

Mapping External Resource Flows to Sierra Leone

In resolution A/RES/60/180, the PBC was mandated to bring together all relevant actors to marshal resources and to advise on and propose integrated strategies for post conflict peace building and recovery. The same document recognizes that support from the Peacebuilding Support Office could include gathering and analyzing information relating to the availability of financial resources. A mapping exercise was accordingly launched and will be pursued over the coming months. This note, prepared by PBSO, provides an overview of the availability and gaps in resources to Sierra Leone. This exercise could be followed by a more thorough analysis of sectoral financing gaps, based on the priorities agreed with the Government of Sierra Leone.

The conclusions of this preliminary analysis are the following: although Sierra Leone enjoys relatively high levels of aid per capita, critical issues need to be carefully considered for aid to be more effective, predictable and targeted in Sierra Leone; with this in mind, it appears that important gaps remain to be addressed, which could contribute to the consolidation of peace in the country.

1. Resource Flows to Sierra Leone

a) Volumes of aid

** Sierra Leone, often considered as an “aid orphan” in the past, now enjoys relatively high levels of aid.* However, while multilateral aid increased in the recent years, bilateral aid has been gradually decreasing.

** In 2005, bilateral aid was US\$ 74 million,* down from US\$ 219 million in 2003 (source: DACO)¹. *Multilateral aid was US\$ 175 million that year,* up from US\$ 115 million in 2003. Over 1996-2005, the World Bank and the EC provided nearly two thirds of net multilateral aid.

** In 2006, it is estimated that bilateral and multilateral aid flows to Sierra Leone slightly increased,* according to a draft DACO Development Assistance Report: the main multilateral contributors were the EC (US\$ 61 million), World Bank (US\$ 47 million) and AfDB (US\$ 45 million). UN Aid totaled US\$ 37 million. The main bilateral donors in 2006 were DfID, who alone provided more than half of bilateral aid, followed by Irish Aid (13% of total) and USAID (10%).

** With an average of US\$ 61 per capita in Official Development Assistance (ODA), Sierra Leone ranks relatively high* when compared to its neighbors (Figure 1) (Source: OECD/DAC).

Table 1- Top 10 bilateral donors to Sierra Leone

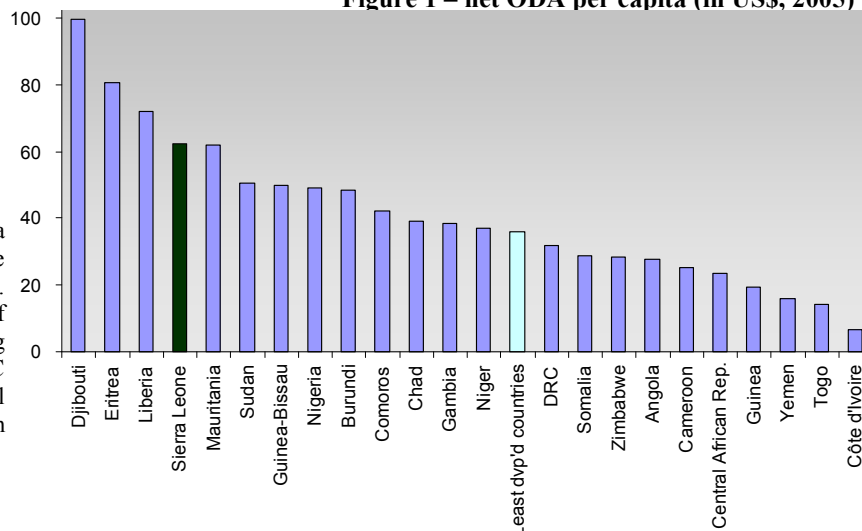
1996-2005		2005	
Top 10 bilateral donors	Net ODA disbursements (US\$ m)	Top 10 bilateral donors	Net ODA disbursements (US\$ m)
United Kingdom	407.1	United Kingdom	60.6
United States	268.8	United States	21.0
Netherlands	110.6	Ireland	7.8
Germany	81.5	Netherlands	7.2
Italy	73.6	Canada	6.9
Norway	59.9	Germany	6.4
Belgium	31.5	France	4.2
Canada	31.2	Norway	4.2
Switzerland	30.2	Spain	2.4
Sweden	27.3	Switzerland	2.2

(Source: OECD DAC Statistics 2007)

** Very few donors in 2005 (UK, US) and 2006 (UK, US, Ireland) provided the overwhelming majority of bilateral aid.* Over the last decade, the UK, United States, and Netherlands alone provided 70% of bilateral aid to the country.

** Challenges:* Already, in view of the relatively limited number of donors, the importance and volatility of flows in time, the subsequent challenges to aid efficiency in Sierra Leone, and the need for alignment to government policy, it appears that enhanced coordination, better tracking of resources and the design of an aid policy are needed.

Figure 1 – net ODA per capita (in US\$, 2005)



¹ The main sources of data for this note are Sierra Leone's DACO (Development Assistance Coordination Office) and OECD/DAC. Discrepancies are due to varying sources of information, different methodologies and reporting procedures, and lags in statistics. OECD-DAC reported US\$ 130 million in 2005 in net bilateral disbursements (Table 1), and US\$ 213 million in net disbursements of multilateral aid.

b) Channels of Aid

* **Project Support constituted the main channel of support to Sierra Leone in 2006.** Increasingly, donors are harmonizing their efforts –a Joint Strategy for Project Support was recently prepared between the EC and DfID. A challenge for stand alone projects is to ensure they will foster the creation of structures that can be sustained in time and that will not overlap existing mechanisms in ministries, departments and agencies.

* **Budget Support accounted for 22% of donor funds in 2006,** through WB, EC, AfDB, and DfID, who jointly produced a MoU for Multi Donor Budget Support (MDBS) and a Progress Assessment Framework grounded in public financial management reforms. Meeting these objectives is a challenge. In 2006, a third of DfID's budget support was dependent on government performance against agreed indicators; two of these (anticorruption, financial management) were not met and budget support was thus reduced from £15 to £12.5 million. In 2007, similar difficulties constrained the government's ability to manage its expenditures.

* **Further budget support might be necessary,** that is why the World Bank's 2006-2009 CAS focuses on transition from traditional development policy lending to MDBS, with support of other budgetary support donors and in view of a PRS Credit. In this view, EU budget support is expected to increase to € 50 million in 2007.

* **NGOs still channel a large amount of aid to Sierra Leone,** almost 15% of total flows in 2006. The US in particular channel all its aid through NGOs. USAID disbursements decreased to US\$ 9.4 million in 2006, from US\$ 21 million in 2005.

* **UN Agencies have provided 6% of aid** mainly through UNICEF, UNHCR, WFP and UNDP in 2006.

* **Balance of Payment Support is provided by the IMF** and reached US\$ 13 million in 2006.

Table 2 - Main Donors by NGO Channel

Donor	Amount given through NGO's (US\$ m)	% Of Total Support to NGOs	Donor's support to SL
USA	18.5	20%	100%
EU	13.5	14%	16%
UNHCR	11	12%	80%
UK	6.2	7%	15%
Luxemburg	4.7	5%	100%
Other	40.7	100%	98%

(Data for 2005 - source: MODEP/DACO)

Table 3 - Support Channels

Channel	2005	2006
Project Support	37%	44%
Budget Support	20%	22%
NGOs	24%	15%
UN Agencies	13%	6%
Balance of Payment Support	6%	5%
Total	100%	100%

c) Support provided by the Peacebuilding Fund (PBF)

* **Over US\$35 million from the PBF was allocated to Sierra Leone.** The PBF had recommended, in December 2006, an allocation of at least US\$ 25 million in support of peacebuilding. A Priority Plan was subsequently finalized by the Government of Sierra Leone and UNIOSIL and endorsed by the Head of the PBSO. On 1 March 2007, the Secretary-General formally announced an allocation over US\$35 million. The PBF Priority Plan identified four priority areas: Youth Empowerment & Employment; Democracy & Good Governance; Justice & Security; and Capacity Building of Public Administration.

d) Emerging Donors & South-South Cooperation

* **In the last few years, new donors such as China have begun to engage in providing aid.** Volumes of aid are often difficult to quantify since their projects and programs are often not defined within a framework document. Brazil, China, Egypt, India and South Africa amongst others are developing South-South cooperation projects, encompassing elements of ODA, trade and investment, specifically for agriculture and private sector development. South Africa is cooperating with DfID on research on agriculture, while China signed a collaboration agreement (July 2006) to share expertise through FAO's Food Security program. Egypt provided technical assistance and training in 2006 to Sierra Leone for more than US\$ 1.5 million.

e) Other External Resources

* **Foreign Direct Investment (FDI) in Sierra Leone is volatile and FDI volumes, although growing, remain low** (Table 6). FDI Inflows account for 15% of gross capital formation, above the average of 13% for developing economies in 2005 (Source: UNCTAD). This is due in large part to weak capital formation in the country. FDI stocks are low at 9% of GDP, compared to 27% of GDP in developing countries, 20% in Guinea-Bissau or 45% in Angola. Yet this share is higher than in countries such as Burundi (5.6%) or Afghanistan (0.3%).

* **There also needs to be more advocacy to mobilize the diaspora and catalyze remittances toward the country.** Officially, only 80,000 immigrants from Sierra Leone worldwide send remittances, totaling approximately 0.2% of GDP (UNDP, 2005). This amount has tripled since 2002 and is underestimated, but remains low.

2. Challenges for Increased Aid Flows to Sierra Leone

a) Aid Surges and Absorption Capacity require continuous scrutiny

** The efficiency of surges in aid flows depend on the absorption capacity of a country and can cause a number of macroeconomic problems.* Surges can produce exchange-rate appreciation and, if sustained, decrease price competitiveness. Attempts to sterilize the monetary effects of foreign exchange inflows can be costly and, overall, monetary policies in post-conflict countries can limit the transfer of real resources from abroad. In these economies, risks linked to surges are compounded by limited absorptive capacity, and an underdeveloped financial sector. Aid absorption is the extent to which non-aid current account deficit widens in response to increased aid flows. It reflects the increase in net imports resulting from increased aid. Aid spending is the widening of fiscal deficit that accompanies an aid increase. It shows the extent to which the government uses aid to finance an increase in expenditures.

** In Sierra Leone, absorption capacity has to be scrutinized, but there are several elements indicative of a good absorptive and spending capacity:* they include the inflation level, now under control, and a current account deficit that is still significant. However a build-up of reserves may signal limits in the absorption capacity: ratios of reserves to imports and reserves to debt both increased since 2004. The weakness of the domestic financial sector (only 2% of the population has access to banking services) may also limit the impact of aid inflows.

Table 4 - Absorption of Aid (2000-2003)

	Not spent	Partly spent	Mostly spent	Fully spent
Not absorbed	Ghana (0 - 7)			Tanzania (0 - 91)
Partly absorbed	Ethiopia (20 - 0)		Uganda (27 - 74)	Mauritania (- 100)
Mostly absorbed		Sierra Leone*		Mozambique (66 - 100)
Fully absorbed				

* Precise data unavailable (Source: ODI, 2006)
(First figure: % of aid absorbed; 2nd figure: % of aid spent)

b) Volatility is high and can be reduced through better predictability and a larger donor base

** Volatility of aid flows is particularly damaging for fragile states* as their development strategies require long term approaches and thus take longer to materialize. Efforts to smoothen inflows over time should thus not be spared and should focus on commitments as well as disbursements - volatility results from more than the year-on-year variability of donor budget cycles as there are also gaps between commitments and disbursement.

** In Sierra Leone, volatility of aid is high.* Over 1999-2004, volatility of aid (measuring variations in flows over time) for the world's top 10 recipients was 0.33 – already a significant figure. Yet volatility of net resource flows to SL, at 0.41, was even higher (Table 5, source UN-DESA).

**Broadening sources of funding could contribute to enhancing the stability of aid flows.* Sierra Leone relies mainly on the UK and US for bilateral aid, EC and WB for multilateral aid. Modifications in their aid allocation could have a significant impact. In that regard, initiatives to make aid more predictable are welcome, such as the MoU between Sierra Leone and UK, confirming a ten-year partnership arrangement, signed in November 2002.

Table 5 - Aid Volatility (2005)

Top 10 total ODA recipients*	Volatility of ODA (standard deviation/mean)
Afghanistan	0.31
Bangladesh	0.12
China	0.4
Egypt	0.2
Indonesia	0.62
Mozambique	0.52
Pakistan	0.5
Serbia and Montenegro	0.39
United Republic of Tanzania	0.16
Vietnam	0.15
Average top 10 recipients	0.33
Sierra Leone	0.41

c) Aid dependency is still a concern

** Aid dependency remains a concern.* The term depicts various negative manifestations of the aid relationship, but it is mostly discussed in the context of the demand side of the aid relationship, the developing country side. Aid dependency remains high for Sierra Leone but has been decreasing. Over 2000-2003, the ratio of aid to gross national income (GNI) was 46% on average. In 2005, thanks to domestic growth in part, but due also to a decrease in aid flows, this ratio went down to about 30%, below Burundi (47%) or Afghanistan (38%) and to levels similar to DRC and Guinea Bissau.

d) Challenges remain for aid disbursement and management

* **Implementation of reforms in Sierra Leone suffered from slow disbursement of pledges**, according to the Government's First Annual Progress Report on the 2005-2007 PRSP (November 2006). This was due in part to the insufficient pace of progress in governance and accountability reforms. As noted by the IMF, delays in aid disbursements in the first half of 2006 contributed to the shortfall in non-wage spending on poverty reduction.

* **Complex requirements added to the problem**, leading to delays in the initiation of projects. DACO estimates that for budget support alone, there are 32 indicators that need to be met before funds are disbursed. Conditions are essential to provide fiduciary safeguards but are often very complex to meet.

* **There is still a weak capacity of sector ministries in the management of aid**. Implementation of donor-driven projects is still impaired. In this regard, progress in civil service reform remains crucial.

3. Resource Gaps

a) Major Gaps in FDI and Private Sector Investment Remain to be filled

* **A challenge for Sierra Leone is to encourage sustained FDI to priority sectors**. The potential for attracting FDI to enhance growth and contribute to peacebuilding in the country remains largely untapped. Yet Sierra Leone made some progress (Table 6) and in 2005, as FDI stabilized, the Ministry of Trade & Industry launched a study on Administrative Barriers to Trade and Investment; implementation is ongoing. Foreign investors are eager to apply their technologies to projects overseas in exchange for greater market expansion and diversification. In areas such as telecommunications, Sierra Leone can be a good case in point, but success will depend on further structural reforms in the economy.

Table 6 - FDI Flows and Stocks		
In USD million	2004	2005
FDI Inflows	26	27
FDI Outflows	0	0
FDI Stocks inward	80	108
FDI Stocks outward	0	0
UNCTAD Index Ranking	110th	93 rd

(Source: UNCTAD)

* **Similarly, a major challenge remains in increasing the low levels of domestic investment**, which requires major financial sector reforms, increasing savings in the country and improving the legal environment, as well as building on the conclusions of the 2006 IMF Sierra Leone Financial Sector Assessment Program.

* **The potential for the PBC to leverage initiatives** in areas that can encourage peacebuilding in Sierra Leone should be examined. This could include catalyzing change or highlighting the need for specific projects, such as microfinance, SME development for the youth and rural population, and building an inclusive financial sector.

b) Authorities at the National Level are making good progress to map aid flows

* **National mechanisms were set up to track and monitor resource flows**. The Development Assistance Coordination Office (DACO) is mandated to set-up and coordinate a system for the monitoring and evaluation of programmes identified in the SL-PRSP, with the Ministry of Development and Economic Planning and the Bank of Sierra Leone. To facilitate the implementation of the PRSPs, DACO created a Monitoring and Evaluation unit alongside a Poverty Reduction Coordination unit. The *DEPAC Report on Development Assistance to Sierra Leone* is also an important source of information.

* **Keeping track of funds is an arduous task**. According to the latest IMF/IDA Annual SL-PRSP Progress Report, although there was good progress in the design of a results framework and a reporting structure, line ministries, local governments, and other implementing units still lack capacity to provide primary data. DACO notes that there is a great diversity of aid flows, with various rules and conditions. DACO also notes that it is sometimes impossible to ascertain whether the activities that result from funds that do not pass through the budget (NGOs, non traditional donors) are in line with the government's sector priorities

c) Key areas for peacebuilding show potential for PBC engagement

➤ Allocation by Framework Priorities show a potential for PBC engagement

Table a) on page 5 provides an overview of all major frameworks priorities.

➤ Allocation by Peacebuilding Priorities illustrate some of the possible needs for funding

Table b) on page 6 lists Peacebuilding priorities, and potential for PBC engagement.

➤ PRSP Priorities vary considerably amongst bilateral and multilateral donors

An Annex provides an overview of the sectoral allocation of aid in 2005 and 2006 by donor and PRSP Pillar.

a) Priorities Within Existing Frameworks – Potential for PBC Engagement

Framework	Focus: Good Governance, Justice, Security, Peacebuilding	Resource Requirements (in US\$ million)	Share of Framework requirements	Trend	Lessons – Potential for PBC Engagement
PBC Cooperation Framework	Consolidation of Democracy and Good Governance Justice and Security Sector Reform Sub-regional Dimensions of Peacebuilding Capacity Building	TBD	TBD	NA	Who prioritizes these issues in their aid budget? DfID (47% of Pillar 1 funding in 2006; US\$ 26 million in commitments for 2007) and the US (9%; 3.2 million).
PRSP for 2007	Pillar 1 – Good Governance, Security and Peace Building Good governance Security Peacebuilding	67.1 (96.5 in 2006) 20.8 (51.5) 46.2 (44.8) 0.1 (0.1)	41.8% (47.4% in 2006) 13% (25.3%) 28.8% (22%) 0% (0%)		Who are the main sources of funding in volume? DfID, EC, World Bank, USAID, Irish Aid. What are some of the known gaps and obstacles? <ul style="list-style-type: none"> Availability of qualified staff both at central and local levels still key obstacle, due to uncompetitive remuneration and poor training. Senior Executive Service insufficiently funded. Funding gap for the PRSP remains of more than US\$ 122 million end 2006 out of 875 million. Ministries, departments and agencies face delays in finalizing anti-corruption strategies. Lack of progress on overall goal of reducing corruption (DfID Annual Review 2006)
UNDAF 2008-2010	Outcome 1 - Governance and Human Rights.	17.73	17.8%		
UNDAF 2004-2007	Good Governance, Peace and Security (4 outcomes) Human Rights and Reconciliation (2 outcomes)	12.9 8.8 Total: 21.7	9% 6% Total: 15%		
Revised UNDAF 2006-2007	Outcome 1 - Transparent, accountable, democratic governance Outcome 5 - Reconciliation, security, governance, human rights	29.2 5.2	42.3% 3.6% Total: 46%		
IGAP 2006-2007	Improved Governance and Accountability Pact in 10 critical areas during 2006-2007	NA	NA	NA	

Framework	Focus: Employment, Food Security	Resource Requirements	Share of Framework	Trend	Lessons – Potential for PBC Engagement
PBC Cooperation Framework	Youth Employment and Empowerment	TBD	TBD	NA	Who prioritizes these issues in their aid budget? The EC (41% of Pillar 1 funding in 2006, 27 million in disbursements that year), WB (25%; US\$ 17 million).
PRSP for 2007	Pillar 2 - Pro-Poor Growth for Food Security and Job Creation Infrastructure Development Agriculture and Food Security Private Sector Development	59.1 (61.6 in 2006) 32.4 (33.4) 6.5 (12.7) 20.2 (15.5)	36.8% (30% in 2006) 20.2% (16.3%) 4% (6.2%) 12.6% (7.5%)		Who are the main sources of funding in volume? EC, World Bank, WFP, FAO, DfID.
UNDAF 2008-2010	Outcome 2 - Shared Growth, Food Security & Livelihoods.	24.79	24.9%		What are some of the known gaps and obstacles? <ul style="list-style-type: none"> Slowness of implementation. Impact of short-term employment programs questionable Large scale programs for youth employment difficult to put in practice and require extensive funding. Scaling up still needed. Youth unemployment remains “ticking bomb” (UNOWA Dec 2005 Report)
UNDAF 2004-2007	Economic Recovery (2 outcomes) Poverty Reduction & Reintegration (outcomes 1,2 and 4)	2.5 32.1 Total: 34.6	1.7% 22.8% Total: 24.5%		
Revised UNDAF 2006-2007	Outcome 2 - Food, improved employment opportunities for youth	16.1	23.3%		

Framework	Focus: Human Development, Social Services	Resource Requirements	Share of Framework	Trend
PRSP for 2007	Pillar 3: Promoting Human Development	34.4 (45.3 in 2006)	21.4% (22.3% in 2006)	
UNDAF 2008-2010	Outcome 3 - Maternal Health and Child Health Care. Outcome 4 - Primary Education, emphasis on Girls Education Outcome 5 - HIV/AIDS, Tuberculosis, Malaria & related diseases	25.41 22.12 9.44 Total: 56.97	25.5% 22.2% 9.4% Total: 57.3%	
UNDAF 2004-2007	Poverty Reduction & Reintegration (outcome 3 -social services)	84.6	60%	

b) Peacebuilding Priorities – Potential Areas of Focus

Area	PBF (1)	PRS Pillar (2)	UNDAF Outcome (3)	Peacebuilding Priorities for Potential PBC Engagement (4)	Impact for Peace Building	Examples of Recent Projects	Potential needs for Funding
Youth Employment & Empowerment	✓	2	2	<ul style="list-style-type: none"> Support review and follow-up of Youth Employment Scheme and other youth-related programs Support public-private partnerships Foster economic and social opportunities for rural population 	<i>Strong</i>	<i>\$4 m for Youth Enterprise Development (PBF /UNDP); Japan / UNDP \$2m project for community empowerment; \$11 m IFAD-supported program for small loans/ jobs to rural youth</i>	<ul style="list-style-type: none"> Scaling-up of programs for youth employment and empowerment Quick impact projects for youth including SME support and microcredit Microfinance for youth in rural populations
Justice and Security Sector Reform	✓	1	1	<ul style="list-style-type: none"> Support implementation of recommendations of the Truth and Reconciliation Commission Support work of the Special Court & National Human Rights Commission (NHRC) Improve service and living conditions of Armed Forces Assist in strengthening of District/Local level Security themes Follow-up on inventory and assessment of prisons report 	<i>Strong</i>	<i>\$4 m for Capacity Development to prevent delays & clear backlog of cases (PBF/UNDP); USAID program to Mitigate Conflict and Support Peace for Special Court.</i>	<ul style="list-style-type: none"> Funding of Special Court Full operationalization of NHRC Enhancement of alternative dispute settlement mechanisms Capacity constraints of justice Prison conditions Access to justice for population Living conditions of Armed Forces Terms and Conditions of Armed Forces
Civil Service Reform	✓	1	1	<ul style="list-style-type: none"> Support Senior Executive Service reform Follow-up Improved Governance and Accountability Pact Encourage finalization of drafting of civil service law 	<i>Strong</i>	<i>EU/DfID \$25 m Trust fund to WB for Institutional Reform & Capacity Building.</i>	<ul style="list-style-type: none"> Development of merit-based recruitment Performance accountability systems Capacity gap and low levels of women
Governance	✓	1	1	<ul style="list-style-type: none"> Support governance and accountability pact benchmarks Support Review of National Anti-Corruption Strategy Review work of Anti-Corruption Commission Encourage CSO participation Support National Electoral Commission 	<i>Strong</i>	<i>IDA \$10 m for Programmatic Governance Reform and Growth.</i>	<ul style="list-style-type: none"> Enhancement of efforts at combating corruption and promoting accountability Design of alternative avenues for supporting anticorruption activities
Other: Private Sector Development		2	2	<ul style="list-style-type: none"> Improve legal & regulatory framework Expand PS opportunities, trade and export capacity Design a national microfinance policy Formulate SME policy 	<i>Medium term</i>	<i>WB \$30 m Rural and Private Sector Development Project; DfID TA in 2007 to the National Commission for Privatization;</i>	
Other: Basic Services & Infrastructure		2,3	1,3, 4,5	<ul style="list-style-type: none"> Improve HIV, malaria prevention and treatment Improve access to water supply in urban areas Develop comprehensive energy reform package Develop communication and wireless network Work toward MDGs and Education For All objectives 	<i>Medium term</i>	<i>EC €28 m rural Health Sector Support Project; \$ 1million support by Ireland for child health; UK £5 m grant for water supply in Freetown; €70 m EU support for infrastructure.</i>	

(1) PBF Priority Plan (2) PRSP 2007-2010 (3) UNDAF 2008-2010 (4) Based on documentation by Government, UN Agencies and WB, and outcome of the PBC CSM on SL.

→ In their December 2006 CSM, Members of the Commission urged the international community to ensure an adequate level of external assistance and to lend support to the Government of Sierra Leone to broaden its donor base and secure assistance, including further debt relief, to meet its peace consolidation objectives. In this view, **additional annexes** are available from the PBSO: 1) Macroeconomic environment; 2) Debt relief; 3) Economic, fiscal and monetary challenges of scaling up aid.