programme, transmitted and articulated through an effective cross-government administrative process, the variable tranche has been of limited influence and potentially may have undermined the quality of dialogue. In 2006-07, DFID has shifted towards a joint PRBS performance assessment framework and towards a simplification of performance targets. This tendency should continue and further reflection on how to apply the performance tranche is required. (See accompanying report, Lawson 2007).

What improvements have there been to central/sector financial planning and management?

GoSL adopted a PRSP in June 2005 and undertook the first annual review in 2006. A new Government Budgeting & Accountability Act was approved in 2005 and work on the development of an Integrated Financial Management System (IFMIS) initiated to support its implementation. Qualified staff have been appointed to the Accountant General and Deputy Accountant General positions and work has been initiated to clear outstanding back-log of annual accounts. Internal Audit Unit has been established in MoF and 6 MDAs had recruited Internal Auditors by end 2006. Annual Public Expenditure Tracking Surveys (PETS) for Health and Education have been conducted since 2003 and steady improvements in expenditure recording have been registered. Efforts to strengthen external auditing have also been made and Audit reports on 1996-99, 2000-2002 and 2003 accounts made by OAG.

Evidence of DFID's contribution.

DFID has monitored progress in the implementation of the National Action Plan for PFM reform as an aspect of the conditions for the PRBS performance tranche and through the 10 year MoU Benchmarks. Extensive technical assistance has also been provided.

What has been the improvement to government procurement systems?

Following the 2004 Procurement Act, the first members of the National Public Procurement Authority (NPPA) were appointed in May 2005, although full staff complement still not reached by end 2006. Procurement planning processes have been introduced within each sector, based upon the use of standard bidding documents. However, the NPPA's ability to monitor compliance is weak and many aspects of the new legislation are still not in place.

Evidence of DFID's contribution

DFID has monitored progress in the implementation of procurement reforms as an aspect of the conditions for the PRBS performance tranche and through the 10 year MoU Benchmarks. Extensive technical assistance has also been provided.

What priority reforms remain to be completed

Reforms as a whole are at an early stage, with the focus in most cases being still upon the development of an appropriate legal and regulatory regime. In many cases, new procedures and systems have yet to be actually implemented. This is especially true with regard to procurement but also in respect of accounting where at end 2006 there remained a backlog of uncompleted annual accounts and in external and internal auditing, where the combination of staff shortages and missing accounts meant that coverage at end 2006 was still limited. Over 2007 and beyond, it will be important to advance reforms in each of these areas. The development of an effective Anti Corruption Agency capable of investigating and prosecuting cases effectively is another key gap.

Output Rating - General /Overall progress assessment *

Overall score 3 – Likely to be partly achieved

Justification *

The only Output specified is the fulfilment of the 10-year MoU Benchmarks, which in the light of performance against the benchmarks (see above) merits a score of 3 – likely to be partly achieved.

Comment on to what extent

1. Achievement of Purpose is attributable to programme outputs from DFID

The principal achievements at the Purpose level (ie Macro stability, improvements in service delivery and peace and security) have certainly been facilitated by the budget resources made available through DFID PRGS and by the boost to public (and business) confidence which the continuation of DFID budget support provides. These are not formally included as programme outputs but in a more precisely structured Log Frame, certainly would be. Outputs are specified in terms of the achievement of the MoU benchmarks and with less progress here, the corresponding effects at the Purpose level (upon the responsiveness, accountability and capability of government) are also weaker.

2. How programme outputs financed by others are contributing to achievement of the SWAP or Budgetary Support

The resources provided by other PRBS partners have also contributed significantly, representing in total over 50 % of the GoSL discretionary budget (excluding interest). Technical assistance by these agencies has also been important. PRBS dialogue has generally been conducted jointly so the effects of other DPs in this area cannot be distinguished. As with DFID, it seems clear that the effects of dialogue and the use of the 'performance tranche' have fallen short of expectations, yet it is probably also true that reforms would have been slower and less focused in their absence.

Part C – Risk Management

Risk Category*	Medium
Has the Risk Category changed since the last review? If so explain why.	
No – the risk category remains the same.	
What were the Key Risks identified by the programme?	
<ul style="list-style-type: none"> • Withdrawal of UNAMSIL forces at end 2005 results in deterioration of peace and security (Low probability, high impact) • Internal and external shocks lead to GoSL going off-track with IMF (Medium probability, high impact). • Failure to re-orientate budget expenditure consistent with PRS policy commitments (Medium Probability, High Impact) • MDBS arrangement with low transaction costs fails to materialise. (Low probability, High Impact.) • GoSL fail to make sufficient progress on PFM reforms (Medium probability, High impact.) 	
What action was taken to monitor / manage these risks	
<ul style="list-style-type: none"> • HMG re-equipped and retrained GoSL security forces and Security Sector Review recommendations implemented. • GoSL included contingency reserve in 2005 budget and regular dialogue over budget helped to improve predictability. • PRBS partners increased alignment around budget and PRS review cycle, with allocations to PRS sectors a PRBS condition. • Signing of MoU committed partners to operating in line with MDBS principles. • Progress against PFM reform central to PRBS conditionality. Establishment of PFM Oversight Committee supported by DFID-WB financed PFM advisor. 	
How was Fiduciary Risk being managed?	
PFM and governance reforms were a major focus of PRBS dialogue and also supported by substantial TA. In addition, £5 million of the DFID PRBS was provided as a performance tranche linked to improvements in PFM and governance specified in the MoU. 50 % of this tranche was disbursed	
Method of Scoring – state the team composition, the methods used to conduct the review, how the scoring was agreed upon, and whether partners and stakeholders were involved. *	
Team consisted of one external consultant (Andrew Lawson) who assessed available documentation and evidence and undertook interviews with GoSL, with other PRBS partners and with CSO and private sector representatives.	

Part D – Lessons Learned

- You can no longer input general lessons learned. You need to specify at least one of the categories of lessons learned in sections 1,2 and 3 below.

Lessons learned, and suggested dissemination.*	
1. Working with Partners	Development of a shared assessment framework (a PAF), a common assessment process and calendar and an integrated disbursement calendar are important to effective multi-donor budget support.
2. Best Practice / Innovation	The Sierra Leone PRBS has been unusual in having a significant performance tranche, equivalent to 50 % of the fixed tranche. In contrast to the Ghana MDBS, this has not been linked mathematically to specific triggers but rather to a holistic assessment of a pre-defined set of triggers. Although the incentive effect of the performance tranche was less effective than expected, all commentators (including GoSL and CSOs) agree that in the absence of the performance tranche and related dialogue, reforms would have been slower and less focused.
3. Project / Programme Management	Management of the Sierra Leone PRBS has clearly benefited from the establishment of a DFID country office.

Key Issues / Points of information
The predictability of both Fixed Tranche and Performance Tranche payments has been rather less than desired and has generated unnecessary budget financing costs for GoSL which could have been avoided. Every effort needs to be made to avoid such an outcome in future. (See Oxford Policy Management (2006), Provision of Budget Support to Sierra Leone.)

What key documentary evidence is available to support the conclusions of this report? List any supporting documents annexed to this report.
A fuller review report has been prepared to accompany this report (Lawson,2007) which includes a full bibliography.

Annex B: Comparative scores for PFM Assessments in 2004 (HIPC AAP) and 2007 (PEFA).

Sierra Leone: Development of PFM Systems 2004 - 2007 (using HIPC Poverty-tracking AAP and PEFA methodologies)

Application of Numerical scores to PEFA classifications

PEFA	A	B+	B	C+	C	D+	D
	87.5	75	62.5	50	37.5	25	12.5

Application of Numerical scores to HIPC AAP classifications

HIPC	A	B	C
	83	50	17

Sierra Leone Comparative Scores

	2004 (HIPC)	2007 (PEFA)
Budget credibility at aggregate level	50	62.5
Budget credibility at MDA level	50	37.5
Expenditure payment arrears	17	12.5
Budget classification	17	87.5
Budget comprehensiveness	17	37.5
Off-budget transactions	83	87.5
Multi-year expenditure projections	17	25
Procurement controls	17	25
Internal controls on non-salary spending	50	37.5
Accounts reconciliation	17	37.5
Information on service delivery	50	87.5
In-year budget reports	50	50
Annual financial statements	17	25
External audit	17	25
Data on donor financing	50	25

1/ Internal controls on non-salary spending include Internal Audit in the HIPC classification but exclude it in the PEFA.

2/ Annual Financial statements & in-year budget reports in the HIPC assessment refer to timing of receipt of reports by Accountant General's Department. In the PEFA assessment, they refer to the timing of the subsequent issue of consolidated reports by the AGD.

