

# **Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF)**

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### **Concept Note: Implementation Arrangements January 2007**

#### **1. Background**

Sierra Leone is a member of the Integrated Framework (IF) for Trade-Related Technical Assistance to Least Developed Countries (LDC's). The IF is a multi-agency, multi-donor programme established by the WTO Trade Ministers in 1996 to promote integration of LDCs into the global economy. The ultimate objective of the IF is to make the integration serve the LDC's poverty reduction and national development strategies. The IF aims at strengthening the LDCs' trade capacity, including the ability to identify their trade needs and to propose priorities to be supported by development partners.

Sierra Leone has made impressive progress in the analytical phase of the IF and validated the Diagnostic Trade Integration Study (DTIS) in October 2006. The country has also set ambitious, yet feasible, timelines for the trade mainstreaming and project implementation phase. The next steps for the implementation phase are presented in the attached Aide Memoire.

This Concept Note seeks to present a design for an effective mechanism for incorporating trade as an integral part of Sierra Leone's development strategies, most notably the PRSP 2008-2010, and implementing the Action Matrix. The Concept Note is drafted based on consultations with the Minister of Trade and Industry, the IF National Focal Point within the Ministry of Trade and Industry (MTI) and key in-country Donors. The Concept Note has been further revised based on consultations with the PRSP Pillar 2 Working Group.

#### **2. Guiding Principles**

The Action Matrix implementation should follow the guiding principles of the Enhanced IF and thus be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries) and including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of

programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments, which should be built into all programming. Administrative costs associated with the delivery should be minimized to ensure that the resources go to the actual implementation of identified priority projects and programmes. The competence and skills of the human resources available at national and regional levels should be used in an optimal way and all efforts should be made to develop national analytical and implementation capacity.

### **3. Financing**

Financing for the implementation of the Action Matrix is made available through the IF Trust Fund (IFTF) Window 2 (W2) for priority project implementation and it will be made available through the Enhanced IF Trust Fund and by the in-country Donors. Sierra Leone will also seek to attract funding from the non-resident major IF Donors as well as through any emerging Aid for Trade facility. Finally, the MTI and other concerned Ministries are expected to introduce activities outlined by the Action Matrix to the country's national budget 2008.

#### **3.1. IF Trust Fund Window 2**

The IFTF W2 provides bridging funding for priority Action Matrix projects with a funding ceiling set at a maximum of one million US dollars per country. Resources under W2 aim at assisting LDCs successfully integrate trade priorities into the PRSP and to kick-start the Action Matrix implementation while negotiating with the in-country Donors for funding beyond the W2. Funding from the W2 will be made available immediately upon the Cabinet endorsing the DTIS Action Matrix and a Local Project Appraisal Committee (LPAC) approving proposed projects for the W2 funding. Sierra Leone intends to submit the first W2 project, "Capacity Building for Ministry of Trade and Industry", to an LPAC meeting in January and the following two, on supply-capacity building, in February. UNDP manages the IFTF funds on behalf of the current 17 Donors of the Trust Fund and will assist the MTI in project conceptualisation.

#### **3.2. Enhanced IF Trust Fund Tier 1**

The Enhanced IF (EIF), expected to be launched in 2007, will provide IF beneficiary countries with increased funding for strengthening their IF implementation capacity and implementing IF projects. The Enhanced IF Task Force report, recommendations of which are currently being operationalized in Geneva, identified the IF project implementation stage with the greatest obstacles to overcome. The obstacles were mainly attributed to poor country ownership and lack of implementation capacity. Hence, the EIF will pay increased attention to strengthening the in-country, and in particular the IF Focal Point, capacity for IF implementation. Towards this end, Tier 1 of the EIF Trust Fund (EIFTF) will provide each of the IF countries with USD 300,000/year over the next five years to develop the capacity of the institution of IF Focal Point. Two allocations of USD 100,000 each will be provided for up-dating the DTIS.

### **3.3. Enhanced IF Trust Fund Tier 2**

The IF Task Force report recommends increased predictable funding through the EIFTF and from in-country development partners. In addition to the Tier 1 capacity building allocations, the EIFTF Tier 2 is to provide countries with increased project implementation funding. While the one million USD threshold per country will be abolished under the EIF and countries will be funded on a first come, first serve-basis, for calculation purposes the Task Force assumed that on average a country would absorb USD 8 m over the next five years for project implementation. They thus recommend the donors to provide the EIFTF with sufficient funding for covering half of this (USD 4 m/country) with the other half to be mobilized in-country. It has to be noted that the Tier 1 and Tier 2 funding discussed here will most likely not be available from the beginning of 2007 but at some point later during the year. All the member countries of the IF will automatically become beneficiaries of the EIF.

### **3.4. In-country Donors**

A number of Donors resident in Sierra Leone have signaled interest in participating financing the implementation of the Action Matrix. These include China, DfID, the European Union, Irish Aid and the World Bank. Other in-country Donors, such as Germany, will be approached for consultations and the Action Matrix will be presented in the Consultative group meeting of November 2006. Funding modalities deployed by the Donors are expected to include project funding and programme funding with pooled funds modality (Please, see Implementation and Monitoring Mechanism / Fund Manager for a design on pooled funding modality).

### **3.5. Non-Resident Donors**

Non-resident IF Donors will be made aware of the validated DTIS Action Matrix through the IF Working Group (IFWG) mailing list. The MTI will write to some of the key non-resident IF donors and seek to meet them in Geneva or in their capitals to promote investments in implementation. Key non-resident IF donors include Canada, Denmark, Norway and Sweden.

### **3.6. Aid for Trade**

Report of the Aid for Trade Task Force, established by the WTO director-General as advised by the Hong Kong Ministerial declaration, while implicitly acknowledging on-going donor funded trade-related technical assistance (TRTA) and trade-related capacity building (TRCB) programmes, requires additional, predictable, sustainable and effective financing for fulfilling the Aid-for-Trade mandate.

According to the Report, projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies. Following categories of programming are considered as Aid for Trade: Trade policy and regulations, Trade development, Trade-related infrastructure, Building productive capacity, Trade-related adjustment, and Other trade-related needs.

## **4. Implementation and Monitoring Mechanism**

Sierra Leone proposes to use an implementation mechanism consisting of four levels. The policy level guidance, oversight and monitoring will be provided by the High-Level Inter-Ministerial Committee. The technical level planning, coordination and monitoring will be provided by the PRSP Pillar 2, i.e. the Private Sector Development (PSD) Sector Working Group. The PSD Working Group will be amended to cover trade development and expanded to include participation of private sector representatives. The day-in, day-out management and coordination of the work carried out by the Implementing Partners will be provided by the National Focal Point Unit (MTI) and more precisely by the National IF Coordinator. A number of Implementing Partners will be deployed to execute activities. Implementing partners will be selected when translating the activities of the Action Matrix into projects. In addition, a fifth element, locally managed Basket Fund with UNDP as the Fund Manager will be created to supply funding for the implementation.

### **4.1. High-Level Inter-Ministerial Committee**

The High-Level Inter-Ministerial Committee instituted by the Minister of Trade and Industry provides overall policy direction and progress review for the implementation.

Mandate of the High-Level Committee includes:

1. Ensuring incorporation of the DTIS analysis and recommendations to the PRSP;
2. Ensuring incorporation of selected DTIS Action Matrix activities in the National Budget;
3. Providing overall guidance for the Implementation of Sierra Leone's Action Matrix;
4. Monitoring and evaluating progress on Action Matrix implementation;
5. Approving identified directions for up-dating the DTIS as the implementation of the current Action Matrix proceeds.

The High-Level Inter-Ministerial Committee consists of representatives of the Ministries of Trade, Finance, Development and Economic Planning, and Agriculture.

The Committee meets twice a year.

## 4.2. PRSP Pillar 2 Working Group

The PRSP Pillar 2 Working Group (PWG 2), which currently oversees implementation of the PRSP Pillar 2 activities will provide the Action Matrix implementation with technical level planning, coordination and monitoring. The Group's mandate will be amended to cover trade development. Within the PWG 2, there is a PSD Sub-Group which is responsible for strategic development of work programmes under Pillar 2. In respect of the implementation of the Action Matrix, this Sub-Group will be given the mandate of meeting as the Local Project Appraisal Committee (LPAC) to review and approve projects for IFTF W2 funding<sup>1</sup>. The PSD Subgroup will be expanded to include participation of representatives from the private sector and civil society.

The mandate of the PWG 2 includes<sup>2</sup>:

1. Promoting and coordinating incorporation of the DTIS analysis and recommendations into the PRSP;
2. Promoting the incorporation of selected DTIS Action Matrix activities in the National Budget;
3. Raising national awareness on the relationship between trade/PSD and poverty reduction/human development;
4. Reviewing and approving annual implementation plans prepared by the IF National Focal Point Unit;
5. Monitoring progress on Action Matrix implementation, providing directions as corrective measures and identifying emerging gaps;
6. Identifying directions for up-dating the DTIS as the implementation of the current Action Matrix proceeds;
7. Reviewing and approving for support under the Basket Fund project proposals, including implementation capacity building projects benefiting Implementing Partners, prepared under the general guidance of the IF National Focal Point Unit and consistent with the annual Implementation Plans;
8. Coordinating trade sector projects funded by development partners and ensuring that projects funded either under or outside the IF Basket Fund are nevertheless complementary, do not overlap and duplicate each others, and are supportive of the strategic directions promoted under the DTIS;
9. Identifying new sources for funding for the Action Matrix implementation.

The Pillar 2 Working Group consists of representatives of the Government (Ministries of Trade, Agriculture, Fisheries, Youth, Energy), and Development partners (DFID, GTZ, EU, UNDP, UNIDO, the World Bank, Irish Aid, JICA).

The PWG 2 meets once a fortnight.

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<sup>1</sup> Please, refer to the LPAC TOR's for details of LPAC composition, mandate and duties.

<sup>2</sup> The PSD and Trade Working Group will serve as the IF National Steering Committee (NSC). Its mandate is to be revised and amended according to the general NSC TORs currently under preparation by the Geneva-based Transition Team operationalizing the Enhanced IF.

### **4.3 The IF National Focal Point Unit**

The day-in, day-out management and coordination of the work carried out by the Implementing Partners will be provided by the National Focal Point Unit (MTI) and more precisely by the National IF Coordinator. The Unit will continue to work as a part of the MTI Policy, Planning and Research Division (PPRD) and the Director of the Division will serve as the IF National Focal Point. The National IF Coordinator will be in charge of the management of the NFP Unit and supported by one professional and one administrative staff. The Coordinator, professional and administrative staff will be hired under the W2-project “Capacity Building for Ministry of Trade and Industry” expected to be approved in January. He/she will be supervised by the Director of the PPRD who will continue, as the IF National Focal Point, to provide the higher level face to the IF.

The mandate of the IF National Focal Point Unit includes<sup>3</sup>:

1. Preparing annual implementation plans;
2. Preparing project documents for projects to be implemented by MTI for submission to the W2, EIFTF and PSD and Trade Working Group and the Basket Fund;
3. Implementing the MTI W2, EIFTF and Basket Fund projects;
4. Assisting Implementing Partners in preparing project documents for submission to the W2, EIFTF, and PSD and Trade Working Group and Basket Fund;
5. Assisting Implementing partners in project implementation, including assessing their implementation capacity needs and designing capacity building interventions to be submitted to the Basket Fund funding alongside projects designed for Action Matrix implementation;
6. Coordinating the work of the Implementing Partners by identifying synergies in project execution and establishing mechanisms and joint ventures for enhancing project execution and delivery (for example, organizing for joint training of implementing partners in project management);
7. Preparing all necessary documents and instruments, including indicators, required to monitor and evaluate progress on the Action Matrix implementation and trade mainstreaming;
8. Supporting the work required for updating the DTIS as needed.

### **4.4 Implementing Partners**

A number of Implementing Partners will be deployed to execute activities. Implementing partners will be selected when translating the activities of the Action Matrix into projects. They will include Government entities and can include IF Agencies, other inter-governmental organizations, multilateral/regional development partners, bi-lateral donors, private sector and civil society entities.

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<sup>3</sup> The IF National Focal Point Unit will serve as the National Implementation Unit (NIU). Its mandate is to be revised and amended according to the general NIU TORs currently under preparation by the Geneva-based Transition Team operationalizing the Enhanced IF.

#### **4.5. Basket Fund Manager**

In line with the Paris Declaration on Aid Effectiveness (please, see Chapter 2, Guiding Principles) and to provide an effective funding mechanism for implementation, the Government of Sierra Leone proposes to establish an in-country Basket Fund to channel external (non-budget) support for the Action Matrix implementation. The Basket Fund is proposed to facilitate the IFTF W2, the EIFTF and the in-country Donors' funding for the implementation of the Matrix. In addition, possible investments from the non-resident Donors as well as from any emerging Aid for Trade facility can be made through the Basket Fund. This type of mechanism for pooled resources is currently being used to support the Development Aid Coordination Office (DACO) and is being proposed for the implementation of the Justice Sector Reform Strategy under the Justice Sector Development Programme currently funded by DFID.

UNDP Sierra Leone will serve as the Basket Fund Manager. UNDP will hire an International Trade Specialist (early 2007) and a National Economist (December 2006) to work under the supervision of the Senior Economist.

Mandate of the Basket Fund Manager includes<sup>4</sup>:

1. Resource mobilization; Working in a close collaboration with the PSD and Trade Working Group and the IF National Focal Point, the Basket Fund Manager mobilizes resources from all the identified sources and identifies new sources as well as manages receipt of contributions;
2. Resource allocation; Based on the annual implementation plans and projects approved for Basket Fund funding by the PSD and Trade Working Group the Fund Manager allocates funding to the project Implementing partners;
3. Management of expenditure; Ensuring that actual expenditures, including pending obligations do not exceed total income received; and ensure that actual expenditures do not exceed approved project budgets;
4. Reporting; Ensuring financial and substantive reports are received from the Implementing Partners as well as produced and delivered to the Bi-lateral Donors, Multilateral Funds and other sources of funding;
5. Assisting the IF National Focal Point in preparing the annual implementation plans;
6. Assisting the IF National Focal Point in identifying and employing appropriate Implementing Partners for the proposed projects;
7. Supporting the IF National Focal Point and Implementing Partners in project conceptualization and implementation;
8. Acting as the Focal Point in all issues pertaining to the Basket Fund.

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<sup>4</sup> Mandate of the Basket Fund Manager is to be revised based on inputs from UNDP Sierra Leone and Headquarters specialists on establishing and managing trust funds and basket funds.