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Sierra Leone Development Finance Assessment

SIERRA LEONE DEVELOPMENT FINANCE ASSESSMENT

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Disclaimer

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Acronyms

AAAA	Addis Ababa Action Agenda
AfP	Agenda for Prosperity
CIF	Climate investment funds
DAC	Development assistance committee (of the OECD)
DFA	Development finance assessment
DIB	Development impact bond
DFID	Department for international development (of the UK)
ECOWAS	Economic community of West African states
FDI	Foreign direct investment
GAVI	Global alliance for vaccines and immunisation
GCF	Green climate fund
GDP	Gross domestic product
GEF	Global environment facility
GFCF	Gross fixed capital formation
GNI	Gross national income
GST	Goods and services tax
IATF	Inter-agency task force on financing for development
IMF	International monetary fund
KSH	Kenyan shillings
MCC	Millennium Challenge Corporation
MDA	Ministries, departments and agencies
MoPED	Ministry of planning and economic development
MTA	Mongolian tax authority
MTNDP	Medium-term national development plan
MW	Megawatts
NASSIT	National social security and insurance trust
NDS	National development strategy (of the Solomon Islands)
NGO	Non-governmental organisation
NRA	National revenue authority
ODA	Official development assistance
OECD	Organisation for economic co-operation and development
PFM	Public financial management
PPP	Public-private partnership
SDGs	Sustainable development goals
SIIF	Solomon Islands integrated financing framework
SLANGO	Sierra Leone association of non-governmental organisations
SLCCIA	Sierra Leone chamber of commerce, industry and agriculture
SME	Small and medium enterprises
SOEs	State-owned enterprises
TIWB	Tax inspectors without borders
TSA	Treasury single account
UNDP	United Nations Development Programme
USAID	United States agency for international development
VAT	Value added tax

Executive summary

Sierra Leone's Education for Development, Medium Term National Development Plan (MTNDP), 2019-2023, sets an ambitious vision for the country's sustainable development path in the next five years. It targets stable economic growth, enhanced public finances and service delivery, alongside progress in poverty reduction, education, health and peace and cohesiveness. Progress during this five year plan will be an important step in Sierra Leone's journey out of fragility towards its vision of becoming an inclusive, green, middle-income country by 2035.

The national plan has been developed through a consultative process bringing together clusters of practitioners, experts, representatives from civil society, the private sector, among many others across the country. A key lesson from previous national plans was the need to strengthen the means of implementation, which features as the eighth cluster in the MTNDP, and a development finance assessment (DFA) was commissioned to inform the strategy about how to finance the new plan. This DFA report summarises the findings and dialogue that came out of the DFA process about the landscape, trends and opportunities for financing the MTNDP.

As the country looks ahead to the sustainable development progress that it aims to realise over the next five years it will face both challenges and opportunities in mobilising finance to fund the necessary investments and service delivery. The current context is one in which public finance and development assistance continue to dominate and in which private finance remains nascent. Nevertheless there are opportunities to grow public resources, mobilise new private investments, deepen the engagement of the diaspora and enhance collaboration with new and emerging development partners. Seizing on these will be an important step in delivering the MTNDP.

Domestic revenues have grown in recent years, though have not kept pace with rising spending, and public debt levels have risen. In absolute terms fiscal space remains low – domestic revenues were equivalent to just Le' 450,000, or US\$61, per person, in 2017. As such, though public finance remains the largest resource in the financing landscape, there is limited space to support a significant increase in investment in line with the MTNDP. Raising domestic revenue mobilisation is a high priority and the government has shown strong commitment to reforms including steps to strengthen tax administration and tax policy and remove costly tax exemptions. These are starting to bear fruit and the DFA emphasises the importance of establishing these reforms well, while also highlighting further steps, such as the creation of a tax lottery, that can be considered within the overall push to boost tax revenue mobilisation.

While increasing fiscal space will be critical for investing in the MTNDP, the quality of spending remains as important as the quantity. High growth in spending on salaries, a common trend in many fragile and post-conflict contexts, has been dampened with the introduction of a medium-term wage strategy; this should allow room for increased development spending as fiscal space grows. There are opportunities to build on earlier budget reforms and the newly created indicator framework within Volume II of the MTNDP, incorporating more outcome-information in the planning, delivery and review of the budget to enhance the way public spending is tied to the vision and targets of the national plan. Systems can be put in place to manage public spending in prominent cross-cutting areas of the national plan, such as gender equality and addressing the challenges of climate change.

As in many fragile and post-conflict contexts, private sector development in Sierra Leone remains nascent, though there is potential for growth in a number of sectors. This includes agriculture, fisheries and tourism. The scale and nature of investment in these sectors will play an important driving role not only in the economic aspects of the national plan but also in social and environmental objectives via the direct and indirect impacts of private sector growth. Yet commercial investment remains low. Credit to the private sector, a proxy for domestic investment, accounted for just 4% of domestic lending in 2017. Foreign direct investment is characterised by low underlying volumes, punctuated by larger, infrequent one-off investments.

There are a number of instruments and policies that government can use to promote growth in private sector investment in line with the overall objectives of the national plan. Addressing constraints to private sector borrowing and longer-term borrowing is critical: 40% of businesses in Sierra Leone highlight access to finance as the main obstacle to growth.¹ A key step will be to rebalance government's approach to debt management, reducing public dominance in domestic debt markets that crowds-out private borrowers, and issuing longer maturity debt to help stimulate longer-term lending more widely. Steps can be taken to reboot the stock exchange and encourage publicly owned banks to increase lending to the private sector in line with the strategic objectives of the national plan.

Alongside private investment in key commercial sectors of the economy there are opportunities to mobilise private participation in strategic public investments. Public-private partnerships (PPPs) have been used sporadically in the past and there is potential to scale up their use, following a people-friendly approach. Pension fund assets could also be unlocked as an additional source of longer-term financing for infrastructure.

Development cooperation is significant within the financing landscape and development partners account for a significant proportion of new investment in many sectors at the heart of the national plan. In the health sector, ODA far outweighs government spending while a reduction in government spending in education over 2015-2017 was counteracted somewhat by rising ODA in the sector. Traditional development partners will continue to have an important role to play, particularly in the social sectors, and there are opportunities to engage emerging actors that provide south-south cooperation more focused on the economic sectors as well as infrastructure. Furthermore, Sierra Leone can work with some of its development partners to pilot new and innovative models of financing, such as development impact bonds, which have successfully mobilised private financing behind public services and investment in similar contexts to that of Sierra Leone.

Sierra Leone has a large overseas diaspora which remains engaged with the country's development and holds significant financial and human resources that can be leveraged to support national development. Formal remittances totalled nearly US\$50 million in 2017.² There are opportunities to deepen engagement with the diaspora through mechanisms such as diaspora bonds. Diaspora bonds have been used by a growing number of countries as a mechanism to access longer-term, lower cost financing for strategic development projects. The government can take steps to scope and lay the groundwork for the creation of a diaspora bond programme that provides a new source of financing for investment in the national plan.

Achieving the national plan will require investments from a range of different resources and the DFA has highlighted the potential to mobilise an array of public and private financing that can advance various aspects of the agenda. Mobilising these resources in practice entails implementing diverse policies, partnerships and collaboration with other actors, and the government can consider establishing an integrated national financing framework to oversee and drive forward financing and the means of implementation across the national plan as a whole.

¹ World Bank, 2017, *Enterprise survey for Sierra Leone*.

² World Bank databank

Introduction

Sierra Leone is a country still emerging from the historic legacy of conflict and fragility as well as the devastating impact of epidemics and natural disasters more recently. The country faces many challenges, as well as many opportunities as it looks ahead to achieve sustainable development progress over the medium term.

Following the Agenda for Prosperity, the Government has engaged in wide consultation to develop Education for Development, Medium Term National Development Plan (MTNDP), 2019-2023. In support of this process, the government requested the support of the UN Development Programme through the New Deal to undertake a development finance assessment (DFA). Building on lessons from previous plans, the Ministry of Planning and Economic Development wanted to strengthen the means of implementation in this plan, to think about new ways of mobilising and investing public resources, and to consider the role that private finance plays and could play in advancing national sustainable development objectives.

The DFA is a tool that has been developed by UNDP to build on the principles articulated in the Addis Ababa Action Agenda³ internationally about how the 2030 Agenda and Sustainable Development Goals will be financed. It aims to build a process of dialogue and consultation among a wide constituency of stakeholders at the national level about financing for sustainable development. The DFA uses an analytical framework (see Figure 1) that builds a holistic picture of public and private financing and of the policies, institutions and partnerships in place to support financing for sustainable development.⁴ Through a process of informed dialogue it aims to build consensus about steps that can be taken to strengthen financing for sustainable development.

Figure 1. The DFA analytical framework



The Sierra Leone DFA ran from October 2018 to February 2019, in line with the process to finalise the national plan. Consultations were held with a wide range of stakeholders over this period, notably including a workshop to discuss and refine the emerging findings and recommendations in December 2018.

This report presents the findings and recommendations developed through the DFA process. It starts by analysing the financing landscape, considering the trends and trajectories in public and private resources. It looks at the integration of financing policies with the MTNDP, considering the alignment of the budget with the national plan and opportunities to mobilise greater volumes of public financing. It analyses opportunities to mobilise greater volumes and greater impact on the national plan from private financing, considering how public policy and partnerships can mobilise and unlock new streams of private investment. And it considers the systems in place for monitoring and review, as well as transparency and accountability, and the role that they play in boosting the effectiveness of public and private financing on sustainable development outcomes.

³ UN, 2015, *Addis Ababa Action Agenda of the third international conference on Financing for development*. <https://www.un.org/esa/ffd/publications/aaaa-outcome.html>

⁴ The DFA process and methodology are laid out in full in UNDP, 2019, *Development finance assessment guidebook: a tool for countries to finance the SDGs*. Available at: <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/development-finance-assessment-guidebook.html>

1. The financing landscape

Understanding the financing landscape is a vital foundation for identifying the most pertinent opportunities and priorities for financing the national plan. Achieving the national plan will require investments and spending across a range of public and private resources that contribute toward its various objectives both directly and indirectly. As such it is important to build as comprehensive an understanding as possible of current trends and trajectories across public and private flows, and the contributions that these diverse types of financing are making toward sustainable development in Sierra Leone.

This chapter opens the development finance assessment report by analysing what is known about public and private finance trends in the country. It examines the financing landscape overall before breaking down trends in public revenue and spending, international public finance, private investment and remittances. It ends with an examination of the mix of public and private finance being invested in four important areas of the national plan, leading on the following chapter which examines the policy and institutional context as well as opportunities to mobilise new sources of finance and greater contributions toward the objectives of the national plan.

Aggregate financing trends

Sierra Leone has experienced growth in overall financing averaging 7% a year since 2008 (Figure 2), although there have been significant fluctuations year-on-year, particularly in private finance. The financing landscape is dominated by domestic and international public finance.

Figure 2. Domestic and international public finance dominate financing trends in Sierra Leone

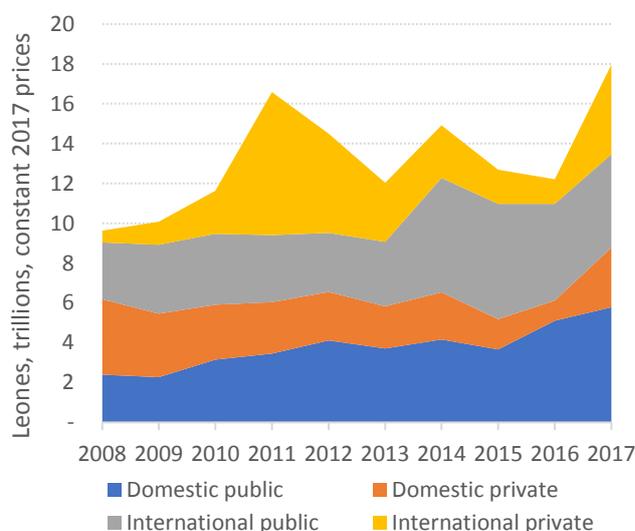
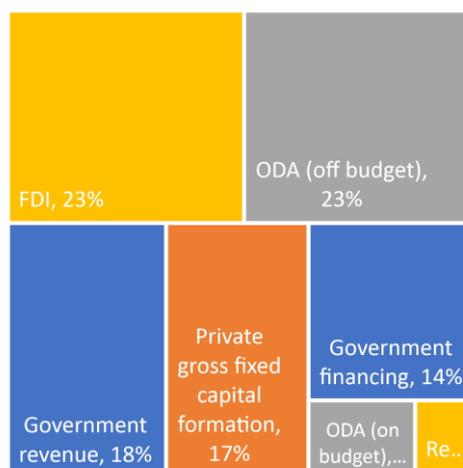


Figure 3. Domestic public finance accounts for a third of total financing in 2017; ODA more than a quarter



Sources: based on data compiled from a range of sources – see data notes annex for details. Data in figure 3 is for 2017, with the exception of data on state-owned enterprises which is for 2016.

Public finance has been a key driver of overall trends. It has more than doubled in real terms over the last 10 years, driven by rising revenues as well as increased levels of public borrowing (see more below). Nevertheless, despite its dominance in the financing landscape overall, fiscal space remains constrained and low in absolute terms. Total public spending is around Le’ 865,000 per person, equivalent to less than US\$ 120 per person. Raising revenues to increase fiscal space is a key priority for implementing the national plan.

International public finance accounts for over a quarter of total financing captured in this DFA (Figure 3). Levels have risen and fallen in recent years, with a large increase in response to the Ebola

crisis in 2014. Gross ODA peaked at over US\$1 billion in 2015 (Le' 5.7 trillion), before falling to US\$ 726 million in 2016 (Le' 4.8 trillion).

Private finance accounts for a relatively small proportion of total financing, although volumes have fluctuated around a number of large one-off investments. FDI for example grew from less than Le' 1 trillion in 2016 to more than Le' 4 trillion in 2017. On the domestic side, investment levels are constrained by a number of factors, including the underdevelopment of capital and financial markets that limit access to commercial funding. These trends are reflective of a private sector that remains nascent in many areas. As the country moves to achieve the outcomes of the national plan and secure its long term path away from fragility, stimulating private investment that can drive growth in key commercial sectors will be critical. Developing financial and capital markets, and attracting foreign investment, will be an important part of this.

Public finance

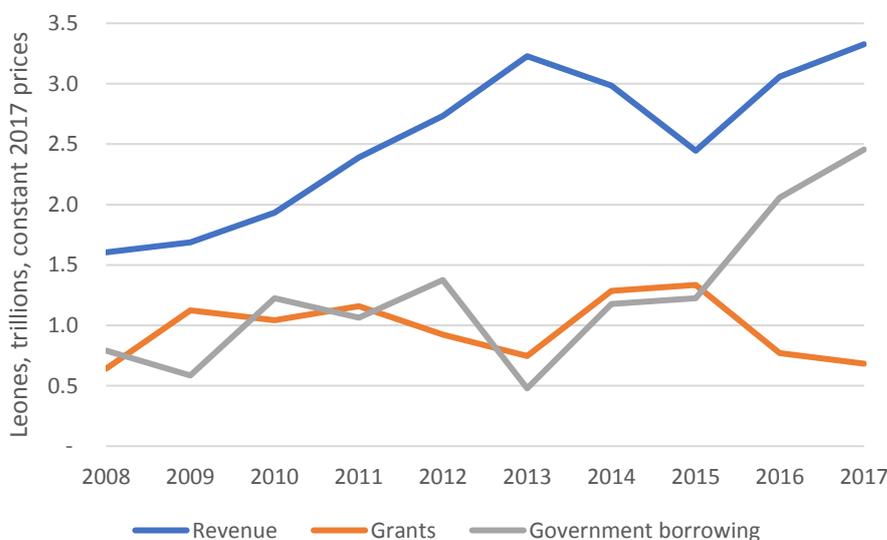
Public finance dominates Sierra Leone's financing landscape, accounting for around one-third of total financing in 2017. Yet fiscal space remains constrained and much of the recent increase in spending has been funded by borrowing. Growing public revenues and ensuring that they are invested effectively in line with the objectives of the national plan will be critical to driving forward its implementation. State-owned enterprises will also play a critical role in key areas such as energy, transport and other infrastructure and services. This section analyses the current context and trends in revenue and financing, budgeting and expenditure and management of state-owned enterprises.

Revenue and financing

Total revenue and financing has grown an average 10% a year over the last decade (Figure 4). However fiscal space remains constrained and continued growth, particularly in revenues, will be vital for the implementation of the national plan.

Revenues rose steadily to 2013, though fell sharply to 2015 before growing again in the last two years. Borrowing has also increased, with annual borrowing doubling between 2015 and 2017. On-budget grants account for a significant proportion of revenue, though have fallen from the highs of Le' 1.3 trillion in 2014 and 2015 to less than Le' 700 billion in 2017. As a proportion of total revenue and financing grants have fallen from over 40% in 2005 to 11% in 2017, though this is partly driven by some development partners withholding general budget support (see below).

Figure 4. Government revenue reached a new peak in 2017 following a decline over 2013-2015, though borrowing has risen rapidly since 2015



Source: Author's calculations based on Ministry of Finance.

Drivers of revenue trends

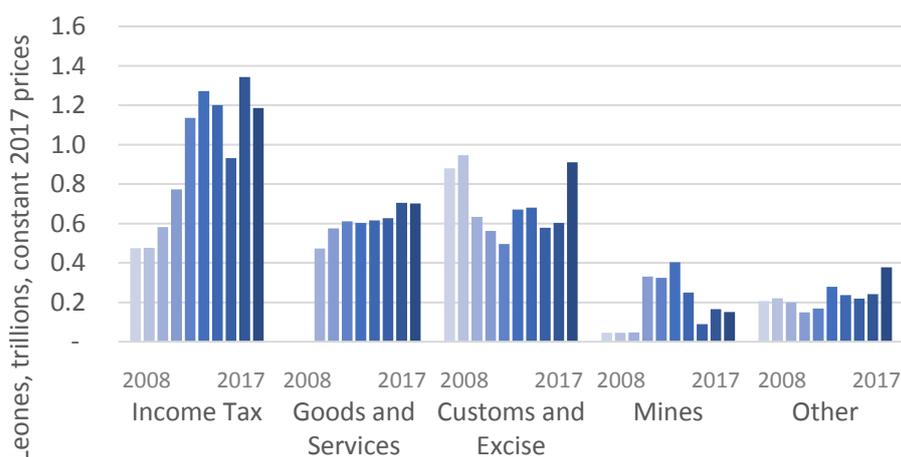
Income tax accounts for the largest proportion of revenue, followed by customs and excise (Figure 5). Both have fluctuated significantly, though there is an underlying trend of growth in income tax.

Personal income tax has driven trends in income tax, growing 180% since 2010. Corporate tax, however, grew 70% between 2010 and 2013 but subsequently fell back to levels just 3% higher than in 2010. As such the proportion of income tax from corporates has almost halved from 37% in 2010 to 19% in 2017. The government has committed to reforms in corporate tax collection, a potentially important aspect of the strategy to increase overall revenues (see below).

Customs and excise tax grew sharply in 2017, growing 51% due largely to an increase in excise duties on petroleum products. This partly reflects implementation of the revenue mobilisation policy, which included the removal of fuel subsidies. Further reforms to customs tax administration and other aspects of tax administration and policy are ongoing (see revenue administration and policy reforms section below).

Mining tax revenue has fluctuated significantly, as global commodity prices have changed and extraction of key minerals such as iron ore has stopped and restarted. Mining revenue peaked at Le' 403 billion in 2013, when it accounted for 10% of the budget. In 2017 it accounted for 4% with two-thirds of this revenue coming from licences and royalties on rutile.

Figure 5. Income tax and customs and excise revenues have been volatile in recent years; goods and services tax revenue has grown steadily since being introduced in 2010

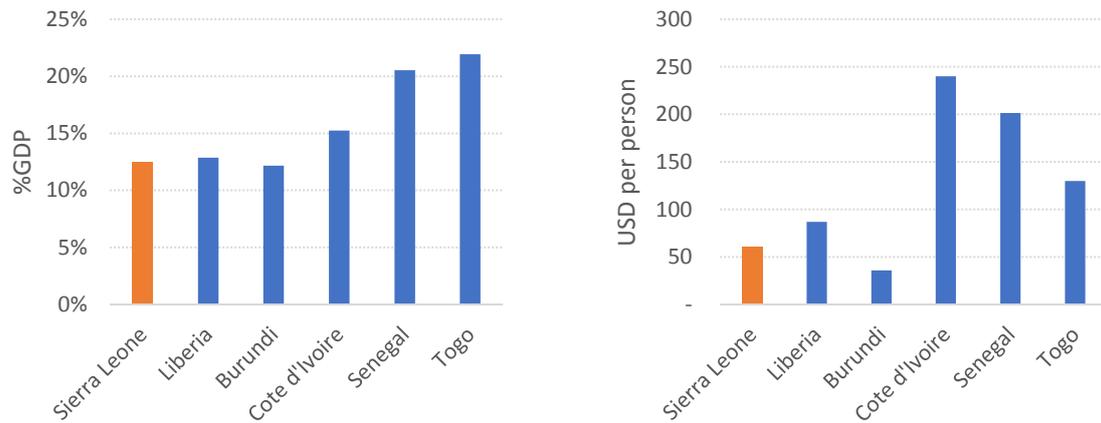


Source: Author's calculations based on Ministry of Finance. Note that the goods and services tax was introduced in 2010 and replaced previous collection that was classified under customs and excise – this accounts for the fall in customs and excise revenue in 2010.

Low absolute volumes of revenue – a limit to fiscal space

Despite this growth, revenues in Sierra Leone remain very low in absolute terms and in comparison to the country's neighbours and g7+ peers (Figure 6). Revenues were equivalent to just Le' 450,000 per person, or US\$ 61 per person, in 2017. Even once grants and financing are accounted (total spending is equivalent to just Le' 865,000 per person or US\$ 117), this highlights the limited space that government has to make investments and deliver services that will drive progress toward the national plan. And while this is low in absolute terms, it is also low relative to many of the country's African g7+ peers (Figure 6). Revenues were equivalent to 12.5% in 2017. The government has committed to a target of revenue mobilisation equivalent to 20% of GDP by 2023 (see more below).

Figure 6. Tax revenues as a proportion of GDP and in per person terms are low relative to many other African g7+ members



Source: Author's calculations based on Ministry of Finance, World Bank and UNDESA; Liberia development finance assessment (2019, forthcoming).

Rising debt levels

Public borrowing grew significantly over 2016 and 2017, rising from less than Le' 1.4 trillion a year pre-2016 to Le' 2.5 trillion in 2017. This increase has seen growth in both domestic and international borrowing (Figure 7). New foreign loans almost doubled from Le' 0.54 trillion in 2016 to Le' 1.03 trillion in 2017.

Interest payments have risen sharply, with payments almost tripling in 2017 (Figure 8). Interest payments are equivalent to 18% of total revenue in 2017, a substantial rise from 7% the year before. These are levels which have not been seen since the mid-2000s.

This recent growth in debt carries a number of risks and consequences and the government has committed to reducing borrowing. The cost to the budget may grow further as repayments start on debt that was taken out in 2017 and any future depreciation in the currency could increase the cost of servicing foreign loans. There is a risk that this will draw resources away from the delivery of services and investment in areas that will advance the objectives of the national plan. Furthermore, much borrowing is domestic and has led to a dominance of public debt on domestic credit markets. This is a significant factor in crowding out access for commercial entities to borrowing, something that contributes to limiting new commercial investment in the country (see more on this below).

Figure 7. Both domestic and foreign financing have increased sharply in recent years

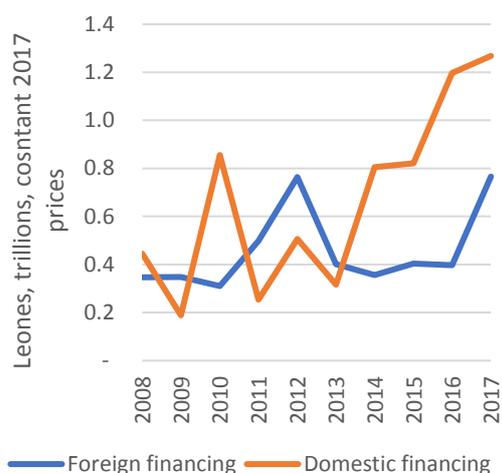
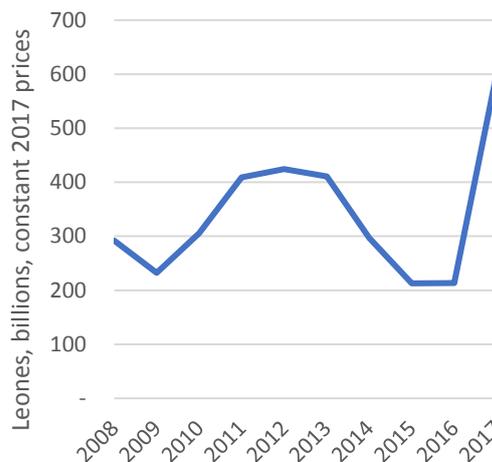


Figure 8. Interest payments almost tripled in 2017



Source: Author's calculations based on Ministry of Finance

Public spending will be the central driver of investment in the national plan so the fiscal space within which government operates is very important to its success. It is clear that the government of Sierra Leone is operating within significant fiscal constraints, with low absolute volumes of revenue. While increased borrowing has helped to fund recent increases in spending, growth in debt is not sustainable and the costs associated with it are rising sharply already.

Within this context, raising government revenues is a very high priority and the government has already implemented and initiated a number of reforms designed to address this challenge. These are explored in the integrated planning and financing chapter below.

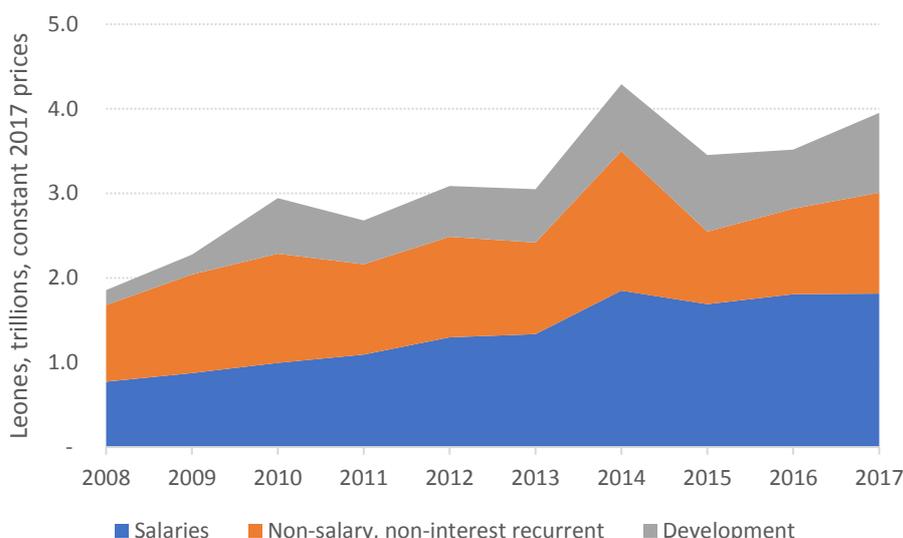
Public spending

While fiscal space is growing, there remain significant limits to the volume of finance that is available to government and this limits investment in national sustainable development.

The breakdown of public spending overall shows that over three-quarters is recurrent spending (Figure 9). The majority of recurrent spending is on salaries, which accounted for 46% of public spending in 2017. Spending on salaries had been growing very rapidly, as is common in many fragile and post-conflict contexts,⁵ averaging 12% growth a year between 2008 and 2015. The development of a medium term wage strategy has contained this growth somewhat and spending on salaries grew at an average 3.6% between 2015 and 2017.

⁵ World Bank, 2019, *Paths between peace and public service*.

Figure 9. A recent slowdown in growth of salaries means the proportion of other recurrent and development spending is rising

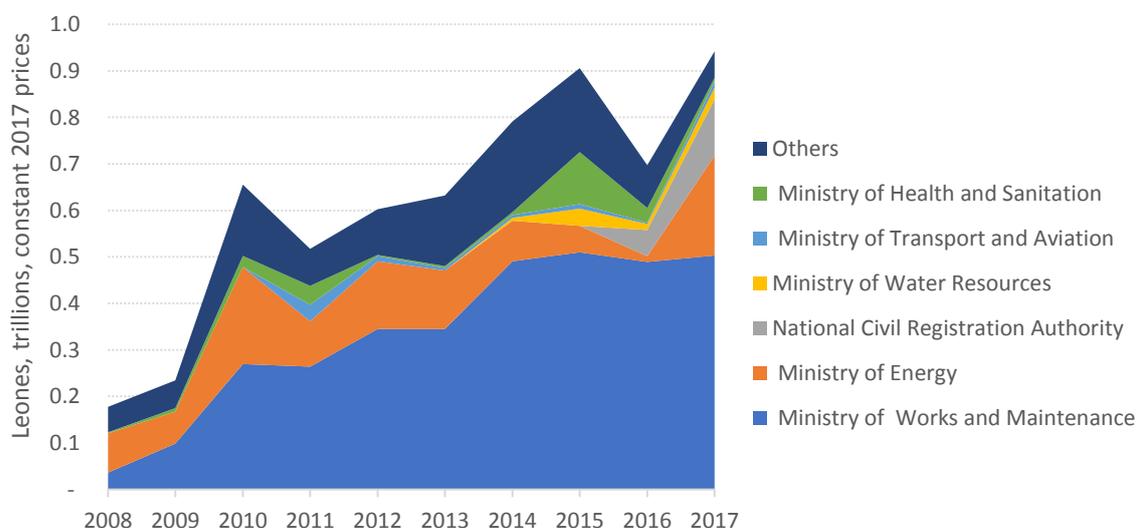


Source: Author’s calculations based on Ministry of Finance. Note that 2013 figures are budgeted not actual.

The levels of development spending can be an important indicator of the funds available to government to make investments that will drive future progress in national sustainable development. Volumes of development spending are growing, albeit with significant year-on-year fluctuations. This increasing space is a factor of both growth in revenue and borrowing, as well as a reduction in the rate of growth in recurrent spending, particularly salary expenditure. However development spending has fluctuated from year to year, falling 24% from 2015 to 2016, for example, before rising to a new peak in 2017. In times of fiscal contraction, development spending can often be the first part of the budget to be cut, though this can undermine planning for investments that will advance the national plan over the medium and longer term.

Development spending is concentrated within a few ministries, with the Ministry of Works and Public Assets accounting for more than half of the total (Figure 10). This proportion is falling, however, as development spending in other ministries, notably the Ministry of Energy, has grown.

Figure 10. Most development spending is with the Ministry of Works and Maintenance, although the proportion in other ministries is growing



Source: Author’s calculations based on Ministry of Finance

Historic data shows that the largest areas of spending under the Agenda for Prosperity were in the human development and governance and public reform pillars (Figure 11). These pillars accounted for over two-thirds of the total budget in 2018.⁶ These areas will remain the largest under the MTNDP, and are set to expand most rapidly over 2019-2021 under the indicative figures in the 2019 budget (Figure 12). The governance and accountability for results cluster is set to rise from 42.9% of non-salary, non-interest recurrent spending in 2019 to 58.5% in 2021, with increases across a range of MDAs. The human capital clusters will also see large increases; education for development is set to rise from 20.8% of non-salary, non-interest recurrent spending to 30.9%, driven primarily by increased allocation to technical and higher education, alongside increased spending on free quality education. Investment in healthcare improvement is also set to rise rapidly, with a planned 86% increase in spending over the three years (in nominal terms).

Figure 11. Human development and governance were the largest areas of spending under the AfP

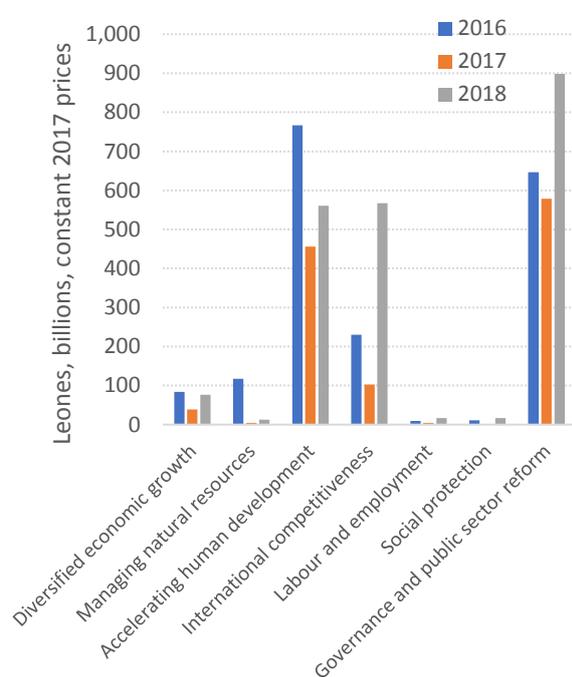
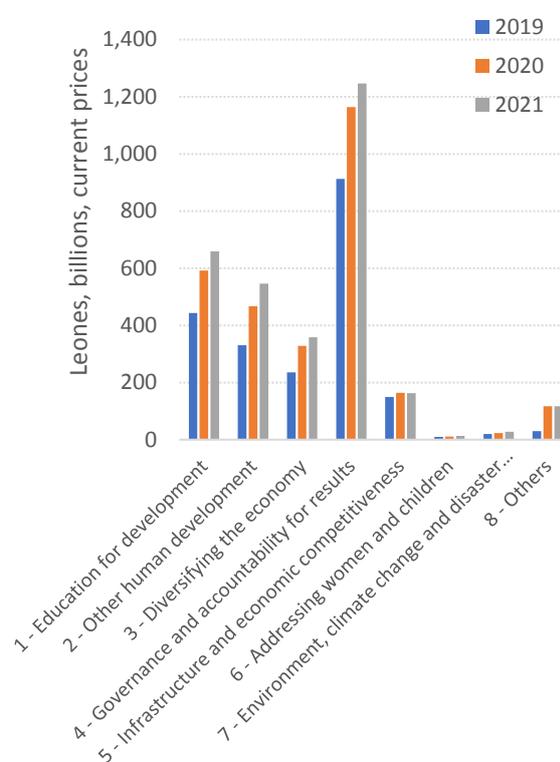


Figure 12. Spending on governance, technical and higher education and healthcare will rise rapidly in the medium-term



Source: Ministry of Finance budget publications. Note that 2018 figures are budgeted not actual. The categories shown in figure 11 are the first seven of the eight pillars of the 2013-2018 Agenda for Prosperity and in figure 12 are the eight clusters of the MTNDP

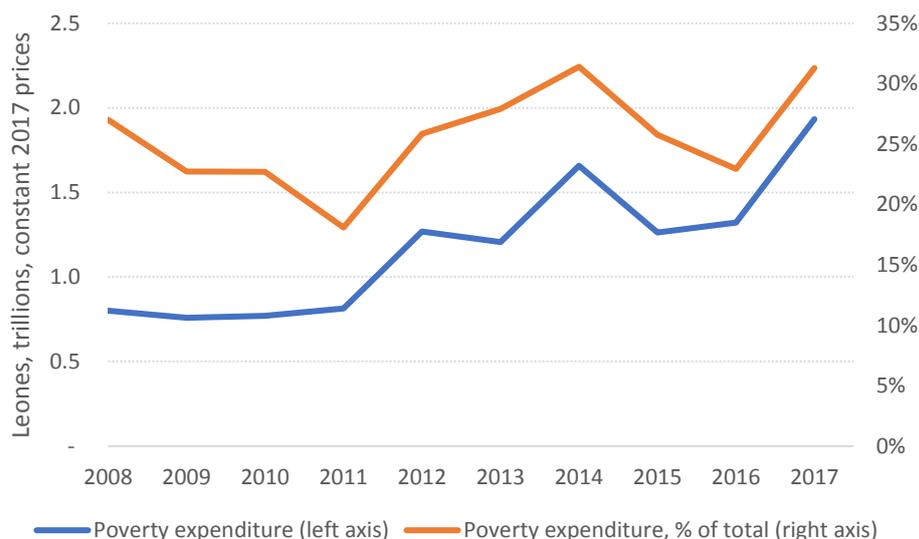
While the government’s public finance management systems allow spending toward many national sustainable development priorities to be tracked, there are gaps in monitoring spending on cross-cutting priorities. This is particularly important in relation to clusters 5 and 7 of the national plan, which focus on empowering women, children and persons with disabilities, and on addressing vulnerabilities and building resilience. These areas cut across other thematic priorities, and

⁶ As shown in Figure 11, international competitiveness was the other major pillar in terms of volume of public finance under the AfP. However the 2018 figures are budgeted rather than actual expenditure and in both 2016 and 2017, actual spending under the international competitiveness pillar was only a small proportion of that which was budgeted.

ministerial briefs, and therefore require dedicated mechanisms in order to track and assess public spending (see more in the monitoring and review section).

Poverty related expenditure has been rising in absolute terms and fluctuating as a proportion of total spending (Figure 13). This measure is used by the government to track funding for a core group of ministries and agencies which have key roles to play in poverty reduction. Poverty-related spending in 2017 equalled its previous peak, accounting for 31% of total spending. However in absolute terms it highlights the shortage of finance that the government faces: spending per person living in poverty is less than Le' 500,000, equivalent to around US\$67 each year.

Figure 13. Poverty-related public spending rose to 31% of total spending in 2017



Source: Budget profile publications, Ministry of Finance. Poverty-related expenditure is an official definition used in the annual budget, including non-salary, non-interest recurrent and development spending from select MDAs.

Development cooperation

ODA plays a significant role in Sierra Leone's financing landscape, accounting for over a quarter of total financing. ODA totalled over Le' 4.2 trillion in 2017, or US\$ 579 million (Figure 14). This is equivalent to 14.7% of GNI, putting Sierra Leone among the top twenty countries in the world by this measure and the fourth highest in West Africa.⁷

Total volumes of ODA have declined from the peak during and after the Ebola period, and in US\$ terms have returned to levels broadly in line with those before the Ebola period.⁸ The majority of ODA is provided in the form of grants, although loans have increased within total ODA when compared to the pre-Ebola period, rising from 13% in 2013 to more than a quarter in 2017 (Figure 15). At the same time on-budget support has decreased (Figure 14).

⁷ Liberia (33.5%), Gambia (27.3%) and Niger (15.2%) all had higher levels of ODA to GNI in 2017. These figures are all gross ODA disbursements.

⁸ Total ODA remains higher when expressed in Leones due to currency depreciation.

SIERRA LEONE DEVELOPMENT FINANCE ASSESSMENT

Figure 14. ODA levels are returning to pre-Ebola levels although on-budget support has fallen

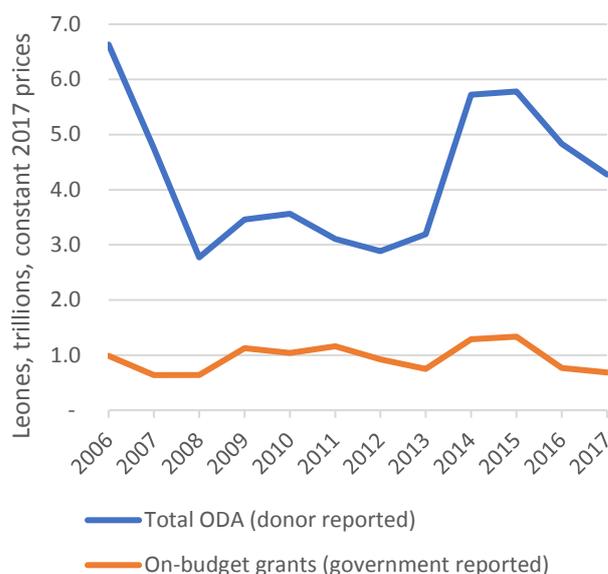
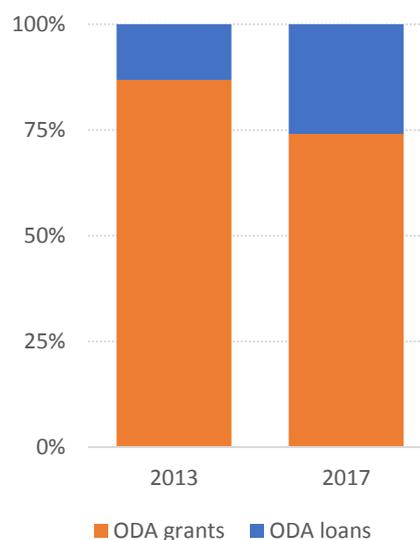


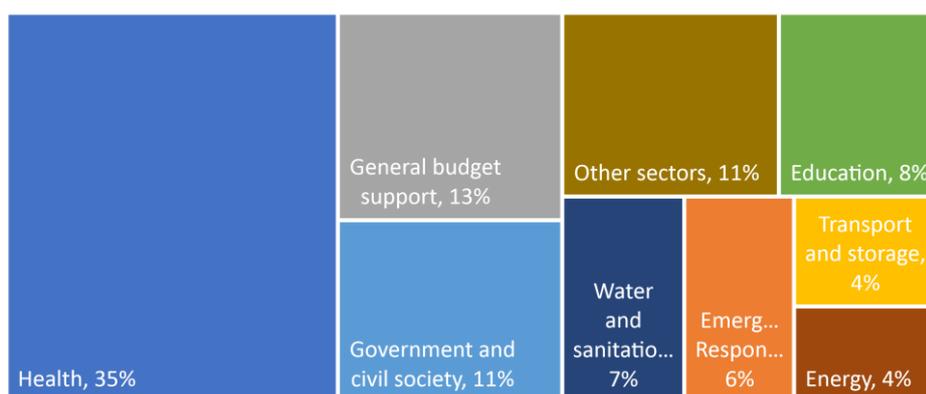
Figure 15. Loans account for an increasing proportion of ODA



Source: OECD DAC and Ministry of Finance

The sectors that receive the most ODA funding are primarily related to social development and governance (Figure 16). The health sector is the largest sector overall, accounting for 35% of ODA in 2017. This is partly a response to the Ebola virus period. Total ODA was scaled up rapidly over 2014-2016 and the health sector was the fastest growing, with disbursements growing almost 6-fold from the pre-Ebola period. Other social development sectors have also grown rapidly; education ODA for example grew more than 150% between 2013 and 2017. As support for the social development sectors has grown investment in other areas, notably infrastructure, has fluctuated. In 2013, for example, road infrastructure was the largest sector overall, although levels have been more volatile since. ODA support for government and civil society has remained a significant proportion of the ODA portfolio overall, accounting for 11% of ODA in 2017. General budget support however has recently declined (see above).

Figure 16. Much ODA focuses on social development and institutional development



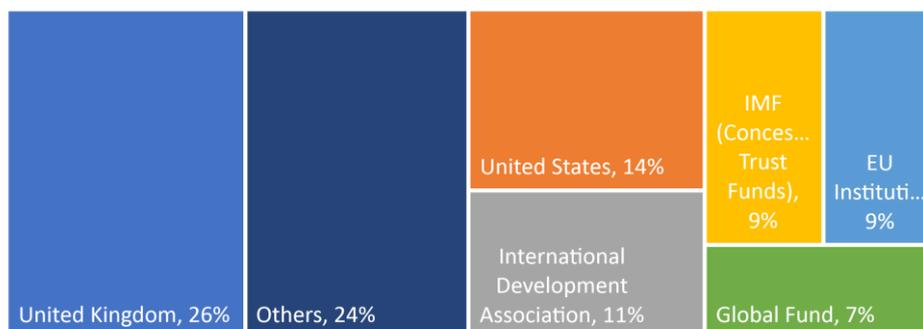
Source: OECD DAC and Ministry of Finance

Part of the health funding that Sierra Leone receives comes from thematic funds such as GAVI or the Global Fund. Sierra Leone has been quite successful in accessing finance from international thematic funds focused on health. There has been significant growth in recent years in international climate funds and while Sierra Leone has accessed support from some of these funds, such as GEF, there is potential to scale up funding for climate and the environment, in line with the 7th cluster of the

national plan, by accessing other climate funds (see accessing untapped climate funds in the recommendations section below).

The largest development partners in Sierra Leone are the UK and USA, who together accounted for 40% of ODA in 2017 (Figure 17). The World Bank and IMF accounted for 11% and 9% respectively, followed by the EU and Global Fund.

Figure 17. The UK and USA are the largest development partners in Sierra Leone



Source: OECD DAC and Ministry of Finance

There has historically been less of a focus among many of these traditional development partners on the productive and economic sectors, although some actors indicated during DFA consultations that they are planning to scale up support in certain areas of private sector development. This contrasts somewhat with the focus of many emerging providers of cooperation who have a stronger focus on support in economic sectors, alongside funding for infrastructure.

There are a growing number of south-south cooperation (SSC) providers active in Sierra Leone (Figure 18). Many of these countries emphasise infrastructure and the productive sectors of the economy in their cooperation and SSC is typically provided in the form of loans rather than grants, often with medium to long time maturities. Engaging these providers therefore offers the potential to complement existing ODA as a source of funding for other sectors and meeting some of the longer-term financing gaps that Sierra Leone faces, for example in infrastructure. Loans from SSC providers currently account for a minority of international debt and debt repayments (Figure 19). However it remains important for the government to carefully manage any new borrowing within its debt management framework and overall foreign debt ceiling, which it is close to reaching under existing borrowing levels.

Figure 18. The government has access to finance from a growing range of bilateral lenders

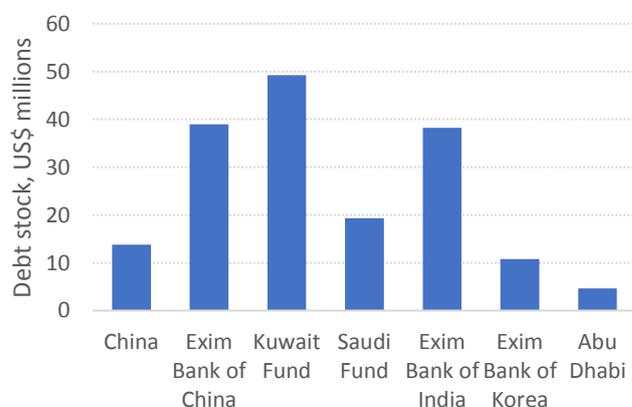
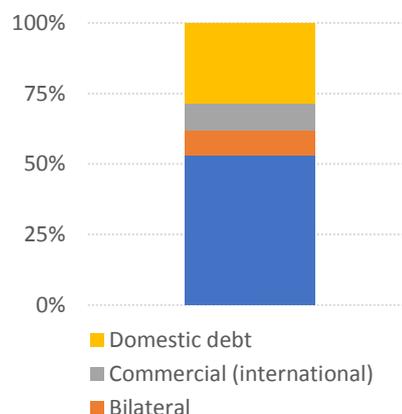


Figure 19. The majority of public debt stock is domestic and multilateral



Source: Ministry of Finance, 2016-2020 Budget Profile. Note that these figures represent debt stocks rather than flows. Data are for June 2017. Note that there may be some overlap between data in the left hand chart for the Kuwait Fund, Exim Bank of Korea and Abu Dhabi and the ODA data above, as these source countries report to the OECD.

Private finance

The private sector has an important role to play in the realisation of the national plan. The speed and way in which the private sector develops will have a critical bearing on the plan's economic and job creation objectives as well as targets in key sectors such as manufacturing and agriculture.

Stimulating private sector investment in these areas is crucial and the plan also articulates an aim to mobilise private sector investment in a range of other areas, from housing to roads to water.

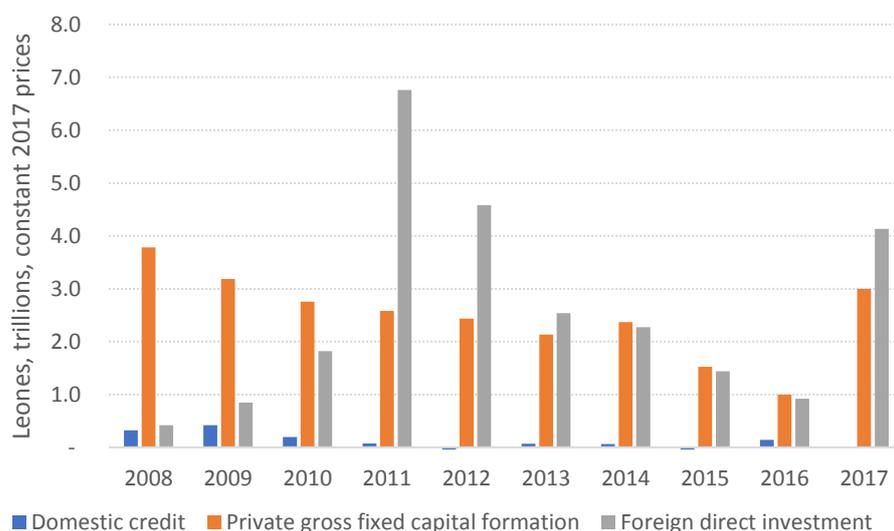
Understanding current trends in private investment is a key foundation for identifying opportunities to stimulate new investment in strategic areas and mobilising greater direct and indirect impact from private investments across the national plan.

Private sector investments fluctuate significantly year-on-year, with low ongoing underlying levels of investment complemented by large, infrequent one-off investments (Figure 20).

FDI may be the largest source of commercial investment overall in recent years. It peaked in 2011 and 2012 as investments were made in iron ore, before falling through to 2016 and rising again in 2017.

Investment by domestic businesses is more challenging to track. Firms will often borrow to fund investment, meaning that lending to private businesses can be used as a proxy for understanding trends in investment. However, lending to private sector actors has been largely crowded out of domestic financial markets in recent years (see below) and domestic credit trends are low and even negative in many years (i.e. a net reduction in outstanding loans to the domestic private sector). Total outstanding debt from the domestic financial sector to the private sector stood at Le' 1.6 trillion, equivalent to just 6.4% of GDP at the end of 2016. The World Bank estimates the average across sub-Saharan Africa is 32% of GDP.⁹ Private gross fixed capital formation (GFCF) is an alternative measure for understanding trends in private sector investment overall (it captures domestic and foreign private capital formation).¹⁰ Trends in private GFCF closely follow those of FDI, suggesting that domestic private investment is very low.

Figure 20. Commercial investments fluctuate significantly year on year



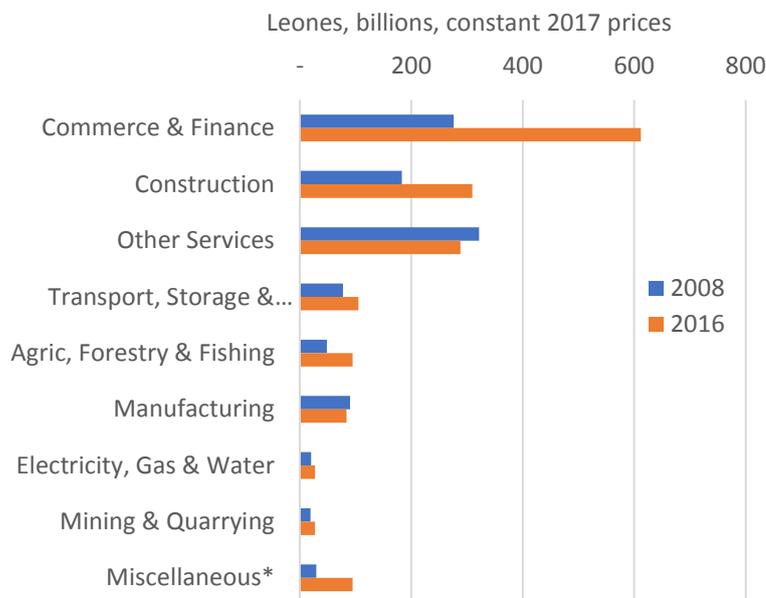
Source: Bank of Sierra Leone, World Bank and UNCTAD

⁹ Based on the World Bank's domestic credit to the private sector indicator, available here: <https://data.worldbank.org/indicator/fs.ast.prvt.gd.zs>. This figure is for 2017. There may be some differences in definitions between the indicators.

¹⁰ GFCF captures most, but not all, aspects of investment. For example land purchases and mergers and acquisitions are not included in GFCF.

Among the domestic lending to private actors that is taking place, the commerce and finance, and construction sectors are the largest borrowers (Figure 21). These two sectors accounted for 56% of outstanding credit at the end of 2016 and 80% of the increase in outstanding credit between 2008 and 2016. Lending to sectors that are strategically important for the national plan account for a smaller proportion of private sector credit. Agriculture, forestry and fisheries accounts for 6% of outstanding credit. The manufacturing sector, which the national plan aims to grow from less than 2% of GDP to more than 5% by 2023, accounts for only 5% of outstanding credit.

Figure 21. Commerce, finance and construction attract the majority of credit to the private sector



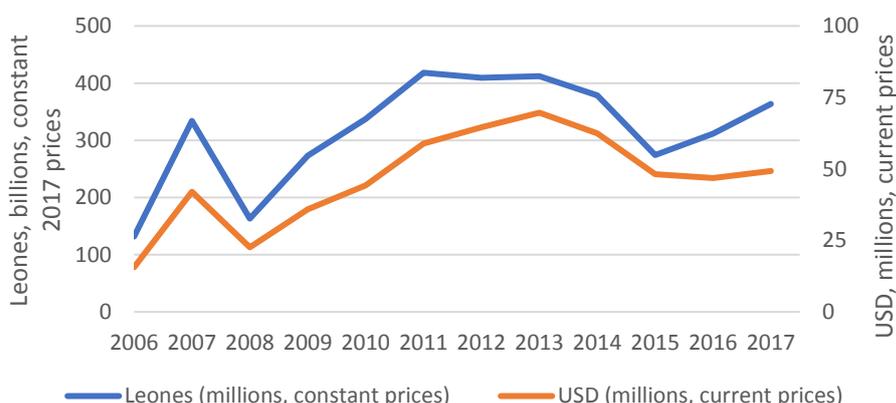
Source: Bank of Sierra Leone

These trends highlight the need for a major change in trajectory in private investment. The national plan explicitly and implicitly targets private investment as a key contributing driver across a range of sustainable development objectives. Addressing the underlying causes of this low private sector investment and identifying ways forward is a major priority for the country. The reasons behind these trends and potential steps forward are discussed in the public-private collaboration and recommendations sections below.

Remittances

Remittances are a significant feature in Sierra Leone’s financing landscape. Remittances sent through formal channels totalled around Le’ 360 billion in 2017, or US\$ 49 million (Figure 22). These levels are below levels in the early 2010s, when they peaked at almost US\$ 70 million, though they still provide a vital source of financing for many communities as well as a key source of foreign exchange for the country as a whole.

Figure 22. Remittances sent through formal channels fell in 2013 but have risen to 350 million Leones as the exchange rate depreciated

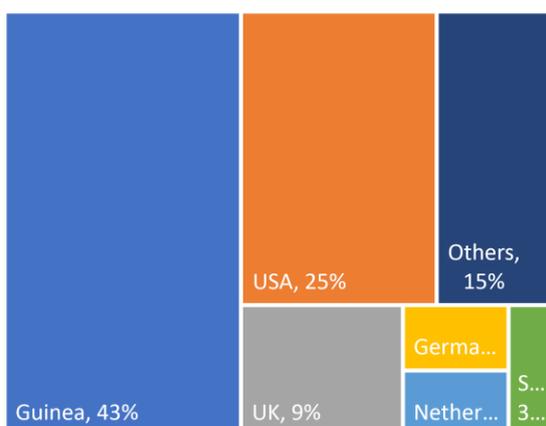


Source: Author’s calculations based on World Bank

The majority of remittances are thought to come from Sierra Leoneans in three countries in particular; Guinea, USA and UK (Figure 23). Together these three accounted for an estimated 77% of remittances in 2017. The Netherlands, Senegal and Germany are also significant sources.

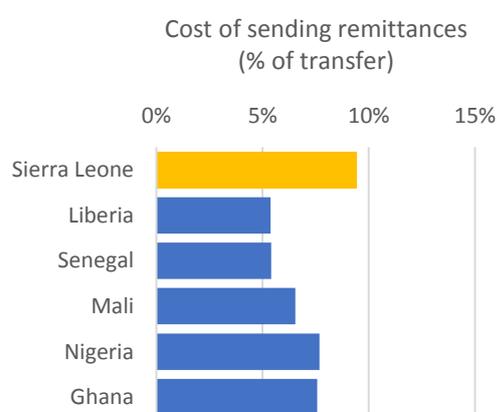
While these figures highlight the context of remittances sent through formal channels, it is thought that the true value of remittances, including those sent through informal channels, may be significantly higher. One factor in the potentially large volume of informal remittances is the fact that Sierra Leone is one of the few countries in the world to tax the receipt of remittances. Transfers to the country are subject to the 20% goods and services tax (GST). This is one cause of the cost of remittance transfers to Sierra Leone being significantly higher than those to many of its neighbours (Figure 24).

Figure 23. Guinea, USA and UK account for more than three-quarters of remittances



Source: World Bank migration and remittances database

Figure 24. Remittance transfer costs are higher than to neighbouring countries



Source: World Bank remittance prices database

Investment in key sectors

The national plan identifies a number of thematic priorities and specific sectors that are strategically important for achieving the objectives of the plan as a whole. Understanding the mix of resources currently being spent and invested in each of these is important for identifying priorities and opportunities for mobilising financing in support of the national plan overall. Figure 25 highlights what is known about trends across different types of financing in certain key sectors.

Education is a headline priority in the national plan. Public finance is the main source of financing in the sector, with government spending accounting for the majority of spending overall. However government investment in the sector has declined in real terms, with non-salary, non-interest recurrent spending in the Ministry of Education declining 90% over 2015-2017. Development spending on education has historically been very low, having been below Le' 20 billion every year since 2002. At the same time as public spending has been falling, education-focused ODA has risen. This brought total domestic and international public spending in the sector back to levels in 2017 broadly in line with those in 2013.

The mix of resources in another key social development sector, health, is very different. Health ODA prior to the Ebola period already exceeded public spending and although both the government and development partners sharply increased their funding for the sector in response to Ebola, the scale of the increase in health ODA means that development partner spending dominates the sector overall. While headline ODA has started to fall since the end of the Ebola period, ODA spending in the sector remains high and peaked in 2016, before falling slightly in 2017.

Agriculture, forestry and fisheries are key sectors for the national plan both for their economic potential and because trends in these sectors can have a major impact on poverty reduction and development in rural areas across the country. Government spending in these sectors has been rising overall, albeit with fluctuations, though absolute levels of public spending remain low. Development spending has fallen as non-salary, non-interest recurrent spending has risen. ODA in these sectors is also relatively low, though rose in 2017 to over Le' 80 billion (almost US\$ 35 million). This is equivalent to 6% of total ODA, with the majority in agriculture. Notably, domestic credit to this key sector remains extremely low. Total outstanding domestic credit across the three sectors stood at less than Le' 100 billion, and has declined from its peak of Le' 125 billion in 2011. These levels are extremely low when one considers the priority placed on them in the national plan as strategic drivers of progress, and in comparison to the scale of the potential that they offer.

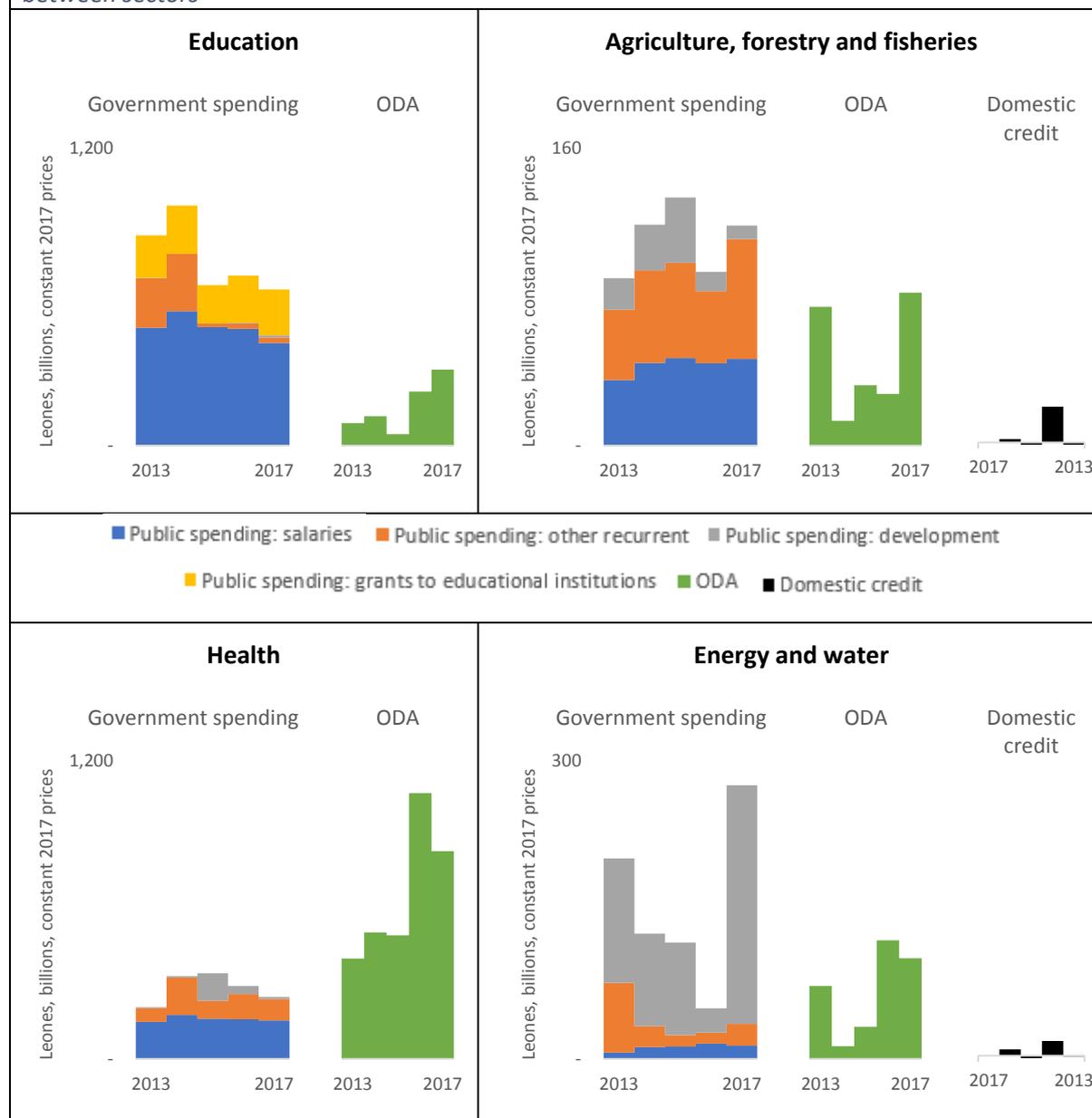
Energy and water are key sectors for advancing social progress and as enablers of growth and investment. Trends in these sectors may be indicative of the larger infrastructure financing gap. Government spending is the largest traceable source of finance in these sectors, though levels have fluctuated year-on-year, largely due to changes in development spending, particularly in the Ministry of Energy. This may reflect both changes in fiscal space overall – development spending is often the first part of the budget to be cut when there are fiscal constraints; or investment in larger, infrequent projects. Domestic credit in the sector remains very low. Total outstanding credit at the end of 2016 stood at Le' 27 billion (US\$5 million), and has never exceeded Le' 30.5 billion.

While limits to the information available means that these figures are not comprehensive, either in terms of the sectors they cover, or the resources they trace,¹¹ they are indicative of the key challenges of financing in these strategically important sectors. Boosting fiscal space is essential to fund the public services and investment needed to achieve objectives across the national plan, and particularly in social development sectors. At the same time there is an urgent need to unlock

¹¹ Note that the sectors chosen in Figure 25 were selected both on their importance within the national plan as well as the availability of data. Data on some areas of financing, for example related to SOEs, was not available, although they may account for key spending and investment in some of these sectors.

private investment in the economic sectors that can advance the country’s economic goals and contribute to poverty reduction and other social and environmental objectives.

Figure 25. The mix of public, development assistance and private financing varies significantly between sectors



Sources: Ministry of Finance, OECD DAC, Bank of Sierra Leone.

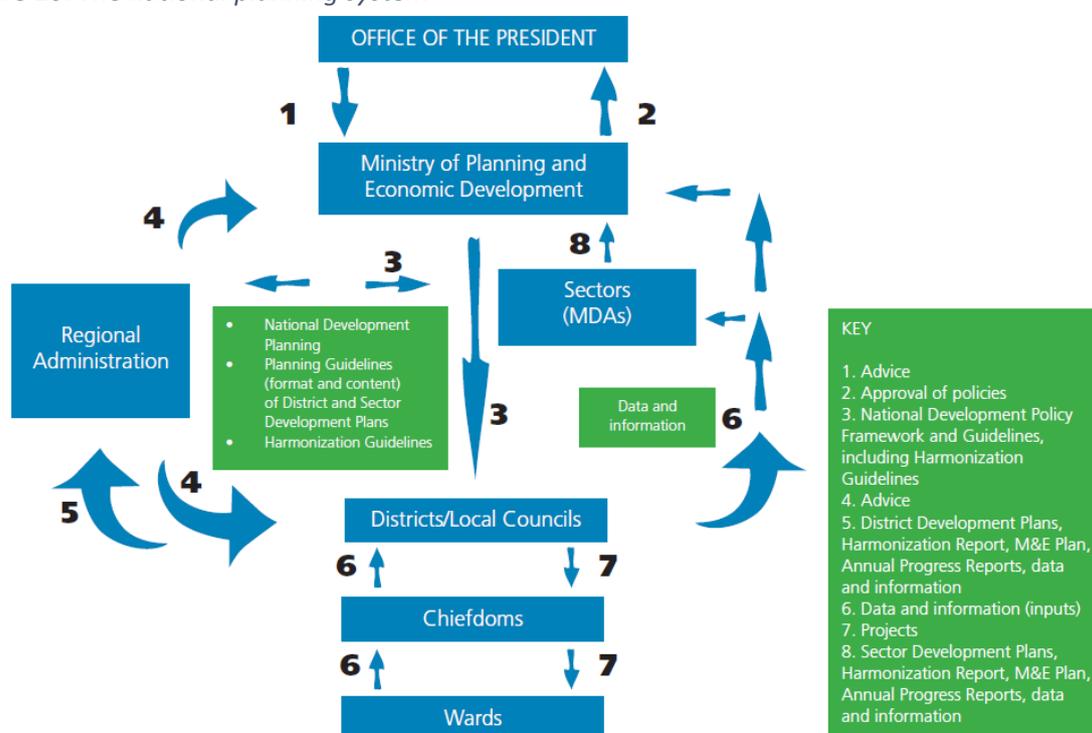
Note that some sources of finance (such as FDI) are not included because there is no sector-disaggregated data available. Data on domestic credit for education and health is not available. ODA data is the total to each sector, excluding funding marked by the development partner as being channelled through the ‘recipient government’ or ‘central government’, in order to avoid double counting as far as possible. Domestic credit data is the year-on-year change in outstanding loan assets to each sector: negatives (i.e. when there was a reduction in outstanding credit to a sector) are not shown. Note that the precise definitions used to define each sector may differ in relation to each flow; these charts are meant to highlight indicative rather than precise comparisons about the mix of resources. See annex for further data notes.

2. Integrated planning and financing

Sierra Leone uses decentralised structures to implement national plans and programmes (Figure 26).¹² The Ministry of Planning and Economic Development plays a coordinating role, working with MDAs at the national level as well as regional administrations and districts at the subnational levels.

Regarding financing, the Ministry of Finance oversees the annual budget process, supported by the MoPED and working with MDAs whose budget proposals align to their sectors plans, which are in turn aligned to the national plan (see below). Policy toward the various types of non-state financing is disbursed among ministries including, among others, the Ministry of Trade and Industry, which has responsibility for a number of aspects of the business environment and investor engagement, MoPED, which leads aid coordination, and the Office of Diaspora Affairs, which engages with the diaspora overseas. Infrastructure projects are often led at the national level, largely due to lack of capacity at subnational levels within the decentralised system.

Figure 26. The national planning system



Source: *Medium-term national development plan: Education for development*

The national plan places a heavier emphasis on the means of implementation than previous plans and it calls for a wide range of financing policies to be aligned to the national plan and to support its implementation. It will vital to ensure that there are mechanisms in place to drive forward the implementation of the necessary reforms and changes. Mobilising the required resources, delivering the necessary investments and services, and implementing the policies that will advance the national plan will require the action and coordination of a wide range of MDAs, as well as partnership with other actors including development partners, the private sector and the diaspora.

Adapting or putting in place an effective institutional oversight mechanism to oversee government's efforts for mobilising public and private finance behind the national plan would be an important step forward. Such an oversight mechanism could build on the concept of an integrated national

¹² MTNDP, Means of Implementation Cluster.

financing framework that is called for in the Addis Ababa Action Agenda and which has been developed by the Inter-agency task force on financing for development (IATF).¹³ While there are various options for the format of such a mechanism (see box 1 for an example of one such mechanism from another g7+ member, the Solomon Islands), its function would be to coordinate and follow up on action across MDAs and in collaboration with partners, to ensure that the measures articulated in the means of implementation section of the national plan are implemented. The IATF identifies four building blocks to operationalise an integrated national financing framework: assessment and diagnostics,¹⁴ a financing strategy, monitoring and review and governance and coordination.¹⁵ Using an integrated national financing framework approach in Sierra Leone would entail measures to assist MDAs in implementing the reforms that will be needed to finance the national plan, coordinating reforms that require changes across multiple actors and establishing a strong monitoring and review framework for MTNDP financing. The body would take responsibility for the financing the MTNDP overall and be responsible for reporting on progress to the highest levels of government.

The format of such an oversight mechanism can be determined through dialogue among key ministries and government leadership. A range of potential options exist, for example building on the cluster structures that were established to develop the national plan, or establishing a senior level committee that reports to the Cabinet.

Box 1. The Solomon Islands Integrated Financing Framework

The Solomon Islands launched its National Development Strategy (NDS) in 2016 and the government has established a Solomon Islands Integrated Financing Framework (SIIF) to support its implementation.

The SIIF draws together policies toward a range of public and private finance and commits the government to a number of reforms designed to boost financing for the NDS. It is based on recognition that “when it comes to the NDS, it’s everyone’s business;”¹⁶ that all actors – from government to private companies, NGOs, faith-based organisations and others – have a role to play in the delivery of the NDS and will benefit from progress toward its objectives.

The SIIF is managed by a cross-governmental committee which holds responsibility for the implementation of the NDS. The NDS implementation oversight committee brings together the key ministries that implement each aspect of public and private financing policy. It incorporates representatives from subnational government and consults regularly with representatives of non-state actors, from the private sector, NGOs and faith-based organisations, and development partners. This oversight committee is responsible for leading the implementation of the NDS and reports regularly to the Cabinet on progress in implementing reforms and advancing toward the objectives of the NDS.

In this way the SIIF provides a framework for aligning policies across public and private areas of financing to the NDS and the oversight committee is the mechanism is equipped with the authority and responsibility to ensure the effective delivery of these reforms and monitoring of their outcomes.

¹³ See the 2019 Financing for Sustainable Development Report for more. Available at: <https://www.un.org/development/desa/publications/financing-for-sustainable-development-report-2019.html>

¹⁴ The IATF note that development finance assessments, such as this one, have been used in a number of cases to help countries through the assessment and development of a financing strategy components of an integrated national financing strategy.

¹⁵ IATF, 2019, *Financing for sustainable development report*.

¹⁶ Quote from the Minister of Development Planning, taken from the Solomon Islands Development Finance Assessment, 2018.

Aligning the budget with the national plan

The budget is central to government's efforts to advance the MTNDP. Government spending is the largest resource within Sierra Leone's financing landscape as a whole and a key form of financing that is invested explicitly for the purpose of advancing national development priorities. The effectiveness of government spending therefore is a key determinant of progress toward the objectives of the MTNDP.

Processes and systems to align the budget with the MTNDP play an important role in ensuring that government spending is as effective as possible. The stronger the systems in place to design and implement a budget that is tied to and working toward the objectives laid out in the MTNDP, the greater the likelihood of many of those objectives being achieved. Sierra Leone's budget is aligned to the national plan through a few mechanisms, including the strategic plans of MDAs, systems that classify spending against the clusters of the MTNDP, and a citizens budget that gives a high level narrative about how the budget is being invested.

Sierra Leone's budget is activity based and, with limited information on or planning for results, there are challenges in linking the budget to the outcomes articulated in the MTNDP. Budget reforms in 2013 and 2014 are now well embedded and the budget is constructed on the basis of anticipated costs for activities planned by MDAs.

A key link between the budget and the national plan comes through MDA strategic plans. The activities to be funded in each budget are informed by strategic plans compiled by each MDA. Each MDA identifies which aspects of the national plan it can contribute toward and develops a strategic plan around these areas which then informs the proposals they submit in the budget preparation process. However this provides only an indirect link between the budget and national plan in the early stages of budget preparation. The budgets that are agreed for each MDA are not formally tied to the results areas of the national plan that they were designed to contribute toward – the final budget does not incorporate information on targeted outcomes in relation to the national plan. Furthermore, as many MDAs' strategic plans are not published,¹⁷ there is a lack of scrutiny on this crucial link between budget and plan. There are also no frameworks in place to systematically monitor the extent to which spending contributes to those planned outcomes.

A second link between the budget and the national plan comes through the arrangement of budgetary expenditure according to the clusters or pillars of the national plan. The 2019 budget publications include a breakdown of spending classified against the clusters of the MTNDP (in previous years it was classified against the pillars of the AfP. In most instances this is done at the ministry level, so whole ministries are classified as contributing toward a particular pillar of the national plan, though in a few instances departments within ministries are grouped under different clusters. Data on spending within each cluster is aggregated, which allows some tracking of total public investment in each cluster of the MTNDP – although spending by cluster does not feature in the indicator framework for monitoring the MTNDP (see monitoring and review section below). These figure are also analysed in the citizen's budget, which is the only place a narrative about spending according to the thematic pillars of the national plan is produced.

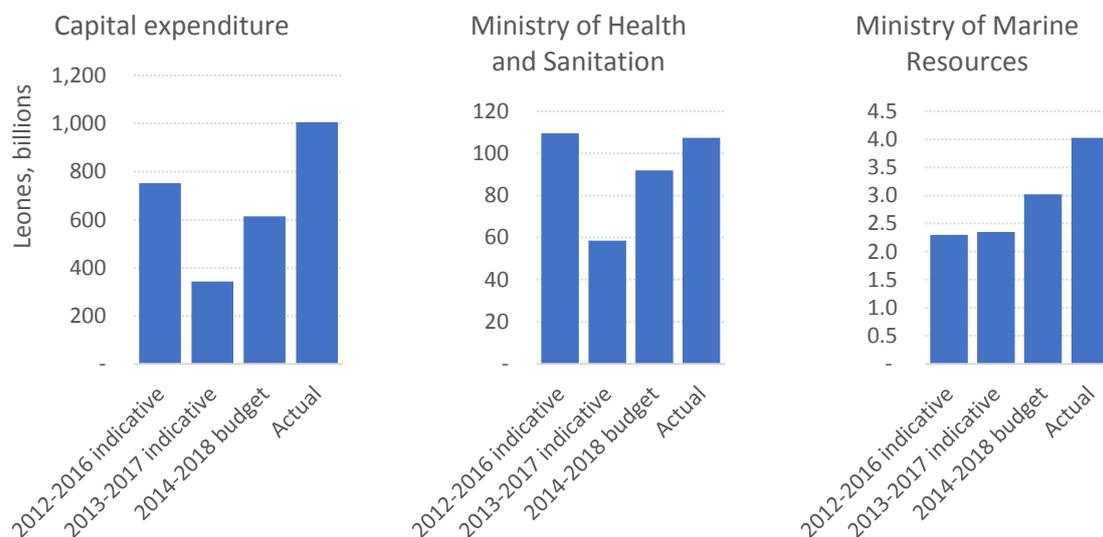
While the medium-term budgetary framework allows some degree of forward planning in funding for key areas of spending and investment, fluctuations between planned, budgeted and actual expenditure can undermine the link between predictable funding for national plan priorities and investment in practice. Figure 27 shows how indicative, budgeted and actual spending evolved for the year 2016 in three select areas of relevance to the national plan. The left hand column in each shows the indicative budget 2 years ahead, when 2016 was the outer year in the 3 year MTEF; the next shows the indicative budget 1 year ahead, followed by the final agreed budget for 2016 and

¹⁷ 2017 PEFA report

ultimately the actual expenditure outcome. The charts show how planned spending changed quite radically over time, and within the calendar year 2016 itself. Domestically funded development spending planned for 2016 fell from over Le’ 750 billion in the original indicative budget to less than Le’ 350 billion, before rising again to Le’ 613 billion in the budget. Actual expenditure was higher still, at just over Le’ 1 trillion. Similarly, the recurrent budget (excluding salaries and interest) for the Ministry of Health and Sanitation fell then rose, while the budget for the Ministry of Marine Resources, a target sector for the economic objectives of the national plan, almost doubled between the original indicative estimates and actual spending. The spending areas shown are representative of the national plan trend and highlight a challenge with planning for and delivering a budget that is aligned to the national plan.

Without clarity in the level of resources that will be available for spending in a particular focus area, it is difficult to develop a strategy for investing, particularly for projects that require multi-year investments. A high degree of in-year changes to the budget, both within and between agreed spending areas, further challenge the link between the agreed budget, which is built on MDA strategies for investing in their respective areas of the national plan, and the outcomes targeted in the national plan.¹⁸

Figure 27. Fluctuations between planned, budgeted and actual spending make it harder to strategise for and deliver public spending aligned to the national plan



Source: Ministry of Finance, Budget Profiles for 2012-2016, 2013-2017, 2014-2018 and 2016-2020. All figures are for spending in the year 2016. Note that capital expenditure figures in the left hand chart are total domestically funded capital expenditure. Figures for the two ministries are for non-salary non-interest recurrent spending.

Following earlier reforms on the spending side of public finance, there is a strong current emphasis on reforms in revenue policy and collection. While the need to boost public revenues is well recognised, it is also important to assess and further develop systems to govern the quality of spending in alignment with the MTNDP. There are opportunities to build on current systems, to incorporate outcome information and planning into the preparation, delivery and monitoring of the budget. This would allow spending to be tied more closely and strongly to the results targeted in the national plan, and would capitalise on the introduction of a results framework within the MTNDP. Similar steps have been undertaken in many other countries as they iteratively develop the results-focus of national planning and budgeting systems and deepen the connection between them. The

¹⁸ The 2017 PEFA report found, for example, that virements (movements of money within a budgetary unit) and adjustments that increase total spending of a budgetary unit, were frequent and only partially transparent.

example of Mozambique, which has developed a long-term vision with iterative steps that will gradually deepen the ties between the budget and national plan, is summarised in Box 2. An outline of the kinds of steps that could be considered in Sierra Leone is given in the recommendations section below.

Box 2. Public financial management reforms in Mozambique

In Mozambique, the government has developed a series of long-term, medium-term and short-term instruments to guide improvements in public financial management (PFM) and strengthen the way public finance is used in line with national sustainable development objectives.

A 15-year public finance vision (2011–2025) outlines 6 strategic objectives for improving public finance management. These include modernizing the budgeting system by reorganizing it around programmes and results; improving administration of state assets and public debt, as well as the management of state-owned enterprises (SOEs); strengthening financial accounting and statistical information across public institutions; and modernizing human resources. The vision aims to iteratively strengthen public financial management and enhance the alignment of resource allocation in line with the country’s National Development Strategy.

The 15-year vision is operationalized through a series of medium-term strategic plans for public finance (SPPFs) which are closely connected with medium-term planning instruments. The design foresees that the formulation of every SPPF includes a detailed review of the implementation of the vision during the previous one. The review included in the current SPPF 2016–2019 for the first interim period of the implementation of the vision provided valuable lessons to guide the design of the actions, indicators and targets to be developed within the PFM system by the end of 2019 in a way that is consistent with the long-term goals. This vision and strategic plans for public finance are unifying instruments within the Ministry of Economy and Finance since they summarize all existing plans and programmes in the PFM area of the Ministry and its subordinated institutions. They help to strengthen public financial management in the country and build stronger connections between government spending and the longer-term vision for sustainable development.

Revenue administration and policy reforms

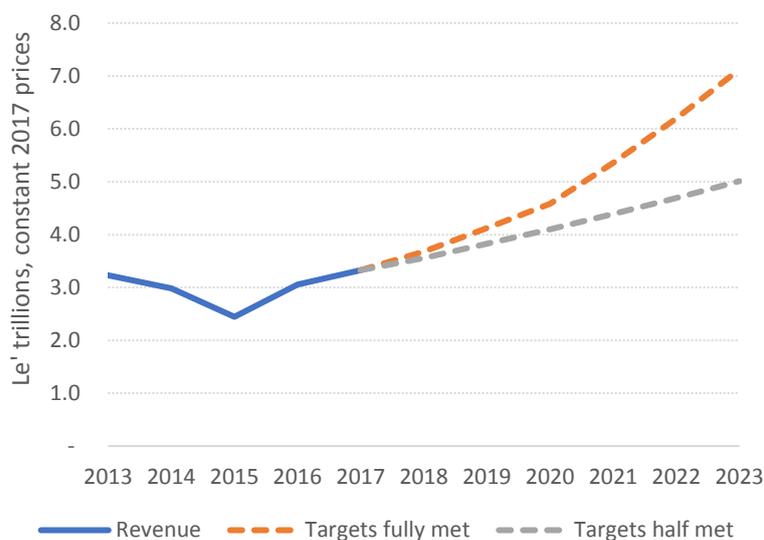
The scale and nature of revenue collection is critical for investment in the national plan. The volume of resources mobilised by the government determines the extent to which it is able to scale up services and make new investments that can drive forward key aspects of the national plan. And the way in which revenues are mobilised can itself make a contribution toward national plan outcomes – through its impact on income equality, or by promoting or discouraging certain types of commercial investment, for example. Taxes can also be used to promote or discourage desired or unwanted behaviours, such as investment in strategic sectors or reduction in damaging activities such as smoking or use of polluting fuels.

The context in Sierra Leone is one of significant fiscal constraints (see revenue trends section above). Low volumes of revenue collection limit the resources available for the government to invest in the national plan. Recent growth in borrowing has led to an increase in interest payments. Raising revenues is therefore one of the highest priority challenges for the government in relation to the national plan. There is limited use of tax policy as an instrument for advancing national sustainable development beyond the revenues it raises for government. Some tax incentives include design features which are aligned to national development objectives, for example rewarding companies with a higher proportion of female leadership. However these are not widely used nor effectively monitored for their impact, and many incentives are being removed as part of the larger push to reduce revenue losses. Other recent reforms to tax policy, such as the removal of implicit fuel subsidies, may align to sustainable development objectives, but were motivated primarily by financial reasons.

In response to its fiscal constraints government has committed to a number of tax reforms. A target of revenue equivalent to 20% of GDP by 2023 has been set, with an interim target of 15% by 2020.

Achieving these ambitious targets would mobilise significant additional resources for public investment in the national plan (Figure 28). Should these targets, as well as the government's projected growth rates,¹⁹ be realised, by 2023 total revenues would have more than doubled. The increase in revenues would be more than current levels of grants and annual borrowing combined and revenues per person would rise 85%. Even if revenue and growth targets are only half met it could yield more than a 50% increase in absolute revenues. Realising these targets, or making significant progress toward them, would give government the space to reduce its debt burden and/or increase development spending and service delivery, particularly if growth in salaries can be controlled.

Figure 28. Achieving the government's revenue targets would mobilise significant additional resources for public investment in the national plan



Source: Author's calculations based on Ministry of Finance projections of economic growth and future revenue mobilisation targets.

A large number of reforms to tax administration and policy are underway or have been implemented as part of efforts to work toward the government's revenue targets. These are articulated in the government's medium term revenue strategy and build on earlier reforms, notably including the adoption of the 2016 public finance management (PFM) Act. They aim to address some of the key challenges in the administration and collection of taxes, including the lack of integration between different aspects of tax administration, cumbersome filing, assessment and auditing procedures and challenging payment processes. They also aim to address shortcomings of existing tax policy and modernise policies in a number of areas.

Customs and excise taxes are an important component of revenues, accounting for between 20-25% of total revenues between 2013 and 2016. This aspect of revenue has been the focus of some of the first reforms to be implemented under the revenue mobilisation strategy; subsidies on fuel have been removed and migration to a more advanced, web-based, customs management platform²⁰ was being implemented during the DFA process.

¹⁹ Projected growth rates are published in the 2019 Fiscal strategy statement.

²⁰ Migration from ASYCUDA ++ to ASYCUDA World. This enables, for example, web-based rather than in-person submission of key customs documentation.

Another key reform that has been implemented already is the establishment of a Treasury single account (TSA) which was implemented under the new PFM Act. The TSA unified the previously disparate network of accounts managed by MDAs and brought together information on the financial balances and revenues collected by each MDA. It will boost the efficiency of revenue management overall and ensure comprehensive oversight over the collection of revenue and levies by all MDAs.

The Ministry of Finance and NRA are also in the process of implementing an integrated tax administration system which will connect various aspects of tax administration and boost the efficiency with which authorities process tax submissions and payments.

A key area initiative related to GST is the planned rollout of electronic cash registers that are connected to the NRA's systems. GST accounted for 21% of revenues in 2017 and this initiative aims to improve monitoring and boost the accuracy of the submissions made by businesses.

Tariffs, levies and exemptions are being reformed in a number of areas. Duty waivers on rice imports have historically been used as cover to import other goods and import duties will be reinstated to stop this practice. Levies charged by many MDAs which have been left unchanged for years are being reviewed and updated to current standards. And a significant review of tax exemptions is underway (see box 3 on tax expenditure below).

Box 3. Tax expenditure

Tax expenditure, the revenue foregone by government through tax holidays, breaks or incentives, can be an important tool in incentivising private investments and actions that will benefit national development, but can also become costly and ineffective if they are not closely managed.

A variety of tax exemptions have been in place in Sierra Leone and, with little monitoring, had reached a position where they were costing the government a significant amount in lost revenue without clarity on the benefits that they were contributing toward.

As part of the overall drive to increase domestic revenues, the government has committed to develop a more coherent investor incentive regime and has taken steps to remove a number of the exemptions that had been in place. In terms of historic commitments that have been made, exemptions can be grouped into a number of categories: discretionary exemptions, exemptions granted in agreements outside of legislation and exemptions grounded in legislation, either with or without a specified expiry date. The government has already taken steps to remove many discretionary exemptions on import GST and duties, committed to create no new non-legislation based exemption agreements, and committed to not renew exemptions granted in main legislation where an expiry date was specified. Exemptions granted in main legislation without an expiry date will be reviewed.

Notably the government has also committed to begin publishing tax expenditure information in the annual budget. This is an under-scrutinised area and publishing estimates of the amount of revenue that is being foregone will help to generate a focus on the costs and benefits of incentives. This is the case in neighbouring Liberia, for example, which has been publishing estimates of tax expenditure since 2014-15. This information has informed a clear debate about the costs and benefits of exemptions as the country develops its resource mobilisation strategy.²¹

These steps will provide a significant boost to tax revenues in the short term and can form the basis for an exemption regime that more effectively promotes investment and operations that contribute toward the objectives of the national plan. It will be important to build on these critical first steps and put in place systems that can effectively manage incentive schemes into the future on the basis of their costs and benefits in contributing to the MTNDP. This will entail processes to systematically review individual incentives schemes on a regular basis, to institutionalise a clear rationale,

²¹ Liberia Development Finance Assessment, 2019, *forthcoming*.

grounded in the national plan, for creating, maintaining or removing incentives in the future. This is discussed in more detail in the recommendations section below.

These reforms together comprise a fairly comprehensive set of initiatives that should have a significant impact on domestic revenues and help the government move toward its targets for revenue mobilisation. The initial signs are positive, with a 51% jump in customs and excise revenues between 2016 and 2017, for example (see revenue and financing section above).

Given the significant programme of reforms underway already in tax revenue mobilisation, the DFA has identified only a small number of additional recommendations that are complementary to these existing reforms for consideration by the government. A key idea is that of a taxpayer lottery that could boost voluntary taxpayer compliance with GST. While the planned rollout of electronic cash registers will boost the accuracy of tax submissions, it does not address the incentive that leads many businesses and taxpayers to make transactions which are kept off the books. Countries such as Mongolia (see example in box 4 below) and others have had success in introducing lotteries that create incentives for taxpayers to ensure their transactions are recorded and have boosted revenues. This and other recommendations related to systematic review of levies and boosting capacity for taxpayer auditing are outlined in the recommendations section below.

Box 4. Mongolia case study: using a lottery to boost tax payer compliance

In 2016 Mongolia launched an online lottery system, e-barimt, that has led to significant improvements in taxpayer compliance. The system was built on an amendment to the VAT legislation which required companies to use point of sale systems to register all their sales. The point of sale systems that were rolled out following this legislative change were designed to be linked to the online e-barimt system managed by the Mongolian Tax Authority (MTA). This automatically records all transactions recorded on the point of sale devices. At the same time, taxpayers can register with the e-barimt system to log their transactions, and the point of sale devices produce a QR code on every receipt that can be scanned with a mobile phone.

The incentive for taxpayers to demand and log their receipts comes from a lottery system that the MTA runs. Taxpayers can receive back up to 20% of the VAT they have paid and each scanned ticket is also entered into a monthly lottery that includes some large payouts.

In this way the lottery system has created a strong incentive for taxpayers to demand receipts and ensure that their transactions are logged. It has had immediate results. Within a few months of the system being introduced the number of point of sale machines being used had tripled and over 620,000 taxpayers from a total of 900,000 have registered on the system. VAT income for MTA has increased by around 250%.²²

²² <http://www.degrubben.com/3-things-that-mongolia-probably-does-better-than-the-rest-of-the-world/>

3. Public-private collaboration

Private actors such as businesses, investors and the diaspora, have important roles to play in the realisation of the national plan. Many of the objectives articulated in the national plan will be directly or indirectly impacted by the extent and nature of private sector investment or activities by private actors. This section analyses the context in a few key areas of private financing in relation to the national plan, looking at private sector investment, private participation in public investment and diaspora engagement.

Private investment

Private investment makes an important contribution to national development. The scale and nature of commercial investments are a key determinant of economic growth and contribute toward job creation and skills development. They also impact many other areas of the sustainable development vision articulated in the national plan, from various aspects of social progress to the environmental impact of businesses and the revenues paid to government.

The importance of stimulating private investment is recognised throughout the national plan. It is articulated in relation to developing key sectors of the economy, such as manufacturing agriculture, tourism, and fisheries, for economic development and job creation as well as food security poverty reduction purposes. The potential for mobilising private investment is also highlighted across a range of other sectors, such as improving the supply and quality of housing, building roads and improving infrastructure for and access to water.

This section builds on the analysis above, which showed the low current levels of private sector investment, and analyses some of the causes and opportunities to move forward in stimulating and attracting private investment that can be a driver of progress toward the vision of the national plan. It looks at the business environment, credit markets as a source of finance for private investments, the stock exchange and at public-private dialogue overall. It also considers the potential to attract the participation of private finance resources in strategic public investments.

The business environment

The business environment has a significant impact on the decisions that businesses make about their operating models and if and how they will invest for future growth.

The most significant obstacle to growth identified by businesses is access to finance (Figure 29). This is cited as the primary obstacle to growth by 40% of firms and is particularly significant for small firms; 44% identify this as the main obstacle to growth compared to 4% of large firms.²³ While access to finance is a common challenge for businesses in many contexts, it is particularly acute in Sierra Leone. The 40% of firms that identify it as the main obstacle to growth in Sierra Leone compare to 22.5% in sub-Saharan Africa as a whole and 21.6% of firms across all low-income countries.²⁴

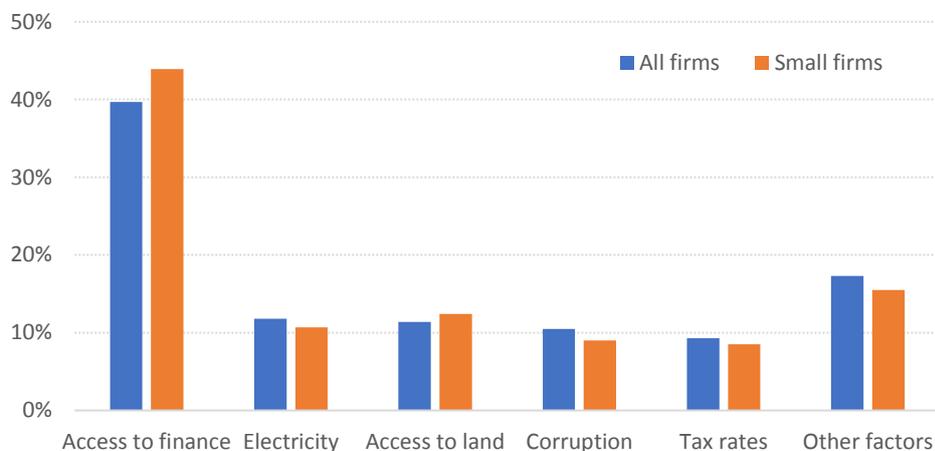
Reforms have been completed or are underway in relation to some aspects of access to finance. The Bank of Sierra Leone has, for example, had a significant focus on boosting access to and promoting the use of financial services among households across the country. An initiative is also being established to modernise Sierra Leone's credit reference bureau, using distributed ledger technology to enable actors across the formal and informal sectors to build a verifiable financial history. Nevertheless, other key factors constraining firms' access to credit remain (see below).

²³ These figures are from the 2017 World Bank Enterprise Survey. Small firms are defined in the Enterprise survey as those with 5-19 employees; large firms are those with 100 employees or more.

²⁴ World Bank Enterprise Survey, Sierra Leone 2017 country profile

Beyond access to finance a number of other factors are identified as constraints to business and growth. These include the supply of electricity (identified as the main obstacle by 12% of firms), access to land (11%) as well as corruption (10.5%)

Figure 29. Access to finance is the most significant obstacle to business growth



Source: World Bank Enterprise Survey for Sierra Leone, 2017

Access to finance for private investments

One of the key factors affecting businesses' ability to access finance is the crowding-out of private credit by short-term, high interest debt issued by the government (Figure 30). The scale, profits and low-risk nature of lending to the government means that financial institutions in Sierra Leone have little incentive to lend to private actors.

94% of new lending by the domestic financial sector in 2018 was issued to the public sector,²⁵ leaving only 6% for private borrowers. Public debt has dominated domestic credit markets over a number of years, but this dominance has been amplified in the last 2-3 years as government borrowing rose. At the end of August 2018 just 17% of outstanding credit was held by private sector actors with 83% held by the government.

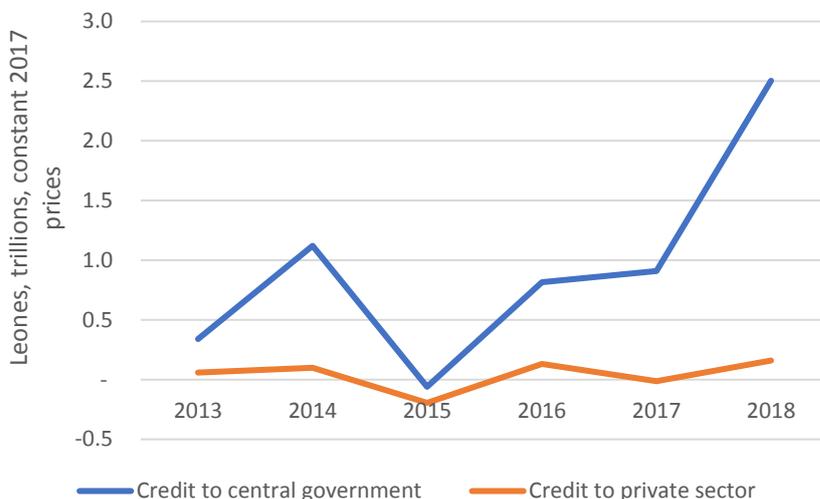
The dominance of public borrowing is driven by the high demand for credit from the government and by the high interest rates that it is willing to offer. The interest rate for 1 year treasury bills, the most subscribed public debt instrument, stood at 23.2% in August 2018. This high demand for public debt has created a context where banks and other financial intermediaries are able to make significant profit on high interest, short term lending to the government and thus have little incentive to engage in higher-risk lending to private actors. The high interest rates offered by the government and short-term nature of credit markets make it very difficult for private borrowers to compete: only a minority of businesses would be able to make a 23% return within a year, for example. The short-term nature of public debt is also a key driver of short-termism in financial markets more widely, which may also relate historically to Sierra Leone's context as a country that has been affected by conflict and fragility. Furthermore, certain regulatory issues constrain the ability of private sector actors to borrow from domestic financial markets. These include regulatory requirements around term lengths for lending, capital adequacy ratios and cash requirements for trade financing.

The effect overall is that private borrowers are crowded-out of domestic credit markets and this is a significant constraint on the growth of domestic firms that could be contributing to the economic and other key objectives of the national plan. DFA consultations highlighted some steps that are being taken to boost lending to businesses in key areas – Sierra Leone Commercial Bank is

²⁵ Note that 2018 data is for the first 8 months of the year, to the end of August 2018.

establishing an agriculture lending facility to align to the thrust of the national plan, for example. However the initiatives that exist remain small and are the exception rather than the norm. There are few incentives in the current context for banks to lend on the kind of scale that can meet the ambitions of the national plan.

Figure 30. Lending to government dominates markets, crowding out private sector borrowing



Source: Bank of Sierra Leone Monetary Bulletin

Alongside the need to address these systemic challenges for private sector access to finance from the financial sector (see below for recommendations in this area), there may also be opportunities to promote other sources of finance for businesses. This could include efforts to promote investment by entrepreneurs from the Sierra Leonean diaspora overseas or the introduction of Islamic finance instruments as a source of financing for businesses. Opportunities in these areas are explored further in the recommendations chapter.

The stock exchange

Stock exchanges can play an important role in growth and development by helping businesses to mobilise resources that can fund their growth. They bring together people with funds to invest and businesses that need capital to make new investments. When they function effectively, they provide a credible, trusted market in which to buy and sell shares, and to mobilise capital. They are important for development because they can catalyse investments that will drive forward economic growth, create jobs, and contribute to other aspects of sustainable development.²⁶

Sierra Leone has a stock exchange which was established in 2009. However it is largely inactive and is not currently fulfilling its core functions or playing the role it could play in facilitating investment. Only three companies are listed and shares are not actively traded.²⁷ The stock exchange suffers from a lack of capacity, with just one member of staff in the organisation itself and a lack of capacity within the stock exchange commission.

An effective, functioning stock exchange could play an important role in unlocking some of the resources that are present in Sierra Leone and channelling them into productive investments that can grow the economy and contribute to many aspects of the national plan. The recommendations section below outlines steps that can be considered in rebooting the stock exchange to better fulfil its potential.

²⁶ For example, an increasing number of stock exchanges worldwide are actively encouraging listed firms to meet or report on sustainability standards in order to promote more environmentally sustainable investments.

²⁷ The three listed companies are Rokel Commercial Bank, First Discount House and HFC Mortgage.

Public-private dialogue

Facilitating deeper and more systematic dialogue between the government and representatives of the government can help realise the growth in private sector investment and development that is envisioned across the national plan.

Many government processes, such as the annual budget, are designed to be open to the participation of private actors. Private sector representatives participated in consultations as the MTNDP was developed and sit on the National oversight committee for the MTNDP. Yet a forum that promotes systematic dialogue between the government and the private sector is lacking. Effective, systematic dialogue between the government and the private sector, as well as civil society, is important for building a clear understanding of and responses to the challenges that constrain impactful private sector development. Dialogue helps to develop a shared understanding of the opportunities, constraints and capacity of public and private actors and they can help to generate and tailor innovations that improve the policy environment and business practices within the local context.²⁸

The government and private sector representatives, notably the Sierra Leone Chamber of Commerce, Industry and Agriculture (SLCCIA) can consider establishing a platform for public-private dialogue. Such platforms have successfully helped to build trust and mobilise new resources and greater sustainable development impact from private investment in other countries.

Private participation in public investment and services

In addition to the areas above, which focus on stimulating investment that will drive forward private sector development, a growing number of countries are developing innovative mechanisms for attracting private participation in public investments, in infrastructure or aspects of service delivery. Three areas are considered here, public-private partnerships, unlocking pension assets for infrastructure investment and attracting private investment in development impact bonds. Diaspora bonds, a mechanism for mobilising private resources, from the diaspora, to fund public investments, are discussed in the remittances section below. The government can also consider promoting Islamic finance bonds and banking practices, which are discussed in the recommendations section.

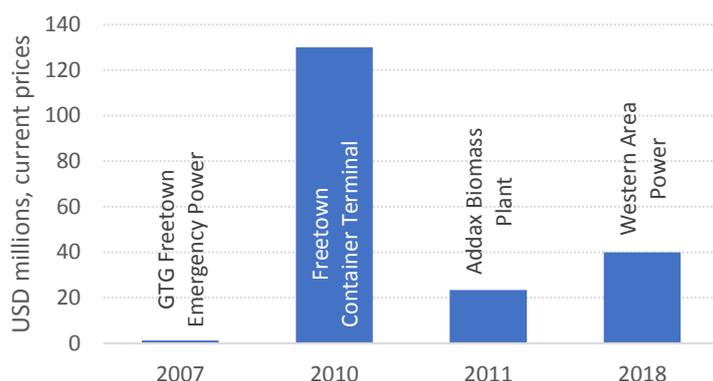
Public-private partnerships

Public-private partnerships (PPPs) are a mechanism for leveraging private financial, human and technical resources to deliver public investments or services. When implemented effectively, they are attractive to government because of the potential to deliver new investments at low cost to public finances, while offering the potential for profit to private partners. Following any of a variety of specific PPP models, they aim to share the risks of project delivery and implementation between public and private actors.

Legislation was introduced in 2010 to promote the use of PPPs for infrastructure and social sector service projects in Sierra Leone. A PPP council and PPP unit within the Ministry of Finance were also established. PPPs have been implemented in a few instances (Figure 31), though their use remains limited overall. Most PPPs have been in the energy and power sectors.

²⁸ UNDP, 2019, *Integrated financing solutions*.

Figure 31. Sierra Leone has used PPPs on an ad-hoc basis historically



Source: World Bank Private participation in infrastructure database. The data shown is the volume of private investment in each project, which was 100% for all projects except the Addax biomass plant, which was 78% privately funded. Note this chart does not comprehensively cover all PPPs in Sierra Leone, but shows those for which financial information has been captured in the World Bank's database.

The national plan calls for a scaling up of investment across a variety of sectors and scaling up the use of PPPs, within the appropriate framework and management structure, offers potential to mobilise resources that can be some of these investment needs. In particular, there may be potential to use PPPs in sectors such as agriculture, fisheries and tourism, as well as to fund presidential infrastructure initiatives.²⁹ Developing a 'people-first' approach to PPPs can ensure that their use in Sierra Leone maximises their potential across the social, environmental and economic dimensions of the national plan.

Pension funds as a source of finance for infrastructure investment

The national plan implies a major scaling up of investment in infrastructure; the third cluster focuses on the importance of infrastructure and economic competitiveness. Achieving targets such as increasing installed electricity capacity from 105 MW to 350 MW by 2023, launching a railway rehabilitation project, and expanding the proportion of the population with access to safe drinking water from less than 60% to 80% by 2023, will require a significant increase in infrastructure investment.³⁰

A lack of appropriate financing for these kind of infrastructure investments, many of which have longer-term maturities and are illiquid, is a key cause of historic underinvestment in infrastructure (see section above on domestic financial markets and private investment). There is therefore an urgent need for the country to develop new mechanisms that can be used to fund investment in these key areas of economic and social infrastructure.

Pension funds can, under the right circumstances, provide one source of longer-term finance that matches the financing needs for infrastructure projects. A number of countries have initiated reforms to unlock the assets of pension funds for this purpose while maintaining the primary function of pension funds in meeting their pension obligations to members. Examples from other African countries show the kind of mechanisms that can be deployed (see box 5).

While there remain challenges to establishing these instruments in Sierra Leone, their potential to unlock financing for infrastructure investment should be explored further. The challenges to establishing such instruments include high-inflation and the under-development of financial markets (see above). Lack of access to key financial information on NASSIT limited the ability of the DFA to assess the scale of financing that could be unlocked through such instruments. However, Sierra

²⁹ UNDP Aide memoire on Sierra Leone public-private partnerships, 2019

³⁰ These targets are quoted from the third cluster of the MTNDP.

Leone's demographics, with a high ratio of younger working people to those in or nearing retirement, means that there may be opportunities to invest excess funds being generated currently in assets that provide a return in the future when pension funds will have to pay out.

Box 5. Pension fund investment in infrastructure in Africa and beyond³¹

In Tanzania the main pension fund, NSSF Tanzania, which has a similar defined benefit, pay as you go system as NASSIT, has funded investments in road and bridge infrastructure as well as housing through direct investment joint-ventures with the government. NSSF Tanzania has an asset-liability matching investment strategy and a liquidity profile that allows space for longer-term, less liquid investments which makes its assets suitable for infrastructure investment. Various types of bonds have been used in other countries. In Uganda both government and corporate bonds have been issued. The government issued infrastructure bonds that were taken up by NSSF Uganda and will be repaid from future government revenues while corporate bonds were issued by telecommunications actors to finance infrastructure in that sector. Corporate bonds, which are repaid by the private company that issues them, have also been used in Mozambique in telecommunications. An alternative mechanism, project bonds, where user fees from the future use of the infrastructure being constructed are used to repay bond purchasers, has not been widely used in Africa though is more commonly used in Asian and Latin American countries. Other mechanisms used elsewhere include investment in infrastructure funds (either unlisted or publicly listed on a stock exchange) or direct investment in equity of an infrastructure company. During DFA consultations NASSIT indicated that they have initiated some discussions to explore the potential applicability of some of these mechanisms, particularly bonds, in the Sierra Leone context.

Development impact bonds

Development impact bonds (DIBs) are an innovative mechanism for attracting private participation and expertise into key areas of public service delivery and investment. They are a model of public-private partnership designed to generate specified, pre-agreed sustainable development outcomes at affordable costs. They share risks between the government or a development partner, and private actors who deliver an intervention designed to achieve the pre-agreed outcomes.

The typical set up is as follows. A contract will be established between the government or development partner and a private intermediary who commits to achieving a specified set of social or environmental outcomes. These outcomes can focus on a wide range of areas, targeting for example improvement in educational attainment, prevention of diseases, access to water, job creation and other areas of sustainable development. The private intermediary will take responsibility for designing and delivering an intervention designed to achieve those outcomes, although the contract specifies that the private intermediary will not be paid until the outcomes have been achieved and independently validated. As such the government or development partner is effectively paying for outcomes and will not have to spend any money until those outcomes have been achieved.

The private intermediary in the meantime will typically issue a bond against the value of the future payment from government. This bond issuance provides them with the funds that they need to implement the intervention that they have designed (in practice delivery is often subcontracted to a service provider). The bond may be taken up by commercial or philanthropic actors, thereby drawing in private finance to fund the delivery of sustainable development interventions. In this way the mechanism shares risk between parties. The private intermediary and the purchasers of the bond, for example, bear much of the burden of the interventions not delivering the agreed outcomes.

Government or development partner funds are only spent once the outcomes have been achieved and independently validated. As such it can be an appealing form of financing for the government or

³¹ For more see Brookings, 2017, *Leveraging African pension funds for financing infrastructure development*.

development partner, because it mitigates much of the risk of committing funding upfront for projects that have uncertain longer-term outcomes. In many instances governments collaborate with development partners to pilot the mechanism, with a view to government incorporating adopting it themselves in the future. Collaboration can help given the complexity and number of actors involving in designing and creating a development impact bond; in some instances it can take a couple of years to set up.

Remittances

Remittances are a significant feature in Sierra Leone's financing landscape and there is significant potential to leverage their scale and the engagement of the diaspora overseas to boost financing for the national plan. Remittances sent through formal channels totalled Le' 364 million, in 2017 equivalent to almost US\$ 50 million.

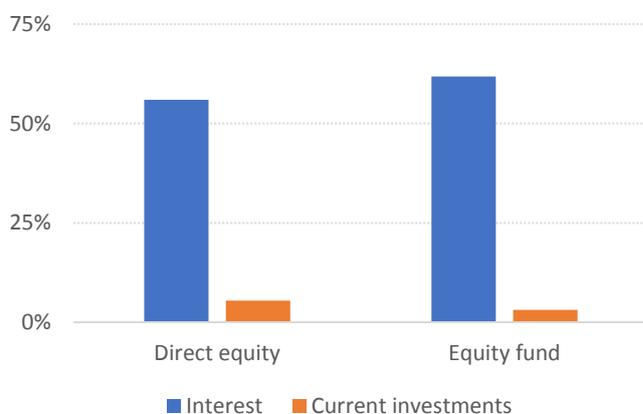
Remittances are an important source of finance for many recipient families and communities and are used for a variety of purposes, including spending on food, education and healthcare. At the macroeconomic level remittances are also a key source of international currency. Yet there is potential to further enhance the impact of remittances, and of the financial and human capacity of the overseas diaspora who send them, in catalysing national development.

A 2015 World Bank survey of the Sierra Leonean diaspora found a sizeable gap between the degree of interest in investing in Sierra Leone and current levels of investment.³² It also highlighted the considerable financial and human capital resources held by the Sierra Leonean diaspora.

11% of survey respondents reported a new investable wealth of over US\$ 500K; for around 40% it is between US\$ 50K and US\$ 500K. Respondents to the survey had given on average close to US\$ 6,000 to charities in Sierra Leone over the preceding three years. There is particular interest in investing in education, healthcare and agriculture as well as infrastructure including water, ICT, energy, construction and manufacturing.

Notably, the survey highlighted a significant difference between the levels of interest and current engagement with investments in Sierra Leone, either through direct equity or a portfolio fund (Figure 32). 56% of respondents highlighted interest in direct investments, compared to 5% who have made one. The difference is higher still around portfolio investments, with 62% interested and only 3% having already invested. There is strong interest in investments across a range of sectors, including real estate, and manufacturing or services, whether for the domestic market or for export. Furthermore, 45% of survey respondents showed an interest in investing in a diaspora bond.

Figure 32. Interest among the diaspora for investing in Sierra Leone far exceeds current investments



Source: World Bank Sierra Leone Diaspora Investment and Trade Study, 2015

³² World Bank, 2015, Sierra Leone Diaspora Investment and Trade Study.

A number of mechanisms which have been successful in other countries could be adapted to the Sierra Leonean context to leverage the impact of remittances and the diaspora. These include establishing a diaspora bond, setting up a diaspora trust fund, creating diaspora bank accounts and considering removing the application of GST to remittance transfers. Other mechanisms such as future flow securitisation may be appropriate for consideration in the longer term. These are explored here, with recommendations about how they could be adapted and taken forward in Sierra Leone in the recommendations chapter below.

Diaspora bonds

Diaspora bonds are instruments that allow a government to borrow from members of the overseas diaspora. They can be attractive as they provide a mechanism for borrowing in hard currency, often at lower cost and with longer maturities than is possible through other mechanisms. For migrants they can meet a desire to remain connected with their home country and offer a mechanism to support patriotic initiatives and contribute to progress back home. A growing number of countries have successfully used diaspora bonds to mobilise funding for developmental investments. The most successful example is Israel with others in Africa including Nigeria (see box 6), Kenya (see box 7 below) and Ethiopia.

While diaspora bonds can mobilise significant additional funds for development, and there is high potential for them to be used by Sierra Leone, it is important to note their complexity and the management that they require. There are a number of examples of countries attempting to establish diaspora bonds with limited success.³³ Key considerations for taking forward the creation of a diaspora bond in Sierra Leone are outlined in the recommendations chapter.

Box 6. Nigerian diaspora bond

Nigeria receives the largest flow of remittances in Africa, totalling an estimated US\$ 22 billion in 2017. In June 2017 the country issued its first diaspora bond, raising US\$ 300 million that will be used to finance infrastructure projects. The diaspora bond has a term length of five years and a coupon rate of 5.625%. The diaspora bond was targeted principally at Nigerians abroad to appeal a wide range of investors through the United States Securities and Exchange Commission (U.S. SEC) and the UK Listing Authority (UKLA). By registering in SEC and UKLA, Nigerian diaspora bond attains the highest level of transparency and accountability in the economic process and is structured as a retail instrument targeted at retail investors, enabling the government to tap resources from US and UK private banks and wealth managers for the first time through a complex regulatory process.³⁴

Diaspora foreign accounts

Lack of access to foreign currency is a commonly-cited constraint to business by members of the diaspora and diaspora accounts have been used in a number of other countries to help overcome this. The introduction of such accounts could help to address the scarcity of foreign currency by allowing individuals and companies to make foreign payment for goods and services and enabling payment to families, friends and other businesses at home in Leones.

A number of other African countries have established diaspora accounts, leveraging their potential to support national development and access to foreign currencies to support trade. Kenya's experience with diaspora accounts, as well as diaspora bonds, is explored in box 7.

Box 7. Public and private engagement of the diaspora in Kenya

The Kenyan diaspora is a critical enabler of economic growth and the importance of remittances and the diaspora are recognised in the country's Vision 2030, which seeks to make the country an industrialised middle income economy by the year 2030. Remittances are equivalent to more than

³³ For more on this, see *Integrated financing solutions*, UNDP, 2019.

³⁴ Remittances in Africa, UNDP concept note, 2019 (forthcoming)

3% of Kenyan GDP and a number of mechanisms – including diaspora bonds and diaspora accounts – have been used to leverage the participation of the diaspora in national development.

Pursuant to the Blueprint, the Government of Kenya planned estimated spending of USD 60 Billion for infrastructure, relying heavily on PPP arrangements to achieve that goal. In 2011, the Government issued a 12 year infrastructure bond of KSH20 Billion equivalent to US\$200 million to support specific projects in the road, energy and water sectors. Another issuance was made in November 2018 for KSHS 50 Billion (US\$500 million) with maturity in 2038 (20 years bond with fixed coupon rate of 11.95%) targeting continuous support for the road, energy and water sectors. The primary targets were members of the diaspora, with the aim of opening up the security markets to Kenyans living abroad to encourage continuous participation in other government securities issue regularly.

In addition to government-issued diaspora bonds, more than 12 commercial banks over the past ten years moved to maximize the opportunities presented by remittances and the diaspora, offering a wide range of diaspora banking services such as current and savings accounts, fixed deposit, diaspora loan, credit cards and other products. Chase Bank, for instance, through its subsidiary in Kenya, facilitates Kenyans in the Diaspora to invest in the Nairobi Securities Exchange. The impetus behind this and other initiatives is to have Kenyans in the Diaspora personally and professionally invest and bank their money back home.

Diaspora Accounts are denominated in major currencies including the Kenya Shilling, Euro, British Pound and the US Dollar, and have no access restrictions or charges. Online access is a key feature. Investment facilitation goes beyond access to accounts. Customers can access financial and investment advice, and the services of professionals, such as surveyors, lawyers, environmental assessment experts, stockbrokers, real estate agents and others. They can also trade stocks and bonds from the Nairobi Securities Exchange online. Kenyan banks have also partnered with foreign agents to allow customers open diaspora accounts.

This recognition by government and banking institutions in Kenya of the importance of the diaspora has led to the development of an array of mechanisms by which their contribution to national development can be enhanced. Continuous partnerships hold the key to realising the growing scale and impact of diaspora remittances by reducing costs and saving time while facilitating financial inclusion and investment.

Other mechanisms for engaging the diaspora

Following the issuance of two diaspora bonds which had varying degrees of success, Ethiopia created a diaspora trust fund in June 2018. This trust fund was launched by the Prime Minister to promote diaspora participation in national development by contributing \$1 a day for critical social and economic projects. Within the first 7 months of operation it had raised close to US\$ 2 million.

In Benin the government has established a formal development pact with the Beninese diaspora overseas. The pact aims to facilitate and strengthen the engagement of the diaspora in national social and economic development. Building on the pact, the government has developed an institutional mechanism for dialogue with the diaspora and has established financing vehicles design to mobilise resources from the diaspora for strategic investments. These include an investment guarantee fund, special investment fund, investment promotion fund and sovereign investment fund.³⁵

³⁵ Remittances in Africa, UNDP concept note, 2019 (forthcoming)

In Somalia the development of mobile money services has been promoted to encourage development in the financial services ecosystem and greater security and simplicity in remittance and local transfers.³⁶

Cameroon is looking to leverage the engagement of overseas diaspora with the particular communities to whom they send remittances by developing mechanisms to engage these emigrants in development planning processes at the local level. The objective is to strengthen links between the diaspora and local communities and boost investment at the local level.³⁷

In El Salvador a financial cooperative, Fedecredito, has established a future flow securitisation mechanism that leverages remittance flows to the country in order to issue US-dollar denominated debt. The cooperative has made three issuances, of US\$30 million, US\$20 million and US\$50 million in 2010, 2013 and 2017 respectively. These debt instruments collateralised the future flow of remittances (which are fairly predictable and come in the form of a hard currency) received by the organisation from migrants overseas to access international debt at lower cost and longer-term maturity. Fedecredito worked with the IFC to establish the mechanism, though the IFC has taken up a decreasing proportion of each debt issuance as the organisation's reputation has developed with a growing history of debt issuance and repayment. Fedecredito used the debt to more than double its loan portfolio, which focuses on micro and small enterprises in the informal sector, between 2010 and 2016.³⁸

The cost of remittance transfers

The cost of sending remittances to Sierra Leone is among the highest in the region, at an estimated 9.5% in 2016, compared to between 5.4% and 7.7% in Liberia, Nigeria, Ghana and Senegal.³⁹ Remittances sent through formal channels totalled an estimated Le' 360 billion in 2017, close to US\$ 50 million. This probably significantly underestimates the true volume, and officials indicated during consultations for the DFA that they believe the high cost of transferring remittances means that total informal and formal remittances are likely to be much larger. While there are no recent studies looking at this issue, research from 2009 estimated the total informal and formal remittances to range between US\$168 million and US\$400 million a year, with 86% of Sierra Leoneans overseas sending money home on a regular basis.⁴⁰

The government has outlined the importance of reducing the cost of remittance transfers in cluster eight of the national plan. Reducing costs would mean more money arriving with the families that receive transfers, providing additional funds for education, food, healthcare and other spending needs. The current high transfer costs mean that a significant proportion of money transferred does not arrive with the families and communities to which it is directed, and create incentives to move remittances through informal channels.

Two key factors in the high cost of remittances are the application of 20% GST taxes to remittance transfers and the interoperability of the financial system in Sierra Leone. The potential to remove this tax and promote interoperability are discussed in the recommendations section below.

³⁶ Remittances in Africa, UNDP concept note, 2019 (forthcoming)

³⁷ Cameroon development finance assessment (forthcoming).

³⁸ For more on this and other examples of future flow securitisation, see *Integrated financing solutions*, UNDP, 2019.

³⁹ These figures are calculated from the World Bank's remittances prices database. Note that they are unweighted averages.

⁴⁰ UNDP, 2009, *Remittances strategy framework for sustainable development in Sierra Leone*.

4. Monitoring and review

The ability to track and monitor the impacts of different types of finance on sustainable development outcomes will be key for understanding and maximising their contributions to the national plan. There are a number of components to effective monitoring and review systems. Finance tracking systems capture information on the resources that are being invested, by whom and how. Monitoring systems capture information on development results and the progress that is made towards the SDGs. The quality of these systems and the ability to connect information between them will determine the extent to which a clear picture can be developed of the impacts that different types of investment are having on sustainable development outcomes, and the cost-effectiveness of those investments.

The national plan includes, for the first time, an indicator framework that will be used to monitor progress and a monitoring and evaluation unit has been established in the Ministry of Planning and Economic Development. The indicator framework is published in the second volume of the MTNDP and includes national targets for the clusters and sub-clusters of the MTNDP. These are aligned to the corresponding SDG indicators and baselines, targets for 2019-2023 and data sources are specified in the document. This is a major step forward and it is hoped that this will drive a shift toward a more results-oriented focus across the government and its partners.

The indicator framework includes some monitoring of, and targets for, financing, though there may be opportunities to develop a more systematic approach to monitoring financing of the plan. The framework includes a number of targets focused on public finance, covering for example, the tax to GDP ratio and tax receipts from specific sectors such as tourism, mineral resources, fisheries and the marine sector, although monitoring of spending by cluster is not included in the indicator framework. There are also some targets that cover aspects of private finance, with indicators focused on improving the business environment to stimulate greater investment and specific targets around investment in certain aspects of agriculture and energy. However, the implementation cluster of the MTNDP (cluster 8) is the only cluster not covered in the indicator framework – the financing targets that are articulated are placed within the other clusters of the plan. The strength of this approach is that it links the financing targets that are included more directly to the specific outcomes that they are contributing toward. However there are also gaps in the tracking of public and private financing and their contributions toward the MTNDP overall. As implementation of the plan is taken forward, and discussions about the potential to establish an integrated national financing framework progress, there may be opportunities to put in place structures to more systematically monitor financing of the plan and implementation of financing reforms.

A key challenge with tracking financing and monitoring progress is the limited availability comprehensive, timely information within Sierra Leone's national statistical system. The World Bank's statistical capacity index finds Sierra Leone's statistical capacity roughly on par with sub-Saharan Africa as a whole, though lower than many neighbouring countries in West Africa.⁴¹ A lack of capacity and sufficient funding for statistics means that many key aspects of the statistical system are underdeveloped. Key surveys in areas such as monitoring the labour force or economic censuses, are lacking or undertaken only infrequently. Information sharing between government ministries is limited by a lack of capacity and awareness about the importance of regular, timely reporting of statistics.

⁴¹ Sierra Leone's score of 62 (on a 0-100 range with 100 being the highest attainable score) compares favourably to Liberia (57) and Guinea (59) but is behind Nigeria (69), Ghana (71), Togo (72), Benin (76) and Senegal (86). The index measures three aspects of statistical systems in each country: methodology, source data and periodicity. Source: World Bank, <http://datatopics.worldbank.org/statisticalcapacity/>

There are strengths and challenges when it comes to tracking the public and private finance being invested in Sierra Leone. Systems for monitoring spending by central government and MDAs are in place and the country has a strong auditing system for verification (see transparency and accountability section below). Yet monitoring of actors beyond central government is less comprehensive – the DFA was unable to access information on the financial position or spending and investments being made by SOEs, for example. And within central government’s activities, tracking key aspects of spending, particularly in cross-cutting areas such as gender equality or climate change, is not possible (see box 8 below). Sierra Leone has a development assistance database which provides a platform for tracking ODA and cooperation from a number of emerging providers of assistance. Monitoring systems managed by the Bank of Sierra Leone allow the tracking of key aspects of private finance, such as credit to the private sector and FDI. However these often provide only headline level monitoring – FDI, for example, cannot be disaggregated by sector to map investments against the different clusters of the national plan.

While the challenges in Sierra Leone’s statistical and data systems pose challenges for monitoring and effectiveness in general, they can also be a constraint to mobilising new sources of financing. Consultations around the DFA identified a number of examples of investments being unable to progress due to a lack of appropriate data or evidence. These related both to international public finance – for example the country has struggled to access certain thematic funds due to a lack of sufficient data about the current context to make an evidence-based case for funding. And a number of commercial investments, in agribusiness and other sectors, are understood to have fallen through due to the lack of sufficient evidence for potential investors to develop their business case.

Box 8. Tracking investments in gender equality and women’s empowerment

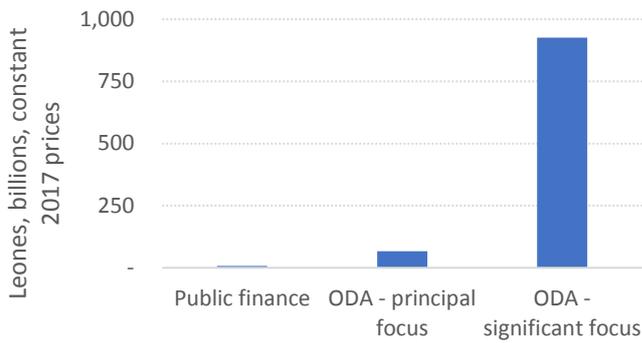
Gender equality and women’s empowerment are prominent objectives within Sierra Leone’s national plan and the previous Agenda for Prosperity. This area features as a key part of cluster five in the national plan and was a standalone pillar in the AfP. Sierra Leone was the first country in Africa to include a standalone pillar of its national development plan on gender equality.⁴²

Yet while this is a prominent area within the objectives of the MTNDP, it is not currently possible to fully plan for or monitor the investments that are being made in achieving those objectives. Within government systems it is only spending that is primarily motivated by improving gender equality or women’s empowerment can be tracked within current budgetary systems (Figure 33). Spending in other areas, such as education, health, economic development and other areas which is sensitive to gender equality or designed with women’s empowerment as a secondary objective, cannot easily be tracked.

Budgetary data shows that the volume of spending directly on gender equality and women’s empowerment is small – Le’ 8.1 billion in 2016. There are no systems in place to monitor the potentially larger proportion of spending sensitive to gender equality and women’s empowerment. Figures on ODA spending highlight the issue: development partners reported spending Le’ 67.2 billion in 2016 on projects which had a primary focus on gender equality, compared to over Le’ 900 billion on projects which had been designed to incorporate gender equality considerations within a primary focus on another sector.

⁴² <http://africa.unwomen.org/en/where-we-are/west-and-central-africa/sierra-leone>

Figure 33. Identifiable spending on women’s empowerment and gender equality is probably only a proportion of the true total



Source: 2016 Citizen’s Budget and OECD DAC data. Note that all figures are for 2016

In addition to retaining the focus on gender equality and women’s empowerment, which is now combined with objectives related to children and adolescents, the national plan has introduced another key cross-cutting objective related to climate change, *addressing vulnerabilities and building resilience*. In order to fully plan for, monitor and manage investments in gender equality it will be necessary to develop a system for monitoring spending against this and other cross-cutting objectives.

5. Transparency and accountability

There exist a number of challenges to transparency and scrutiny of financing for sustainable development in Sierra Leone, alongside some unique mechanisms, particularly related to participation in public finance resource allocation. Mutual accountability and transparency over financing are important for mobilising and effectively investing resources in the national plan as they support the building of partnerships between actors, stronger monitoring and ultimately enable greater impact on sustainable development outcomes.

The 2017 open budget survey found that overall Sierra Leone provides ‘minimal’ information on its public finances.⁴³ This survey assesses the transparency, public participation and oversight of the budget across countries and ranked Sierra Leone 73rd in the world in the 2017 survey; a significant fall from 38th in 2015. Some of the key challenges identified relate to public participation in the budget process (although Sierra Leone does have a unique model of civil society participation – see box 9 below) and transparency in areas such as mid and end of year reviews as well as linking the budget to policy and performance measures (see recommendations on outcome information below).

Oversight over the budget from the Audit Service is consistently the highest scoring component of the open budget survey, with Sierra Leone ranking joint 44th worldwide in this area in 2017. The strength of the auditor-general has contributed to gradual improvement in public financial management practices, although the proportion of the recommendations made by the Auditor-General to the government that have been implemented is relatively low, at less than 40%.⁴⁴ However, while the auditor-general has historically played a strong role in overseeing the budget, reforms that would bring the conditions of service for their staff under the oversight of the same central ministries which form part of the auditor’s responsibility to remit, are a potential threat to their independence. A common structure elsewhere is for the budget of an auditor general to be approved directly by Parliament. While budgetary oversight by the auditor-general remains relatively strong, there are challenges with legislative oversight over the budget. The public accounts committee has limited capacity to be able to undertake full retrospective scrutiny of the budget and legislative participation in the early formulation, approval and execution phases of the budget is limited.⁴⁵

One important feature of Sierra Leone’s budget process is the active role that non-state actors play in the process (see box 9). The formal participation of civil society actors in the preparation and sign-off of the budget is a unique arrangement that strengthens accountability and gives a clear voice to civil society in the way that public finances are allocated.

Box 9. The role of non-state actors in the budget preparation process

For the past ten years the Sierra Leone Association of Non-Governmental Organisations (SLANGO) has been actively partnering with the Ministry of Finance in reviewing and approving the national budget. SLANGO was formed in 1994 as a consortium of local and international NGOs focused on integrating NGOs efforts more effectively into national development.

SLANGO’s formal role in the budget process is unique – from the non-state actors office inside the Ministry of Finance they actively review and participate in the approval of the national budget before allocations are made to MDAs. Their recommendations carry significant weight in the process itself. For example in December 2018, during the comprehensive spending review by the Ministry of Finance, SLANGO rejected budgetary presentations made by the office of the Vice President, office

⁴³ International Budget Partnership, 2017 Open budget survey. Available at:

<https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

⁴⁴ Figure quoted in consultation with the Audit Service of Sierra Leone.

⁴⁵ International Budget Partnership, 2017 Open budget survey.

of the Chief Minister, and the National Revenue Authority on the grounds of failure to meet the “Value for Money” test. They found the pricing of projects and costs of procurement to be too high, and questioned the presenters preparedness and lack of knowledge as to how these various institutions operates in implementing projects. These objections led to revisions in the budgetary presentations from these actors which took SLANGO’s concerns into account. The revised proposals were later approved by SLANGO before allocations were made by the Ministry of Finance. This was followed by project verification mission to ensure that projects listed in the budgets are carried out on cost in the various communities before the next budget hearing and any discrepancy is communicated to the government.

SLANGO’s role in the budget process, from preparation and sign off to review, has significantly increased transparency and accountability over MDAs in carrying out their functions and has encouraged efficiency savings and consistency in pricing across government actors.

Beyond the central government budget, transparency among state-owned enterprises remains weak. The DFA, for example, failed to access even basic information on the financial performance, spending and investment of key SOEs despite their involvement in DFA consultations. State owned enterprises are active in many key areas of the national plan and improving the information available about their resources and the investments they are making will be necessary to ensure that they fulfil their role as part of the larger public sector in implementing the national plan. Monitoring is also essential as part of managing public liabilities, preventing leakages and ensuring the accountability of the public sector as a whole. The MTNDP indicator framework articulates the target of establishing by 2020 a database for monitoring and managing major sources of financial risk, including SOEs.

With growing recognition of the role that private sector actors play in many areas of sustainable development, there are efforts in many countries to improve transparency and accountability of private firms, not just in terms of their key financial reporting but about their impact on sustainable development more broadly. The number of firms globally that produce sustainability reports, for example, is growing. These practices are rare in Sierra Leone, although a small number of the larger firms, particularly those that form part of a bigger multinational group, publish some sustainability related information.⁴⁶

⁴⁶ For example Standard Chartered Bank publishes some sustainability information: <https://www.sc.com/sl/sustainability/>

6. Recommendations

Based on the financing context and trends in Sierra Leone as well as the policy and institutional factors analysed above, the DFA has identified a number of recommendations to be considered by the Government of Sierra Leone and other actors at the national level. These recommendations were developed through the DFA consultations and refined in dialogue with actors from government, development partners and private sector representatives. They were designed to inform the means of implementation cluster of the national plan and have been incorporated into the final text of the national plan.

The recommendations below identify and outline key steps that can be taken to strengthen public and private financing of the national plan. It starts by looking at the potential to establish an integrated national financing framework before focusing on potential changes related to revenue mobilisation, the alignment of the budget with the national plan, private finance, development cooperation, diaspora finance and cross-cutting issues.

Establish an integrated national financing framework

Achieving the national plan will require investments from a range of different resources. Public and private sources of finance will play important but varied direct and indirect roles in advancing the objectives articulated through each of the national plan clusters.

It is important to ensure that there is a mechanism in place to drive forward the implementation and financing of the national plan. Mobilising the required resources, delivering the necessary investments and services, and implementing the policies that will advance the national plan will require the action and coordination of a wide range of MDAs, as well as partnership with other actors including development partners, the private sector and the diaspora.

It is important for the government to consider an appropriate oversight mechanism to take responsibility for mobilising the financing required to achieve the national plan. This could build on the concept of an integrated national financing framework that is called for in the Addis Ababa Action Agenda and which has been developed by the Inter-agency task force on financing for development.⁴⁷ While there are various options for the format of such a mechanism, its function would be to coordinate action across MDAs and in collaboration with partners, to ensure that the measures articulated in the means of implementation section of the national plan are implemented. It would entail assisting MDAs with implementation, and coordinating reforms that require changes across multiple actors. The body would take responsibility for financing of the MTNDP overall and be responsible for reporting on progress to the highest levels of government.

A range of potential formats for an implementation oversight mechanism exist, for example building on the cluster structures that were established to develop the national plan or establishing a senior level committee that reports to the Cabinet. The format of such a mechanism can be determined through dialogue among key ministries and government leadership.

Enhance domestic revenue mobilisation

Boosting fiscal space is a key priority for financing the national plan and this is well recognised by the government. A number of reforms have been completed or are underway across many aspects of revenue policy and administration. These should help increase government revenues, and ensuring the successful implementation and establishment of reforms is a critical priority.

⁴⁷ See the 2019 Financing for Sustainable Development Report for more. Available at: <https://www.un.org/development/desa/publications/financing-for-sustainable-development-report-2019.html>

Building on these ongoing reforms, the DFA proposals further steps that can help to establish other ongoing reforms. These include steps to boost taxpayer compliance through a lottery system, strengthen the large taxpayer auditing function of the NRA and systematically review the levies charged by MDAs to ensure they cover costs and remain set at appropriate levels.

Introduce a goods and services tax lottery system to encourage greater compliance by taxpayers

Within government's overall package of revenue mobilisation reforms, increasing compliance with GST is an important priority. A project to roll out electronic cash registers is planned and is currently in the due diligence phase. The aim this project is to ensure that all transactions made on a cash register are logged within the revenue system, thereby increasing the accuracy of tax accounts and the tax returns that businesses submit. The pilot project aims to trial electronic cash registers with 500 large businesses that handle significant volumes of transactions with the public.

While such a digitised system can help to improve the accuracy of tax recording, it does not address the incentives for compliance by taxpayers. If transactions are not registered on the cash registers being rolled out, they will not be appear in tax records. GST accounted for 21% of total revenue in 2017, although it is widely understood that taxpayer compliance is low, so any success in boosting compliance could have a significant impact on overall revenues.

Tax lotteries have been used in other countries to create an incentive for taxpayers to ensure that their transactions are formally recorded. As the example from Mongolia shows (see revenue collection and reforms section above), tax lotteries can significantly boost voluntary compliance among taxpayers and yield significant returns to the fiscus. The NRA and Ministry of Finance could consider incorporating the establishment of a lottery system into the design of the electronic cash register system. The first steps in exploring such an option would be to undertake scoping of the creation of a platform to manage the tax receipts and lottery system, and to adapt the project designed to rollout electronic cash registers to incorporate the capability for connecting to such a system.

Boost large taxpayer auditing capacity in partnership with Tax inspectors without borders

While personal income tax has grown rapidly, corporate income receipts in 2017 were just 3% higher than in 2010. Company tax accounts for just 6% of total revenue in 2017 and there is a wide perception that many companies are underpaying on the taxes that they owe (see revenue and financing section above).

Tax inspectors without borders (TIWB) is a UNDP-OECD initiative designed to build capacity for auditing within national revenue authorities, with a particular focus on large corporate taxpayers. It brings expertise from revenue authorities in advanced and emerging economies to train staff in local revenue authorities and strengthen processes for auditing. A TIWB project in Liberia helped the revenue authority strengthen its audits of large firms, resulting in a significant boost to tax revenues.

Boosting NRA's capacity to audit and validate the returns of large taxpayers has the potential to yield significant returns for public finances. TIWB projects in Liberia and elsewhere have found this occurs through both direct effects – increased tax payments made by firms that are audited by the revenue authority with TIWB support, and indirect effects – stronger audit capacity within the NRA is an incentive to increase compliance.

Publish information tax expenditure reporting and undertake periodic cost-benefit assessments

Tax exemptions *can* be used as a tool to influence the extent and nature of investments made by private actors, but can also become costly and ineffective without proper scrutiny. In Sierra Leone exemptions are offered for a range of factors linked to objectives such as gender equality and women's empowerment. However tax exemptions can also become costly and open to abuse, and this has been the case in Sierra Leone. In part this is because there is less scrutiny of tax expenditure than budgetary expenditure, despite their equal impact on public resources.

Within its programme of revenue reforms, the Ministry of Finance has committed to publish tax expenditure information in the annual budget. This entails estimating the amount of revenue that has been foregone through the exemptions that remain in place.

The DFA recommends that the tax expenditure information which is published should estimate and report on the revenue foregone through individual tax exemptions. It is only by publishing information at this level of disaggregation that the value of individual schemes can be analysed. The government can also publish all agreements on exemptions that have been signed by parliament.

A process can also be put in place to regularly undertake assessments of the costs and benefits associated with individual tax exemption schemes. This would periodically analyse the impact that individual exemptions make toward boosting investment that will benefit key areas of the MTNDP. These impacts would be assessed against their costs to the fiscus and enable government to take more strategic control over how it uses tax exemptions to promote investment that will benefit the national plan objectives. Enhanced scrutiny would help ensure that exemption schemes do not become overly costly without generating tangible benefits, and would also help government to consider how to adapt the criteria, design and management of individual schemes.

Revise levies and departmental charges to cover costs and reflect international standards

Levies and departmental receipts are an important source of revenue, accounting for over 8% of the total in 2017. However many levies have not been updated or revised in recent years. Some are set at levels below international standards and in some cases below the costs to the MDA of providing the requisite service or product. In a few examples, levies remain at levels that are not relevant to modern currency, e.g. fees set at a price of 5 Leones.

The government has been working with priority MDAs to revise levies in areas such as fisheries, land and standards, and this can be extended to include a systematic review of the levies managed by all MDAs. A process can be put in place to revise levies on a periodic basis in the future, to ensure that they remain at appropriate levels. The charges levied for government goods and services should be set at levels which are cognisant of the need to cover costs and align to international norms, while remaining conscious of accessibility. Levies should not be set at prohibitive rates that stop people with lower incomes from accessing key services but should also not be set so low as to represent an effective government subsidy to a business that could afford a charge which covers governments' costs.

Strengthen the alignment of public spending with the MTNDP

The budget is the government's primary tool for advancing the MTNDP and the efficiency with which government invests in the national plan is therefore a key driver of its progress. Steps to boost this efficiency can be an important part of efforts to deliver the national plan.

Build outcome information into the budget process and MDA strategic plans

The systems and processes that government uses to ensure the budget is aligned national plan have an important role in determining the efficiency of government spending. The stronger the systems in place to design and implement a budget that is tied to and working toward the objectives laid out in the MTNDP, the greater the likelihood of many of those objectives being achieved.

Sierra Leone's medium term budget is aligned to the national plan through a few mechanisms, including the strategic plans of MDAs, systems that classify spending against the clusters (previously pillars) of the national plan to monitor spending in each area and the citizens budget which gives a high level narrative about how the budget is being invested.

There are opportunities to build on existing practices and strengthen the systems which ensure the budget is being invested effectively in line with national plan. Notably the detailed results framework found in Volume II of the MTNDP has the potential to boost the outcome-orientation of

the budget in line with the targets it specifies. A number of steps could be considered by the government.

The budget-national plan link via MDA strategic plans could be enhanced and made more transparent. MDAs could be required to include information and intermediate targets about the outcomes that their activities are designed to influence in their strategic plans. These could be informed by the administrative data that MDAs collect, with targets chosen that link the activities of each MDA to the headline targets of their pillar in the results framework of the national plan. It would require the establishment of clearer results frameworks at the MDA level and, for many MDAs, capacity building to develop stronger systems for collecting administrative data. As such it could be piloted in the first instance with a small selection of MDAs from one cluster of the national plan. The value of developing such a system however is that it would create a clearer link between the spending of a particular MDA with the outcomes that are articulated in the national plan. Steps should also be taken to ensure that all MDA strategic plans are systematically published, to build stronger transparency and scrutiny over the budget-plan linkages in each sector.

A narrative on performance and results as well as outcome information could be included in the annual national budget to strengthen its results-focus. The Budget Profile publication currently aggregates only the data on spending within each cluster of the national plan. This could be expanded to include a narrative about the services and investments being funded within each cluster, and how these will generate outcomes that advance the headline targets of each cluster. This narrative would be developed by the MDAs within each cluster. It would include the latest information on progress toward the headline targets of each cluster each year alongside information on the outcome targets of individual MDAs within the cluster. In addition, systems can be put in place to track spending on cross-cutting clusters and thematic priorities (such as gender equality and climate change) within the national plan – see recommendation below.

These steps toward the development of more outcome-oriented information in the strategic planning and preparations of budgets for each MDA can deepen and strengthen the integration of the budget and the national plan.

Create systems to track public spending on cross-cutting priorities, notably gender and climate

Government systems struggle to track spending and investment in key cross-cutting themes of the MTNDP such as gender equality and climate vulnerability and resilience. While the government has systems in place to track public spending on most MTNDP clusters, there are gaps in its ability to track spending on priorities that cut across other sectors. Current systems only track spending which is primarily focused on these priorities, without accounting for spending in other areas that is sensitive to, or designed to accommodate, cross-cutting priorities as a secondary objective. This ‘sensitive’ spending may well constitute the larger proportion of spending overall so without the ability to track it, a significant part of the overall picture is missed.

To effectively plan for, monitor and manage public spending and investment in these cross-cutting clusters it is important to have in place systems to fully track relevant budget allocations and execution. The government can consider piloting systems that track sensitive spending within key ministries in each area, building on tagging or responsive budgeting models that are used in other countries to address this challenge.

Boost private financing and private participation in public investments

The scale and nature of private investment and finance makes important contributions toward economic, social and environmental objectives. The national plan explicitly and implicitly calls for a scaling up of private investment and participation across a range of objectives. These recommendations outline some key steps for the government and partners to consider.

Adjust the scale and profile of public debt to reduce crowding-out of private borrowing

Government's medium term debt strategy aims to both provide government access to the financing it needs while promoting the development of the domestic debt market. However in practice government borrowing has risen sharply in recent years and is crowding out private sector borrowers from the market. The dominance of high-interest rate, short-term public debt in domestic markets is a significant constraint to private sector investment. It is a key factor in reducing access to finance, which 40% of businesses in the country identify as the primary obstacle to growth.

Government can take a few important steps to adjust the scale and profile of public borrowing from domestic markets.

Government can work to reduce the overall level of debt it issues on domestic markets. As the domestic revenue mobilisation strategy is implemented and domestic revenues grow, government can reduce the amount it borrows from domestic markets. This should free up liquidity within the domestic financial system that allows greater borrowing by other actors, particularly private businesses.

The government can also work to reprofile its borrowing. The majority of government debt is short-term, primarily with a one year maturity. This short-termism in public debt has a strong influence over the wider debt market, which is also heavily skewed toward short-term lending. Government can divest its short term debt and introduce a higher proportion of borrowing through longer-term instruments. A move toward 3 or 5 year bonds would help to stimulate longer-term lending within the wider financial market. This would in turn be beneficial for private borrowers, as many commercial investment projects will require more than a year to turn profitable. While efforts a few years ago to introduce longer maturity debt were unsuccessful, consultations with a wide range of actors during the DFA process highlighted the wide belief that there is now appetite for this kind of shift in government borrowing.

By reducing its overall levels of debt and shifting public debt toward longer term instruments the government can both meet its own financing needs and promote developments in the wider debt market that can contribute toward national sustainable development objectives.

Promote longer-term lending to businesses with financial sector reforms

Alongside the dominance of public debt within domestic financial markets, certain regulatory requirements are also contributing to reduced lending to private sector actors. The Bank of Sierra Leone and government can consider regulatory changes in a number of areas. These include updating prudential guidelines to reflect international reporting standards in addressing the classification of delinquent loans, reducing capital adequacy ratios and cash requirements for trade financing, and relaxing limits to the term length of loans that banks are able to issue. To complement reforms in public debt management to reduce crowding-out of private sector borrowers, consideration could also be given to establishing a quota system regulating the amount of public debt that financial institutions are able to purchase each year.

Reboot the stock exchange

Stock exchanges can play an important role in growth and development as a trusted marketplace where actors with capital can buy and sell shares and firms can access capital to finance investment and growth. Sierra Leone's stock exchange is not functioning effectively; it remains very small, with severe capacity constraints and is largely inactive.

Rebooting and investing in the development of functioning stock exchange with sufficient capacity could be an important catalyst for increased private investment within the country. The government can initiate a thorough review to look at the potential and options for restructuring the stock exchange, strengthening its oversight and ultimately encouraging increased listings and investment and trading activity. Key factors to be considered would include a plan for developing the necessary technical and management capacity to ensure the stock exchange's success, including the potential

to bring in external and established credible expertise. A review could look at the potential for a rebooted stock exchange to manage the inter-bank market and house a secondary market for trading T-Bills. This would have the dual benefits of increasing activity on the exchange and, by increasing access to T-Bills as a savings instrument, could increase demand and help to lower interest rates on this form of debt. A marketing and research department could be created to raise awareness and attract investors, and the government could encourage SOEs to take a lead in listing their shares on the rebooted stock exchange.

Encourage public sector banks to increase private sector lending

Two of the major banks in Sierra Leone are fully or partially state-owned. Yet on the whole these institutions operate in a similar way to other banks active in Sierra Leone. Their portfolios are characterised by the dominance of short-term, public-sector focused debt like those of private banks and lending to private sector actors accounts for a minority of their activities (see private sector investment section above). The dominance of public debt on banks' portfolios severely private sector investment and is a key constraint to the kinds of private sector development envisaged by the national plan.

There are some ad hoc initiatives being implemented within particular banks to promote lending that can contribute toward national development objectives. For example, Sierra Leone Commercial Bank has established a new desk designed to promote investment in agriculture in response to the emphasis placed on this sector within national development priorities.

Alongside reforms in the way it borrows from financial markets, the government can consider how to more actively use its ownership of public banks within the financial services sector to systematically promote lending that can catalyse progress toward the economic and social objectives of the national plan. This could include options such as limiting the proportion of their portfolio accounted for by public debt or the creation of targets for these banks for the proportion of lending to SMEs or to firms in strategic sectors such as agriculture, fisheries or tourism, among other options. An expert review of potential options as well as the practices used in other countries could be initiated by the government.

Establish a platform for systematic public-private dialogue

Facilitating deeper and more systematic dialogue between the government and representatives of the government can help realise the growth in private sector investment and development that is envisioned in the national plan. However the lack of a platform for public-private dialogue is a constraint to systematic consultation and dialogue between the government and representatives of the private sector. The government and private sector representatives, notably the Sierra Leone Chamber of Commerce, Industry and Agriculture (SLCCIA) can consider establishing a platform for public-private dialogue.

Public-private dialogue builds mutual understanding between the government and private actors which can catalyse collaboration, sharpen policy reforms and support the implementation of new initiatives. It helps actors from both sectors understand the challenges they each face as well as their abilities and constraints to act. Systematic dialogue helps build a clearer understanding of the challenges associated with investment and doing business, and to design appropriate policy reforms. When reforms have been designed in a participatory manner, the ownership this engenders can make rollout and implementation easier.

A platform for public-private dialogue in Sierra Leone could be established to engage in dialogue on and advise about reforms to mobilise inclusive, sustainable growth in private investment in line with the objectives of the national plan. Such a platform could provide both a forum for consultation during the design and rollout of specific reforms as well as a space in which ongoing dialogue builds understanding, trust and develops a deeper constituency for reform.

Develop a programme of people-first public-private partnerships

Public-private partnerships (PPPs) offer the potential to mobilise new investments in key sectors such as infrastructure, agriculture, fisheries and tourism. If designed and implemented effectively they can do so at low cost to the government, whilst sharing risks with private partners. PPPs have been used on an ad-hoc basis since legislation was introduced in 2010 but the potential exists to scale up their use more systematically.

Using the national plan as the guide, the government can take steps to gradually build capacity and scale up a more systematic, 'people-first' PPP programme. There exists the potential for both large PPP projects that will attract foreign investors and for a body of smaller PPP projects which can elicit the participation of local investors. Government can work to more actively develop a pipeline of PPP projects, while simultaneously signalling to the private sector and local government to advance ideas for potential projects. It will be crucial to continue developing the capacity of the government to effectively screen, design and manage the implementation of PPPs, including the development of criteria for PPP sector and project selection.⁴⁸ Critically, these criteria can emphasise the need to increase access, promote equity and improve both environmental sustainability and economic effectiveness, in a people-first approach to PPPs.⁴⁹ Developing a people-first PPP readiness assessment report may be an important first step.

Explore the potential to invest pension fund assets in infrastructure

The national plan implies a major scaling up of investment in infrastructure. A lack of appropriate financing for these kind of infrastructure investments, many of which have longer-term maturities and are illiquid, is a key cause of historic underinvestment in infrastructure.

In a growing number of countries, pension funds are being used to provide a source of longer-term finance that matches the need for infrastructure financing. As the examples from Tanzania, Uganda and elsewhere described above show, there are a variety of bond and other instruments that can be established to tap into the assets of a pension fund while maintaining fiduciary responsibility to the members of the fund.

The DFA recommends that the government work with NASSIT to undertake a detailed assessment of the potential to develop appropriate instruments which could be used to invest some of NASSIT's assets in infrastructure that will contribute to meeting the priority areas of infrastructure investment highlighted by the national plan.

Develop Islamic finance instruments

A growing number of countries are using Islamic financing to unlock resources for sustainable development, both through banking and bond instruments. Senegal, for example, has collaborated with the Islamic Development Bank Group to launch a US\$200 million Islamic bond to finance innovative infrastructure and energy projects. Other countries such as The Gambia, Sudan, Nigeria, Ivory Coast are also tapping into the Islamic bond market to access resources for economic development.

Islamic finance caters to customers who do not accept conventional financial products; providing the option of structures that are consistent with their beliefs and preferences, is more likely to bring them within the realm of formal financial inter-mediation. This can boost savings through official channels, providing more funds for investment. Islamic finance is based on principles designed to foster economic and social development in parallel. The ban on practices such as interest (Riba), uncertainty (gharar) and speculation (maisir) is designed to limit practices where certain individuals

⁴⁸ UNDP Aide memoire on Sierra Leone public-private partnerships, 2019

⁴⁹ UNECE, What are people-first PPPs? <https://www.uneceppp-icoe.org/people-first-ppps/what-are-people-first-ppps/>

can gain at the expense of others or harm others. With over three-quarters of the population being Muslim,⁵⁰ and only five percent using financial services, the development of Islamic financing practices and products can boost formalisation and investment and unlock resources for sustainable development. The government can engage the support of actors such as the Islamic development bank and develop capacity within the Bank of Sierra Leone to develop and provide training on appropriate banking products.

Access untapped and innovative models of development cooperation

Development cooperation continues to play an important role in Sierra Leone's financing landscape. ODA accounts for over a quarter of total financing and is a significant source of spending and investment in a number of key areas of the national plan. Cooperation with emerging partners is growing and there are opportunities for Sierra Leone to leverage the diverse interests and strengths of its different partners and to promote new and innovative models of cooperation that can mobilise new resources and impact on the national plan.

Engage emerging development partners

There are a growing number of south-south cooperation (SSC) providers active in Sierra Leone. The key principles of south-south cooperation, as articulated in the Nairobi Declaration, call for alignment with national priorities, mutual benefit, sovereignty, ownership, equality, non-conditionality and non-interference. Within these principles, increased engagement with these partners offers potential to access new, differentiated forms of financing that could help to meet some of the financing gaps associated with the national plan.

Many SSC providers emphasise infrastructure and the productive sectors of the economy in their cooperation. This has the potential to complement existing ODA from traditional development partners whose focus is skewed towards the social sectors (although some are starting to expand activities in economic and productive sectors).

SSC is often provided in the form of loans rather than grants, often with medium to long term maturities. This offers the potential to match some of the longer-term financing gaps that Sierra Leone faces, particularly in areas such as key infrastructure. Loans from SSC providers currently account for a minority of international debt and debt repayments. However it remains important for the government to carefully manage any new borrowing within its debt management framework and overall foreign debt ceiling, which it is close to reaching under existing borrowing levels.

Encourage development partners to pilot new models of financing such as development impact bonds

Some of the development partners that are most active in Sierra Leone have been at the forefront of piloting mechanisms such as development impact bonds that provide alternative, private, sources of financing in key areas of sustainable development.

Development impact bonds are a model of public-private partnership designed to generate specified, pre-agreed sustainable development outcomes at affordable costs. They share risks between the government or a development partner, and private actors who deliver an intervention designed to achieve the pre-agreed outcomes (see public-private collaboration section above).

DFID and USAID, Sierra Leone's largest development partners, have both used development impact bonds in their other country programmes. DFID for example has a programme rolling out development impact bonds across a number of countries over 2017-2023 to better understand where they are an appropriate mechanism for financing. USAID has supported the creation of development impact bonds in a number of countries, for example in India focused on maternal

⁵⁰ Pew Research Center, Sierra Leone country profile. http://www.globalreligiousfutures.org/countries/sierra-leone/?affiliations_religion_id=0&affiliations_year=2010®ion_name=All%20Countries&restrictions_year=2016. Accessed May 2019.

health and in Uganda and rural Kenya focused on poverty reduction through small business growth. The government of Sierra Leone could engage these partners to trial DIBs, or other models such as impact investment, which they have implemented successfully elsewhere in Sierra Leone.

Implement reforms to access funding from the Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC) is part of the United States' development assistance programme and offers the potential to establish significant programme in eligible countries that meet certain selection criteria. MCC programmes focus on economic growth, poverty reduction and strengthening institutions, offering five year grants that are often significant in scale. Liberia's compact, launched in 2016, totals over US\$250 million. Senegal had a US\$ 540 million compact from 2009 to 2014 and a second power sector compact, worth US\$ 550 million, is in development at the time of writing.

Eligibility for the MCC compact is competitive, based on measures of economic freedom, ruling justly and investing in people. Low income and lower middle income countries are assessed against 20 indicators within these areas. Countries that are above the median within their income group on at least half of the indicators, and meet absolute thresholds on control of corruption and either political rights or civil liberties, are eligible to establish an MCC compact programme.

Sierra Leone is very close to meeting the criteria for MCC compact selection and a concerted push to improve its scorecard could make it eligible.⁵¹ The MCC undertakes an annual assessment of the 20 indicators and Sierra Leone was above the median in 9 of these in the most recent assessment, which determined eligibility for compacts beginning in 2019. The country actually surpassed the median on more than half of the indicators used in the previous assessment, for the 2018 financial year, but fell short on control of corruption, though this has since improved. A 'threshold' programme has been established in Sierra Leone to help the country achieve eligibility; this threshold programme focuses particularly on water and electricity. If the country is able to maintain its position in the indicators where it is currently above the median for low income countries, including on control of corruption, and improve its position in one of the four indicators where it is close to the median then it would become eligible for a compact program. The four indicators in which it is close to the median are: regulatory quality, government effectiveness, primary school expenditures and immunisation rates.⁵²

If eligibility were to be achieved an MCC compact program would be designed in partnership between the MCC and the government. The government would identify its priorities for sustainable economic growth and poverty reduction and a programme would be designed and refined by the MCC and the government, in consultation with civil society and private sector representatives. Such a programme could offer a significant amount of investment in key economic and poverty reduction priorities articulated through the national plan.

Access support from untapped thematic funds, particularly climate finance funds

There may be potential for Sierra Leone to access funding from international vertical and thematic funds which it has not yet engaged with, particularly in the relation to climate finance (see international public finance section above).

Two funds in particular, the Green Climate Fund (GCF) and Climate Investment Funds (CIF), highlight the opportunities that may be available to the country. GCF focuses on both adaptation and mitigation projects with a particular focus on stimulating private investment in low emission, climate resilient development. Sierra Leone is yet to access this fund though a number of neighbouring

⁵¹ Sierra Leone's MCC scorecard for eligibility in 2019 can be found here: <https://www.mcc.gov/who-we-fund/scorecard/fy-2019/SL>.

⁵² More information on the indicators used for selection can be found here: <https://www.mcc.gov/who-we-fund/indicators>.

countries have done so. Within the ECOWAS region, more than US\$ 20 million was committed to both the Gambia and Mali in 2016. US\$24 million was committed to Uganda in the same year. CIF consists of four funds focusing on clean technologies, climate resilience, energy access and sustainable forests. A number of Sierra Leone's neighbours have received support from these funds – US\$ 25 million was committed to Liberia in 2015, for example, though Sierra Leone is yet to access it. In addition to these two funds there may be potential to access smaller volumes of support from other smaller funds such as the Adaptation Fund.

Leverage diaspora financing

Sierra Leone has a large diaspora, estimated at around 375,000 people,⁵³ that holds significant financial and human capital and retains a strong interest in the country's development that is only partially acted upon. There are a number of steps that the country could take to deepen the participation and engagement of the diaspora with national sustainable development. These include issuing a diaspora bond, establishing diaspora bank accounts and proactively targeting entrepreneurs from within the diaspora. Steps can also be taken to help lower the cost of transferring remittances, notably by removing the application of GST to remittance transfers, as well as by promoting fintech solutions.

Lay the groundwork for issuing a diaspora bond

Diaspora bonds can be a powerful mechanism for raising additional resources for development – if they are carefully designed and well managed. While a growing number of countries have used these instruments successfully, others have tried and failed.

The potential for using a diaspora bond is significant and the Ministry of Finance, Office of Diaspora Affairs and Bank of Sierra Leone should carefully explore and lay the ground work for issuing a diaspora bond. There are a number of key design, policy and management considerations.

Understanding the profile of potential diaspora investors is key to designing the features of the diaspora bond product.⁵⁴ Scoping research is needed to gauge the scale of an offering that may be taken up and the terms that may be favourable, considering pricing, term length and frequency of issuances. This can also feed into decisions about whether to structure a bond for project-based or unearmarked funding: while unearmarked funding provides greater flexibility in how funds are used, specifying the outcomes that will be generated can be a powerful way to engender interest and buy-in to a specific project that helps to mobilise funds. Potential bond-purchasers may also be more confident about repayments if the specified project will generate clear revenue streams. There are decisions about how widely or narrowly to define eligibility for purchasers of the bond. Bonds should target a group big enough to provide the uptake and financing that is sought after, but not so wide that the core audience does not perceive it as something designed for them. Determining who specifically to target within the diaspora – emigrants in which countries and matching which profiles – is an important basis for designing a promotion and communication campaign. It can also have a significant bearing on product design choices. If the US is a key source of potential diaspora finance, for example, then the product will need to be designed for compliance with US SEC regulations.

Promotion and communication before and during the lifetime of a bond is key to attracting and retaining interest, particularly if there are ambitions to establish diaspora bonds as a source of regular funding. Determining how to reach out to the target audience is key to designing and delivering a marketing strategy that engages them. Effective communication about the status of the bond and the investments it is financing can be a powerful mechanism for retaining the interest of

⁵³ World Bank migration and remittances database. Available at: <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed May 2019.

⁵⁴ UNDP, 2019, *Integrated financing solutions*

and connection with the diaspora. This is particularly important where promotion of a bond has been centred around financing for specific projects or outcomes, or if the government intends to engage the diaspora for funding on a regular basis.

The government may wish to consider support from international actors with the design, management and delivery of a bond, and specialist technical expertise may need to be brought on to advise on key aspects of a bond. Within a context of limited access to international markets and high perception of risk, close collaboration and involvement of a reputable international financial institution can help increase confidence and reduce perceptions of risk, thereby increasing uptake. It can also be used for technical support and capacity building to strengthen the design and ongoing management of a diaspora bond product.

Establish structures to actively promote investment by members of the diaspora

The lack of a one-stop shop for diaspora investors is cited as a significant obstacle to investment in a recent World Bank survey.⁵⁵ Such a facility could be established to support diaspora investors, guiding them through the range of procedures required to establish a new business, access finance, access permits, and network with other domestic businesses. A focal point institution would coordinate with other ministries on these issues.

Establish diaspora foreign accounts

Lack of access to foreign currency is a commonly-cited constraint to business by members of the diaspora and diaspora accounts have been used in a number of other countries to help overcome this (see box 7 on Kenya above, for example). The introduction of such accounts could help to address the scarcity of foreign currency by allowing individuals and companies to make foreign payment for goods and services and enabling payment to families, friends and other businesses at home in Leones. They can serve individuals and businesses making foreign payment for goods and services and enable payment to families, friends and other businesses at home in Leones. They can provide an opportunity for increased savings aggregation and financial intermediation and promote investment in Sierra Leonean businesses.

Reduce the cost of sending remittances by reviewing the tax on remittances and promoting fintech services and interoperability

The cost of sending remittances to Sierra Leone is the highest in the region, at an estimated 9.5% in 2016, compared to between 5.4% and 7.7% in Liberia, Nigeria, Ghana and Senegal.⁵⁶ Remittances sent through formal channels totalled an estimated Le' 360 billion in 2017, close to US\$ 50 million.

Reducing the cost of sending remittances would mean more money arriving with the families for which it is intended, providing additional funds for education, food, healthcare and other spending needs. The current high transfer costs mean that a significant proportion of money transferred does not arrive with the families and communities to which it is directed, and creates incentives to move remittances through informal channels. Reducing the cost of remittances is in line with objectives articulated in cluster eight of the national plan.

The tax on remittances can be reviewed and considered within the larger package of engagement with the diaspora. Recent changes have meant the application of the 20% GST to remittance transfers. Taxing remittances directly raises the cost of sending money, and international experiences with taxing remittances find that they are often ineffective and regressive. Taxing formal remittances incentivises members of the diaspora to find informal, less secure mechanisms for moving money and may reduce the volumes of remittances sent in the first place. It can contribute to reduced availability to foreign currency. When Viet Nam removed its tax on

⁵⁵ World Bank, 2015, Sierra Leone Diaspora Investment and Trade Study.

⁵⁶ These figures are calculated from the remittances prices database. Note that they are unweighted averages.

remittances, the volume of money sent through formal channels increased significantly; in Tajikistan remittances more than tripled from 2002 to 2003 when the cross-border bank transaction tax was repealed.⁵⁷ While removing the tax on remittances would have some impact on public revenues it would also lower costs and boost the volume of money arriving with remittance receiving families. The tax can be reviewed and considered within the larger package of engagement with the diaspora – increasing the participation of the diaspora in national development is an important priority and taxing remittances may run counter to activities in other areas, such as diaspora bonds and the promotion of commercial investment by members of the diaspora.

Promoting fintech services and interoperability between financial service providers can also reduce transaction costs and lower the cost of sending remittances. The growth in mobile phone use and network coverage, as well as growth in the number of mobile money providers, offers increased options and access to people wanting to send and receive remittances. Easier access to financial services through mobile services can reduce the transactions costs associated with remittances, as it cuts out intermediate steps between remittance senders and receivers and removes the need to travel to physical premises. Further, the promotion of interoperability – the ability to transfer money between different companies' systems – can open up a greater number of remittance channels, thereby increasing competition and lowering transactions costs. The promotion of fintech services and interoperability are emphasised in the national strategy for financial inclusion and would help to reduce the cost of sending remittances.

Cross-cutting recommendations

Funding for statistics

The availability of accurate, timely data is an essential part of policy design and implementation. It informs priorities, supports monitoring of progress and underpins accountability.

There are many data challenges in the Sierra Leonean context and in a number of instances these affect both the ability to access new forms of finance and to effectively deliver investments and services. Consultations during the DFA highlighted a number of instances in which poor data has hindered the ability to mobilise new sources of finance. Potential commercial investments have fallen through because of required information, for example on agricultural production and climatic information in relation to commercial investments in agriculture. Sierra Leone has struggled accessing certain international funds such as the GCF because of a lack of a strong evidence base underpinned by timely, comprehensive data. And weak data affects the ability of government to implement, monitor and boost the effectiveness of public spending and investment.

Investments in basic data can support increased access to finance and more effective use of finance. These findings highlight the importance of ensuring that funding is secured for basic data collection and provision.

⁵⁷ World Bank, 2012, *Migration, taxation and inequality*.

Annexes

Annex A: Summary of DFA recommendations

This table summarises the recommendations made in the development finance assessment, as presented in the final version of the Medium Term National Development Plan. This table features in Cluster 8: Plan implementation (pages 179 to 181) of the plan. Note that the MTNDP was finalised and launched before the final conclusion of the DFA and there are a small number of recommendations which were drawn together in the latter stages of the DFA that do not feature in the table below or the MTNDP document. These can be taken forward for consideration as the MTNDP is implemented.

Initiative	Description	Area(s) of the new MTNDP it would support	Potential impact	Complexity
PUBLIC FINANCE				
<i>Introduce a Goods and Services Tax lottery</i>	Incorporate the design of a lottery into the planned rollout of electronic cash registers. This would strengthen incentives for taxpayers to demand that their purchases are formally logged with the National Revenue Authority.	Increased GST receipts would boost fiscal space overall	High: GST accounts for over one-fifth of total revenue, although compliance rates are thought to be low	Medium: introducing a lottery is technically complex
<i>Boost large taxpayer auditing capacity</i>	Work with Tax Inspectors without Borders to strengthen the National Revenue Authority's capacity to audit large companies.	Increased company tax receipts would boost fiscal space overall	High: corporate income tax has stagnated, and corporate tax compliance is thought to be low	Low: Tax Inspectors without Borders offer capacity building in large taxpayer audits that have been successful elsewhere
<i>Revise levies and departmental charges</i>	Update the levies charged by MDAs to ensure costs are covered and to align to regional and international standards.	Increased levies and departmental receipts would boost fiscal space overall	Medium to high: levies account for 8% of total revenue and many are out of date	Low: potential quick win
<i>Build outcome information into the budget process</i>	Require MDAs to establish targets in their strategic plans; incorporate outcome information and a narrative for each MTNDP cluster within annual budget publications. These would be aligned to the targets specified within the results framework for the MTNDP.	A stronger results focus and alignment between the budget and MTNDP would help government invest more effectively	Significant over the medium to long term: building more results-oriented systems takes time, though it can yield significant efficiencies	Medium
<i>Create systems to track public spending on gender and climate</i>	Establish systems within IFMIS to track budgetary allocations and expenditure on cross-cutting pillars of the MTNDP, notably gender equality and climate resilience, which are partially monitorable under current systems.	Gender equality and women's empowerment; climate vulnerability and resilience	Significant within these sectors	Low/medium
<i>Publish tax expenditure reporting</i>	Publish estimates of revenue foregone through each individual tax exemption scheme; periodically review the costs and benefits of each scheme with	Increased fiscal space and more strategic promotion	Medium: the impact would be over the medium- to long-term as	Low

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	respect to the objectives of the MTNDP.	of private investment	exemptions are used more strategically and efficiently	
PRIVATE PARTICIPATION IN PUBLIC INVESTMENTS				
<i>Establish a diaspora bond</i>	Put in place the systems to issue and manage a diaspora bond that draws on the financial resources of Sierra Leoneans overseas to fund strategic developmental investments.	Likely specific investments in areas of interest to the diaspora	High: there is high engagement from the diaspora in national development	Medium/high: diaspora bonds require careful design and management to succeed
<i>Promote the investment of pension assets in infrastructure</i>	Establish mechanisms that promote the allocation of a proportion of pension assets in strategic long-term investments in infrastructure.	Investments in infrastructure	High: there are significant gaps in long-term finance for infrastructure that could be matched with pension assets	Medium/high
DEVELOPMENT COOPERATION				
<i>Engage SSC providers</i>	Develop a strategy that leverages the strengths and focus of cooperation from different providers of assistance.	Potential for increased assistance in economic sectors from SSC providers	Medium	Low
<i>Access Millennium Challenge Corporation funding</i>	The corporation offers significant five-year grants through its compact programmes, which are established on a competitive basis among countries. Sierra Leone is very close to meeting the criteria and a concerted push on key indicators could make the country eligible.	Compact programmes offer significant five-year grants focused on economic growth and poverty reduction	High; neighbouring countries have established five-year programmes with a value between US\$250 and 550 million	Low
<i>Development impact bonds</i>	Work with development partners to trial the use of development impact bonds to advance the outcomes of the new MTNDP in key sectors.	These bonds have been used elsewhere in areas such as education, health, and employment creation	Significant within the area of focus	Medium: it can take a couple of years to set up
<i>Access support from untapped thematic funds</i>	There are a few thematic funds that Sierra Leone is yet to tap into, particularly in climate finance. Green Climate Funds and Climate Investment Funds offer the potential to support projects related to the climate objectives of the new MTNDP.	Funding for climate vulnerability and resilience	High within these thematic priorities	Low
PRIVATE SECTOR INVESTMENT AND FINANCIAL SERVICES				
<i>Promote longer-term lending to businesses with financial sector reforms</i>	Consider changes to regulation of lending to businesses as well as the scale and maturities of public debt, which promote short-termism and crowd out private sector actors. Consider restructuring the stock exchange.	Economic growth and diversification; job creation and other areas	High	Medium

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<i>Encourage public sector banks to increase private sector lending</i>	Establish mechanisms that encourage publicly owned banks to limit purchases of public debt and allocate a higher proportion of lending to small and medium-sized enterprises or businesses in sectors that are strategically important for the new MTNDP.	Economic growth and diversification; job creation and other areas	Medium	Low
<i>Promote investment by the diaspora</i>	Consider measures such as the creation of a one-stop shop for diaspora investment, the creation of diaspora bank accounts, and the relaxation of capital controls for diaspora businesses, to promote commercial investment by the diaspora in Sierra Leone.	Economic growth and diversification; job creation and other areas	Medium	Medium
<i>Establish a platform for public–private dialogue</i>	Establish a mechanism for systematic public–private dialogue on how to mobilize inclusive, sustainable private investment and as a forum for consultation on the design of business-related reforms.	Economic growth and diversification; job creation and other areas	High, if well-established over the long term	Low
<i>Reduce the cost of sending remittances</i>	Review the tax on remittances within the larger package of engagement with the diaspora. The promotion of digital and mobile financial services and greater interoperability can also contribute to lower transaction and remittance sending costs.	Lowering the cost of remittances may boost spending in areas such as education and health	These steps could significantly reduce the high cost of sending remittances to Sierra Leone	Reviewing tax: low Promoting fintech and interoperability: medium
<i>Reduce illicit financial flows</i>	Take steps to boost the capacity of anti-corruption and auditing bodies, enhance detection functions in customs and strengthen international cooperation on illicit finance detection and asset recovery.	Reducing illicit finance would contribute towards increased government revenues	Medium	High

Annex B: Data notes

A wide range of data was used in the DFA, to inform the context, analysis and recommendations developed through the DFA process and which are articulated in this report. This annex summarises the sources and the approach to collecting, harmonising and analysing data used throughout the DFA process.

The primary purpose of the DFA is to inform dialogue and policymaking among government and partners at the national level in Sierra Leone. Given the domestic focus, the DFA places emphasis on using national sources of data where possible and expressing figures in national currency (Leones). The DFA has collected information from a wide range of Ministries, private sector actors, financial institutions and development partners at the national level, as well as data from international sources where nationally sourced data was unavailable.

Data on public finance, including revenue, borrowing and spending figures, was sourced from the Ministry of Finance, drawing in particular from the annual budget profile publications as well as data shared by colleagues from the Ministry of Finance. Trends in credit to the private sector and other information on the domestic financial sector was sourced from the Bank of Sierra Leone, primarily from the monetary bulletin. Internationally sourced data was used to analyse trends in other aspects of financing, including remittances, portfolio equity and private fixed capital formation (World Bank), foreign direct investment (UNCTAD), official development assistance and other official flows (OECD DAC) and PPPs (World Bank private participation in infrastructure database). In most cases the specific sources of data for each aspect of financing are listed throughout the document (with the exception of aggregate analyses that utilise data from a large number of different sources).

Every effort was made to harmonise data to a common standard and to avoid double counting between different aspects of financing. Data on exchange rates was sourced from the World Bank and on GDP from Statistics Sierra Leone and the IMF – GDP data was used to create a deflator that allowed all financial data to be expressed in constant 2016 Leones (unless otherwise specified). Population data is sourced from the IMF and is aligned to the 2015 census data published by Statistics Sierra Leone.

The majority of data used in the DFA process and included in this report was accessed between October 2018 and January 2019. Further information is available on request.

Annex C: List of consultations held during the DFA process

The following organisations were consulted and participated in discussions during the DFA process:

- African Development Bank
- Anti-Corruption Commission
- Audit Service Sierra Leone
- Bank of Sierra Leone
- Embassy of the People's Republic of China
- International Growth Centre
- International Monetary Fund
- Millennium Challenge Corporation
- Means of Implementation cluster for the preparation of Sierra Leone's 2019-2023 MTNDP
- Ministry of Finance
- Ministry of Planning and Economic Development
- National Revenue Authority
- National Social Security Insurance Trust
- Office of Diaspora Affairs
- Parliament of Sierra Leone: Public Accounts Committee
- Rokel Commercial Bank
- Sierra Leone Association of Non-Governmental Organisations
- Sierra Leone Chamber of Commerce, Industry and Agriculture
- Sierra Leone Commercial Bank
- Sierra Leone Investment and Export Promotion Agency
- Sierra Leone Maritime Administration
- Sierra Leone Stock Exchange
- Statistics Sierra Leone
- Standard Chartered Bank
- UK Department for International Development
- UNICEF
- World Bank