

INTERNATIONAL MONETARY FUND



Staff Country Reports

Sierra Leone: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper for **Sierra Leone**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. A JSAN evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

REPUBLIC OF SIERRA LEONE

**Poverty Reduction Strategy Paper
Joint Staff Advisory Note**

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

Approved by Gobind Nankani (IDA) and Siddharth Tiwari (IMF)

April 13, 2005

I. Overview

1. The Government of Sierra Leone completed its first full Poverty Reduction Strategy Paper (PRSP) in early February 2005. This note provides comments and advice from the staffs of the World Bank and IMF on the PRSP and its implementation.

2. **The PRSP provides a good basis for a transition towards sustained long-term development beyond the post-conflict requirements of the war that ended in January 2002.** While the full PRSP takes into account government's earlier experiences in implementing the National Recovery Strategy (NRS) and the Interim-PRSP (I-PRSP), it is built primarily upon a number of participatory processes carried out in 2003 and 2004 that reflect the consolidation of peace and the hope for accelerated growth and poverty reduction. Implementation of the PRSP is set to begin in mid-2005, following the Consultative Group meeting in June. The first annual progress report will be carried out in the third quarter of 2006.¹

3. **The Poverty Reduction Strategy (PRS) provides an adequate framework for reducing poverty in Sierra Leone.** The main strengths of the PRSP include: (i) its documentation of the conclusion of the post-conflict phase of contemporary Sierra Leone; (ii) the provision of a poverty diagnosis; and (iii) the articulation of a strategy backing a wide-ranging set of policies, aimed at reducing poverty, unemployment and food insecurity as well as progress towards the Millennium Development Goals.

¹ Thus, it is expected that Sierra Leone could fulfill the condition of a one-year successful PRSP implementation for its Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative by mid-2006.

4. **The PRSP sets an ambitious policy agenda with an estimated overall cost of US\$1.7 billion for 2005–07.** The PRS comprises three pillars: (i) Good Governance, Security and Peace Building, (ii) Pro-poor Sustainable Growth for Food Security and Job Creation and (iii) Human Development. The choice of pillars is derived from a number of considerations, including the recent emergence of the country from civil conflict, the status of governance, and the need to invest in key productive sectors. Special attention has been given to food security and employment under pillar two. The main overall objectives include the following:

- substantial reductions in poverty, hunger, and unemployment;
- adherence to each of the Millennium Development Goals;
- lasting security; and
- improvements in the quality of governance.

II. Participatory Process

5. **The PRSP is the result of an extensive participatory process.** The foundation of the PRSP is a series of extensive consultations conducted throughout the country. These consultations were characterized by open and frank dialogue between cabinet ministers, parliamentarians and the people they represent—members of civil society, the private sector, cooperative associations, local authorities, religious leaders, NGOs, development partners and beneficiary groups. Participatory methodologies included the Strategic Planning and Action Process, Focus Group Discussions and Participatory Poverty Assessments. Civic engagement on the PRSP was led by NGOs. National and District consultations on the draft poverty strategy and validation workshops for the final draft PRSP were also organized. Radio and television discussions were and remain an important part of the communication and sensitization strategy. The PRSP also describes how participatory feedback has influenced the design of policies.

III. Poverty Diagnosis

6. **The PRS is built upon broadly adequate quantitative and qualitative poverty diagnosis.**² The diagnosis is derived from an extensive household survey conducted in 2003–04 and a number of qualitative surveys including a Participatory Poverty Assessment, focus group discussions and participatory learning forums. The choice of a caloric definition for extreme poverty is particularly relevant for Sierra Leone in light of the emphasis placed on food security in the PRSP. This choice does, however, make it difficult to directly compare the results of the current survey to previous household surveys.³ To ensure comparability, it is therefore essential that the next survey (scheduled for 2008) and all future surveys maintain the same definition for extreme poverty as well as full poverty. Annual World Food Program Vulnerability Surveys and Core Welfare Indicators Questionnaire Surveys (CWIQ) are also planned.

² The analysis should be considered preliminary. The PRSP poverty analysis was conducted in advance of a final vetting of the data and a formal Poverty Assessment by the World Bank.

³ The last survey was conducted in 1989/90 just before the start of the war.

7. The poverty diagnosis highlights deep poverty throughout much of Sierra Leone.

The 2003/04 household survey shows that 70 percent of the population lives below the poverty line of Le 2,111 (slightly below US\$1) per day. Twenty six percent of the population lives in extreme poverty, meaning that they do not earn enough income to buy the adult equivalent of 2,700 calories per day. These people are classified as being “food-poor,” highlighting the importance of the second PRSP pillar. Poverty is heavily concentrated in the rural and other urban areas outside Freetown. The PRSP reports that the proportion below the poverty line in Freetown is estimated at 15 percent, compared to 79 percent in the rural areas and 70 percent in other urban areas. Income inequality is relatively higher in the rural areas, compared to Freetown and other urban areas. Rural farming families suffer the highest poverty rates followed by rural mining families. Those employed in formal, urban, private sector jobs displayed the least incidence of poverty.

IV. Monitoring and Evaluation

8. Although monitorable targets for many PRSP objectives have been devised, the staffs recommend that further work be undertaken to yield a consistent and comprehensive framework by the time of the first Annual Progress Report. The targets for some PRS goals are either missing or poorly developed. For example, given the emphasis on unemployment in the PRSP, it will be important for the Government to develop a measure of, and targets for, unemployment and notably for youth unemployment.⁴ Similarly, while the concept of food security is clear, it will be important to define measures of success in achieving food security. For example, Government may wish to monitor measures related to malnutrition or stunting.

9. An adequate monitoring and evaluation structure is proposed and the PRSP gives prominence to the need for good statistics under the Good Governance pillar. A Poverty Reduction Strategy Technical Secretariat will take the lead responsibility for the coordination of all PRS monitoring activities. The Secretariat will oversee four working groups that respectively monitor resource allocations and expenditures, survey and censuses results, community based monitoring, and a group that is in charge of research and dissemination.

10. The staffs believe that statistical capacity building, with donor support, will be essential for monitoring progress in the implementation of the PRSP. Reviews conducted by the staffs and by donors suggest that there is little capacity for data gathering or analysis in most of the line ministries responsible for PRSP implementation. The central statistical agency, Statistics Sierra Leone, will also require additional strengthening. The PRSP would benefit from some explicit targets and projects aimed at remedying these weaknesses. In this regard, the staffs encourage the authorities to strengthen Statistics Sierra Leone, the Planning, Research and Statistics units of the implementing sectoral ministries and their equivalent in the local Governments through recruitment and/or sustained in-house training.⁵ This will require sustained

⁴ In the absence of base data, the Government has not been able to set unemployment targets. Base data are expected to be established through a labor survey in FY07 to be supported by the World Bank.

⁵ Since 2003, Sierra Leone has been a participant in the General Data Dissemination System (GDDS) and has been implementing the GDDS plan for statistical improvement, with Fund technical assistance. The World Bank has approved funding for the preparation of a National Strategy for the Development of Statistics (NSDS). The NSDS

efforts and financial support. In this light, the staffs welcome the ongoing attempt of the authorities to provide specific cost estimates to develop and maintain a macroeconomic and socio-demographic statistical system with adequate capacity for data collection, analysis, and timely dissemination for evidence based policy making.

V. Priority Actions and Critical Areas for Success

A. Maintaining Macro-Stability and Supporting Broad-Based Growth

11. **The PRSP acknowledges that the attainment of its poverty reduction objectives will require sustained macroeconomic stability.** The PRSP refers to a Medium-term Framework for Economic Growth and Stability with internally consistent and broadly realistic targets for real growth, inflation, monetary growth, revenue effort, government expenditures, and internal and external borrowing. Real output growth is assumed to average just under 7 percent per annum during 2005–07 while inflation is projected to decline to low single digits during this period. The overall fiscal deficit (including grants) is projected to decline to 3.2 percent of GDP by 2007, consistent with the goal of medium-term fiscal sustainability. The external current account deficit (including grants) is projected to improve to 7.8 percent of GDP by 2007 as rutile and bauxite exports come on line while import growth moderates. The medium-term macroeconomic framework is broadly in line with the 2004 Article IV consultations with the Fund.⁶ Furthermore, to fully realize the PRS objectives implies that projected expenditures would be higher under the medium-term macroeconomic framework. However, the staffs encourage the authorities to review and revise these targets from time to time in order to incorporate new data and changing factors reflecting inherent uncertainties. Similarly, the authorities are encouraged to update their debt sustainability analysis from the 2001 exercise cited in the PRSP.

12. **The Poverty Reduction Strategy is to be launched during a period of increasing fiscal pressure that will need to be carefully managed.** The demands on the public sector remain large, reflecting the need to provide services to a large segment of the population as well as significant infrastructure development needs, all of which needs to be balanced against available financing. Additional spending pressures come from recent wage-related agreements and the assumption by Government of a greater role in handling internal and external security, as United Nations Peacekeeping Mission in Sierra Leone (UNAMSIL) reduces its presence. Still more pressure could come from the phase-out of post-conflict premiums on lending and grant volumes from external donors unless compensating new pledges can be secured. On the basis of identified financing, the PRSP indicates that only US\$785 million out of a total PRS cost of US\$1.7 billion for 2005–07 is covered by domestic revenues and identified external aid flows consistent with the medium-term framework. This currently leaves a large financing gap of US\$922 million.

13. **The staffs therefore encourage the authorities to continue their efforts to strengthen domestic revenue collection, including from mineral resources, and to seek enhanced**

builds on the GDDS framework to provide broader statistical development support including the infrastructure and training covering Statistics Sierra Leone, ministries and research institutions.

⁶ The projected overall fiscal deficit in 2007 exceeds staff's forecast by 0.4 percent of GDP because of higher current expenditures, while money growth rate is also slightly higher.

external donor support. In respect of domestic efforts, the current steps to strengthen the National Revenue Authority as well as the actions needed to capture additional mineral sector revenues in the medium-term budget framework are particularly welcome.

14. Reflecting fiscal financing constraints, and uncertainty as to whether additional donor support will materialize, further prioritization is necessary to ensure that critical programs and projects receive sustained support.⁷ Moreover, the alignment of the budget with the PRSP is not evident. The staffs recommend that these issues be addressed in the near future, as proposed in the PRSP. While it is not practical to revisit the full participatory process, staffs believe that the Government could promote PRSP alignment through an early review of existing programs, projects and estimated costs. It is essential that this be done at the Cabinet level as some ministries will inevitably need more resources at the expense of others. This realignment is best achieved through the budget process. Attention will also need to be directed towards efficiency gains in public expenditures. In this regard, the staffs strongly endorse the ongoing reform program in public financial management.

15. The authorities should protect priority programs and projects from adverse shocks. A substantial portion of the Government budget is financed from external budgetary support, which in the past has been difficult to accurately predict. Accordingly, in the event that unanticipated shortfalls occur, staffs believe that the Government should act to protect pre-identified programs and projects. This should be done in advance of the first annual progress report of the PRSP. Staffs also encourage the Government to collaborate with the donor community in the creation of a framework for multi-donor budget support, with aid predictability being one of the goals. Furthermore, in order to safeguard Sierra Leone's debt sustainability, external financing should take the form of grants or highly concessional borrowing.

16. The PRSP observes in Chapter Seven that "implementation of the PRSP cannot be divorced from capacity building." In fact, many sectoral ministries have yet to master the organizational challenges of planning, budgeting, implementing and monitoring PRSP programs. The Government is, therefore, correctly seeking additional donor support for a wide range of capacity building activities. These vary from policy reforms aimed at recruitment and retention of skilled staffs to training and merit based promotions. Government and donors are encouraged to integrate capacity building elements into new sector programs and projects.

B. Strategic Pillars of the PRSP

Pillar I: Governance

17. The staffs endorse the emphasis being placed by the PRSP on anti-corruption efforts and more effective management of public resources, including natural resources. In this regard, it is noteworthy that a proactive, preventive National Anti-Corruption Strategy (NACS) has been launched. However, this needs to be supported by a number of additional reforms, including procurement reform, the establishment of internal audit units, and the publication of clear and transparent procedures for the divestiture of public enterprises. The government should

⁷ An informed participatory prioritization process was not possible earlier because cost estimates for specific programs and projects were prepared only after the consultative process had concluded.

also implement policies that facilitate sustainable utilization of natural resources, including the introduction of model fiscal agreements for mining operations and the adoption of Extractive Industries Transparency Initiative principles for mining policy.

18. **The staffs commend the intention to reduce inequities in the delivery of public services through decentralization.** Yet much of the PRS does not sufficiently highlight or capitalize on the opportunity created by decentralization to unleash latent capacity, as has been well demonstrated by the local council rapid results initiatives, a methodology used by the Local Councils in the first 100 days of their new administrations, and by the community driven projects of the National Social Action Program. The staffs therefore encourage the Government to review the PRS to highlight the potential of local government and local communities to contribute to the achievement of PRSP goals.

Pillar II: Pro-Poor Growth

19. **The PRSP portrays the agricultural sector as key to achieving food security and poverty reduction but it could specify further details about policy interventions.** The sector is highlighted by the PRSP for its importance in food production, income generation and employment generating potential through labor intensive activities—and the PRSP rightly does not expect increased food production alone to resolve the problems of food insecurity. The PRSP, however, lacks specificity as to how its objectives are to be attained in practice. Investments in agriculture are expected to include crop diversification and increased productivity through intensification, introduction of new technologies, market infrastructure development and private sector interventions. These are all appropriate objectives but the PRSP offers only a few specific details about how they could be achieved in terms of policies, programs and projects. This gap is even more apparent in the supporting matrix of goals and actions. For example, Government will seek the diversification of production but it is not clear how this is to be done. Similarly, Government will support agricultural input markets but it is not clear how. Mechanization is to be encouraged but it is not apparent how this goal fits with the current small size of most farms and current land tenure practice. The role of the private sector in input distribution and the supporting role of the public sector in the quality assurance of extension and advisory services are not well discussed, and there is relatively little said on the importance of agricultural research, despite the country's past good track record in this area. The staffs therefore recommend that the Government use the first year of PRSP implementation to more fully lay out agricultural policies.

20. **To further strengthen the PRSP, the staff recommends that the strategies for electrical power, telecommunications, water supplies and roads be better informed by estimates of demand and backed by national strategies.** The PRSP correctly observes that improving the current level and quality of infrastructural services would make a major contribution to economic growth and poverty reduction. Without a clear idea of what and where the demand is, however, and without clear strategies to meet these demands, it is not clear that all of the proposed infrastructural investments are cost effective. These strategies should also take into account the planned reforms of the key public enterprises linked to infrastructure including private participation.

21. **The PRS places strong emphasis on the need to reduce the number of unemployed youth, not only for poverty reduction but also for reasons of stability.** The PRS aims to reduce youth unemployment primarily through the use of labor-intensive elements in all Government programs. It also includes programs aimed at training, capacity building and sports. While the staffs believe these are all appropriate strategy elements, there is concern that they may not be fiscally sustainable. More fundamental issues in private sector development and in labor market frictions and policies, particularly on the demand side, need to be addressed. The authorities are therefore encouraged to explore these issues, seeking technical assistance as necessary.

22. **The PRSP could be reinforced through a discussion of urbanization and its consequences.** One of the consequences of the war has been growing urbanization and overcrowding in Freetown. When coupled with unemployment, this fuels urban poverty and criminal activity. At the same time, urbanization also creates many opportunities for more efficient provision of public services, such as health care, education, and electricity. The staffs propose that the PRSP could be strengthened by identifying specific reforms or programs, building on these linkages and aimed at alleviating urban pressures.

Pillar III: Human Resource Development

23. **The strategic elements proposed for Health and Nutrition Services are generally appropriate for Sierra Leone's immediate needs.** The strategy focuses on: (i) further decentralization of health care delivery, especially through the expansion of the district-based health care network composed of primary health care centers and first-referral hospitals; (ii) the provision of cost-effective packages designed to deal with priority problems; and (iii) improved availability of essential inputs to health care, including health sector personnel, pharmaceuticals, infrastructure, and equipment. Nutritional gains will be achieved through supplementary feeding and maternal and child health programs as well as the promotion of positive behavioral changes within the population with respect to nutrition.

24. **Most of the strategy elements proposed for Health and Nutrition Services can contribute in a cost-effective manner to poverty reduction although fiscal sustainability is a concern.** Implementation of some aspects of the strategy, and particularly the provision of free care for some groups, will likely exceed the financial and administrative capacity of Government. The staffs recommend that greater efforts should be made to raise additional resources from both public and private sources to meet the high burden of disease and especially its impact on under five and maternal mortality. Government is further encouraged to proceed with free care only in line with its capacity to implement targeting and to acquire necessary information for effective targeting.

25. **The PRSP rightly puts emphasis on improving the quality of basic education, with further work needed to develop the strategy into a sector-wide prioritized plan.** The PRSP identifies some of the most serious obstacles to reach this objective, in particular the status of physical facilities and the shortage of skilled teachers. It also correctly targets vocational, technical and tertiary education institutions, which are currently in a poor state following many years of neglect. The staffs believe that the strategy also needs to be extended to address weak

institutional capacity, financial sustainability, the impact of mushrooming enrollments at the senior secondary level (a consequence of the explosion at the primary level), the worrisome trend away from scientific and technical fields, and the low internal efficiency as signaled by high drop out rates. There may also be opportunities to better link the educational curricula to the specific needs of the economy.

VI. Conclusions and Issues for Discussion

26. The Bank and Fund staffs believe that Sierra Leone's full PRSP is reasonably well aligned with the needs of a nation newly at peace, still fragile, but aiming at sustained high growth and poverty reduction. To strengthen the strategy and reduce implementation risks, the authorities need to address the issues summarized above. Key among these is the need to:

- build stronger capacity to monitor and evaluate the impact of the PRS through better statistics from the implementing ministries as well as Statistics Sierra Leone and improve the monitorable indicators for key aspects of the PRS, notably for poverty reduction, unemployment and food security;
- build stronger capacity to implement the PRS in all priority sectors with central Government focusing on policy and regulation and local governments focusing on implementation.
- build or strengthen specific strategies in key infrastructure sectors and basic education;
- bring PRS expenditures in line with available resources through further prioritization of programs;
- ensure priority programs and projects are protected from internal and external shocks;
- continue to strengthen revenue collections and seek additional donor financing;
- strengthen the management and utilization of natural resources; and
- relieve fiscal and capacity constraints on central Government through greater reliance on both local government and the private sector.

27. Do the respective Executive Directors of the Bank and Fund concur with the broad directions of the PRS of Sierra Leone? Do the Executive Directors concur with the staffs' identification of priority actions and critical areas for success?