

THE COST OF CORRUPTION

IN SIERRA LEONE
2016 - 2018



**RESTLESS
DEVELOPMENT**



THE COST OF CORRUPTION

CENTRE FOR ACCOUNTABILITY AND THE RULE OF LAW



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EXECUTIVE SUMMARY

Corruption happens underground which makes it very difficult to quantify its volume and impact on society. This report systematically presents data on the quantitative estimate of the cost of corruption that occurred between 2016 and 2018 – the period leading up to the 2018 general elections in Sierra Leone up to the transfer of power to the new administration. The Centre for Accountability and the Rule of Law (CARL), along with its project consortium partners (Christian Aid, Restless Development and Budget Advocacy Network) commissioned this study to generate data which anti-corruption agencies and their partners could utilise to develop more effective tools to respond to and track progress in fighting corruption. Data was collected from ten sectors which form 72.5 percent of the economy. The sectors studied include agriculture, mining, energy, fishery, construction, banking, education, health, transport and communication.

The data was derived from official government records, extensive key informant interviews and records from empirical literature and unofficial sources compiled between August and mid-December 2019. Using both covert and open channels, over 50 key informants were canvassed from government agencies, including oversight bodies, revenue management agencies and vote controllers, private sector actors, academics, non-governmental organisations and the media to help build a picture of corruption estimates in the country.

Noting the difficulty of obtaining reliable and verifiable information on corruption, the research adopted a two-phase approach for analysis of the data generated to present two scenarios/estimates. The first scenario presents estimates of officially published or known figures on corruption. Key inclusion criteria for figures under this scenario are: (a) figures generated through official Government of Sierra Leone (GoSL) annual and special audit reports where findings describe the discrepancies as acts of corruption and recommends that monies misappropriated be refunded by individuals or establishments; and (b) figures from Anti-Corruption Commission records, police and judicial records where culpability was established for identified acts of corruption. Figures from these two broad categories are combined to form

the first level or estimate of the cost of corruption for the two years under study. This draft report largely covers data collected for scenario one.

Second, the research broadened the net around corruption figures in stage two of its analysis to include additional data from sources such as public procurement analysis/records of losses for 2018; all losses and discrepancies identified in audit reports for which there were no requests for refund; losses identified in reports on institutional diagnostics and studies on corruption and primary data collected through key informant interviews. Examples of items included are: volume of goods such as books or fertilizers reportedly missing, or report of under-invoicing by mining companies; or illegal and unregulated fishing that do not feature in audit reports. The team utilized a rigorous Contribution Tracing (CT) approach to test the validity of claims in these secondary sources about corruption before including them in our count. Essentially, the team included figures where there is evidence to defend our claim.

With this available data, the team then employed the Incremental Capital Output Ratio (ICOR) approach to estimate precisely the cost of corruption. The figures presented are based only on available data. The volume of corruption could be higher than what we present here. In addition, estimating the cost of corruption is difficult and any figure is an estimate only, but should be useful for policy/follow up work.

1.1. KEY FINDINGS

1. Overall, the volume of corruption for 2016 to 2018 ranges between 10.45 Trillion to 15.9 Trillion Leones (Equivalent to US\$1.47 to 2.18 Billion). Corruption volume was higher than the combined revenue for the three years which was 8.8 Trillion Leones. At the minimum, an average 12.7 percent GDP was lost to corruption each of the three years.

2. Financial Year 2017 recorded the highest volume of corruption even though the government had announced that it was enforcing some austerity measures. In 2017 alone, the value of corruption was Le 7.2 trillion, which is equivalent to 26.3 percent of GDP for that year and 2.6 times tax revenue. Volume of corruption in 2017 was 3.1 times capital expenditure and 1.1 times total public expenditure of the government.

3. In 2016, the value of corruption was Le 1.9 trillion, which is equivalent to 7.9 percent of GDP, 76.8 percent of tax revenue, 114.5 percent of capital expenditure and 37.4 percent of total government expenditure.

4. In 2018, the value of corruption was Le 1.3 trillion Leones, equivalent to 4.0 percent of GDP, 37.1 percent of tax revenue, 62.2 percent of government capital expenditure and 18.8 percent of total government expenditure.
5. We estimate that between US\$245.2 Million and US\$758.3 Million would have been gained in GDP if the government had tracked the proceeds of corruption and invested it into productive use.
6. There was a sharp decline in corruption in 2018 perhaps due to the change of government, the hype around the commissions of Inquiry that was proposed and the aggressive posture of the Anti-Corruption Commission leadership.
7. These figures on corruption may appear high but are likely underreported. The figures are obtained from secondary sources, which means that there are more incidences that were not recorded. It may also be the case that because of unavailability of data for 2016 and 2018, less corruption was recorded than in 2017.
8. The sectors which recorded the highest volumes of corruption are: Construction (Le4.9 Trillion); Mining (Le2.35 Trillion) and Electricity (Le1.16 Trillion). All these sectors continue to fail.
9. About 46 percent of private businesses were asked to pay a bribe in 2017 to request a construction permit, while trying to secure a government contract, or during meetings with tax officials.
10. Corruption intensified in the last year to election: Corruption was higher in 2017, when parties were mobilizing resources for election. At least 69% percent of the proceeds of corruption were accrued in 2017. This means that for anti-corruption programmes to be more effective there should be specific programming on elections and corruption as the country approaches the next election in 2023.
11. Corruption starts at the budget allocation stage: Consistently large volumes of resources were allocated to budget lines and sectors where it is relatively easier to make personal wealth. About 65 percent of the budget for agriculture (2016 -2018) was allocated to fertilizer, while the bulk of the overall national budget went to roads and electricity.
12. The two main uses of the proceeds of corruption were: a) to build private houses; and b) to transfer monies and favours to communities and special groups. Because of this unproductive transfer of state resources through these back channels, Sierra Leone elites rarely create wealth and investment. Even though rates of corruption are high, GDP remains low and the political class is perpetually poor.

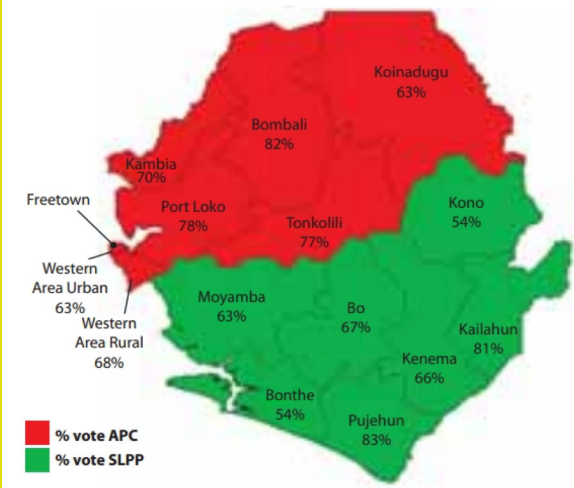
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INTRODUCTION | UNDERSTANDING CORRUPTION IN SIERRA LEONE

Over the last two decades, Sierra Leone has made positive strides in the fight against corruption and promotion of economic and political reforms. Four democratic post-conflict elections have been held with two peaceful changes of government in 2007 and 2018. Sierra Leone has progressed ten places upwards in Transparency International's Global Corruption Ranking, moving from 129 in 2018, to 119 out of 180 countries surveyed by TI in 2019. There are some positive indications of a stronger political will to address corruption, and recent reforms of the Anti-Corruption Commission have extended its powers and contributed to significantly improve its capacity to investigate and prosecute corruption cases.

... Despite progress, corruption remains a major deterrent to growth: According to the Budget Advocacy Network, about US\$83.7m was lost as corporate tax between 2004 and 2014 through mis-invoicing in Sierra Leone⁴. BAN also estimated \$224m lost through duty waivers to six mining companies in 2013⁵. In addition, the 2018 report of the National Public Procurement Authority (NPPU) indicates that approximately 36% of procurement is operated under non-competitive bidding, which has the potential to impact negatively on costs, constrain efficient service delivery and lead to suboptimal resource allocation and fiscal indiscipline.

... corruption undermines poverty reduction efforts. Years of weak accountability and fiscal indiscipline reflected in a number of corruption scandals in major development projects, especially epidemics (2014 Ebola and the 2016 Mudslide in Freetown) makes poor Sierra Leoneans the most vulnerable to corruption. The 2018 Bertelsmann Transformation Index report notes “While,



Source: Sierra Leone National Electoral Commission

official poverty rate stands at 56.8% in 2018, there is a high level of gender inequality, with women affected far more dramatically by the consequences of poverty than men. Health and education statistics especially for women are among the worst in the world. For example:

a. For every 100,000 live births, 1,165 women die from pregnancy related causes and the infant mortality rate is 79.3 per 1,000 live births. About 28% of girls had a child or are pregnant by age 18.

b. Charges continue to be levied for drugs and services that should be free for children under five, pregnant women and lactating mothers. Transfers of drugs, books, learning materials, agricultural inputs and seeds from central stores to local government arrive late and/or are inadequate. Over the last two decades, Sierra Leone has made positive strides in the fight against corruption and promotion of economic and political reforms. Four democratic post-conflict elections have been held with two peaceful changes of government in 2007 and 2018. Sierra Leone has progressed ten places upwards in Transparency International's Global Corruption Ranking, moving from 129 in 2018, to 119 out of 180 countries surveyed by TI in 2019. There are some positive indications of a stronger political will to address corruption, and recent reforms of the Anti-Corruption Commission have extended its powers and contributed to significantly improve its capacity to investigate and prosecute corruption cases.

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Decades of polarisation and predatory politics produced weak institutions.

Under the electoral law, Sierra Leone requires a 55% majority of the total popular vote for Presidential races, with a popular majority rule for any runoff. The First Past the Post system prescribed by the electoral law is currently used for the election of Members of Parliament (MPs) and Local Council

4 BAN Sierra Leone – Are We getting the right prices and returns from our wealth? August 2013.

5 BAN, April 2014, Losing Out, Sierra Leone's Massive Revenue Losses From Tax Incentives. BAN estimates that it would take approximately \$50m per year to provide better education and health care, and that GoSL will lose revenues of US\$131m in the three years from 2014-16 solely from corporate income tax incentives granted to five mining companies.

6 NPPU Annual Report 2019 7 Bertelsmann Stiftung Transformation Index (BTI) report 2018

Elections. Although one would be inclined to believe that proper coordination and collaboration among the two dominant Mende and Themne ethnic groups (about 62% of the population) would mean dominating the country politically to elect a president and majority of MPs under one party, the silent animosity and tension between these groups going way back to Independence, as well as their regional separation (Mende in the South, Themne in the North), prevents such coordination. The equivalence of the sizes of these two ethnicities (approximately 30% each), as well as their regional separation explains why they need support from other ethnic groups. Many Themne support the main opposition APC, and the majority of Mende support the ruling SLPP.

Identity politics and ethno-regional mobilisation of votes has overtime made citizens weakly organised, and led to expectation of governance dividends to be awarded to identity groups. A recent study on the weakness of parliamentary performance revealed that high volumes of personalised financials by citizens in MP constituencies is a major cause of corruption among parliamentarians. Although media dynamically publishes corruption scandals, weakness of the justice system means that some corrupt officials get away with it. Weakness in reforms and polarisation has deepened mistrust between citizens and their leaders. There was 82 percent MP turnover in 2018 and 68 percent in 2012 – reflecting a lack of progress on reforms.

Gender equality is off-track and social exclusion is worrying ...Sierra Leone's patriarchal society has created deep gender inequalities and social exclusion of women and girls. The patrimonial system of access to land excludes many young people and women from economic investment. People with disabilities are marginalised by lack of educational and economic opportunities, and geographic and social exclusion of rural populations are compounded by ethnic/political regionalism and patronage. Sierra Leone has a Gender Inequality Index value of 0.644, ranking it 153 out of 162 countries in the 2018 index. In Sierra Leone, 12.3 percent of parliamentary seats are held by women, and 19.9 percent of adult women have reached at least a secondary level of education compared to 32.9 percent of their male counterparts. For every 100,000 live births, 1,360 women die from pregnancy related causes; and the adolescent birth rate is 112.8 births per 1,000 women of ages 15-19. Female participation in the labour market is 57.7 percent compared to 58.5 for men. Human rights transgressions are particularly prevalent against women and children, many of whom are victims of human trafficking, forced labour and/or female genital mutilation.

TYPES OF CORRUPTION

Mushtaq H. Khan identified types of corruption that are prevalent in many developing countries. We cite three examples which formed the basis of this study: The first type of corruption includes acts that directly impede competition and undermine economic development. Classic examples are tariff protections for industries that have no productive potential, or excessive regulation and requirements of permissions that have no purpose except to enable bureaucrats to extract bribes from businessmen. This form of corruption is widely reported among the Sierra Leone civil service but difficult to quantify. They include, in particular, the “petty corruption” involving low-level officials such as health workers, clerks, judicial staff extracting small bribes for performing their duties (red-tapism and speed money), or extortion by persons such as custom officials or police by deliberately misinterpreting very complex and unclear regulations.

The second type of corruption refers to activities that are not, or cannot be, regulated by law. This is what Khan referred to as primitive accumulation, and is the main subject of this research. This includes processes of political stabilization through off-budget transfers to political cronies or party financiers. Primitive accumulation can take the form of transferring state assets through privatization, or the awarding of contracts to supporters normally involving inflated prices; illegal mining and trade deals. Some of these state actions can be legal, but others such as outright theft or occupation of public or common assets by factions or individuals, often exploiting political connections to facilitate this process, cannot be legal. We note that most of the corruption cases discussed in this paper belong to this category.

The third type of corruption includes preferential treatment such as in managing taxes and tariffs to promote efficient domestic industries, the regulation of financial markets, the allocation of land and the licensing of land use, and the allocation of credit or the prioritization of infrastructure construction. Clearly, corruption in these areas can have a much more



SHARP DECLINE IN CORRUPTION IN 2018

WHY DOES CORRUPTION OCCUR?

Our basic conclusion is that corruption occurred in huge volumes in the years under review in spite of all the bold anti-corruption programmes funded by the government of Sierra Leone and development partners. The research therefore tried to understand why corruption persisted and continue to persist. We noted that the nature of predatory politics in Sierra Leone creates an environment for corruption to flourish and endure. Sierra Leone, like most developing countries, has limited fiscal space for resource redistribution due to a number of reasons. The modern sector of the economy that can be taxed to redistribute to the poor is very small. At the same time, the political tensions that undermines the stability of regimes are often more serious than those in advanced economies. Sierra Leone operates a cash-based economy and youth unemployment is among the highest in the world. Taxes collected are also insufficient even for paying the salaries of bureaucrats. Capital expenditures in the development budget often depend on aid and other foreign capital inflows. Thus, the fiscal reality in Sierra Leone leaves little scope for significant redistribution through the budget. At the same time, the political survival of the regime requires that powerful groups have to be accommodated.

The corrupt interchange therefore involves public officials transferring state funds to powerful clients and receiving, in exchange, their political support. In some cases, clients can provide more than simple political support, by acting as thugs for patrons. It is impossible to regulate these off-budget transfers legally for two inter-related reasons. First, by definition, these transfers go to buy off key individuals, communities or sections of society and cannot be given to everybody. This inherent inequity based on the potential power to disrupt cannot be legally recognized. Secondly, given the absence of fiscal resources, financing these “transfers” involves patrons in public office engaging in acts of corruption to raise resources for their political survival, even in some extreme cases when there can be no individual greed.

It means then that if the ruling groups in Sierra Leone believe that they are unable to provide stability and development unless they engage in political corruption to survive, then democratization and demands for integrity by civil society and the media, will do little to reduce corruption. In fact, many poor countries that have attempted to root out corruption through public mobilization have uniformly failed to make a lasting dent on the problem. In most cases, this has done little to reduce the problem in the long term, though there have sometimes been short-term reductions in corruption

because of public pressure. This was the environment that existed in the period leading to the 2018 elections which the research found useful for analysis.

WEALTH IS HIGHLY CENTRALISED

Wealth is heavily centralised in the hands of a few elites in Freetown. The 2019 annual procurement report indicates that 94 percent of procurement activities occur in the capital, Freetown. In 2015, only nine percent of domestic revenue was disbursed to local councils for health, education, water and sanitation expenditures. Consequently, planning at local levels can be weak, directed by the priorities of MDAs in Freetown, which has been likened to drawing up 'wish lists' by some central government interlocutors. Services are insufficiently decentralised in practice, and district authorities vary: some, like Freetown and Bo are seen as being well managed and innovative, but others are poorly governed and manage their resources less well. Chiefdom structures are a critical part of the local government context. Paramount chiefs can both support and impede district councils and citizens. In many rural locations they offer social protection and support to communities, but in other ways they may impede progress. Chiefs have some powers over land rights but councils are the only body with powers over service delivery.

In the terms of reference of this study, the Institute for Governance Reform (IGR) is to:

(i) To undertake research using both qualitative and quantitative data collection tools to provide a methodologically sound and realistic estimate of the potential scale of corruption in Sierra Leone, including both the public and private sector;

(ii) Produce a report that provides a breakdown of corruption costs by sector and inform actionable and achievable recommendations for both the Sierra Leone Government and its international partners.

(iii) Use existing evidence and data (including estimates from other countries that can be adapted to Sierra Leone), supplemented by interviews with key experts, public sector leaders and businesses in Sierra Leone to produce the report;

(iv) The report should also focus on the cost to the economy (in GDP terms) but also the human cost in terms of access to services (to allow for public engagement around the report findings);

(v) The report should disaggregate where possible by gender and highlight any particular challenges/costs faced by marginalized groups (including women and people with disabilities).

(vi) The report should also highlight any findings on where there are large opportunities for corruption, and recommend ways of addressing them;

Build up evidence from various sectors across the economy and look at various types of corruption (including embezzlement, bribery and extortion, collusion and cases involving public private partnerships).

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RESEARCH LIMITATIONS

The study tried as best as possible to avoid compiling data and analysis that could be misleading in identifying the cost of corruption or end up with a conclusion that is unlikely to reduce corruption and improvements in governance. Our first limitation, therefore, was agreeing on a definition of corruption (see section 3.2) that broadens the scope of the research to compile the financial costs of corruption. We noted that the official definition of corruption presents a limited picture in that corruption takes place when public officials (including both bureaucrats and politicians) violate formal rules of conduct in pursuit of their private benefit, whether for wealth in the form of bribes or for political advantage (World Bank 1997). Corruption is therefore defined as an exchange between a private individual (or group) and a public official (or officials), where the public official breaks formal rules of conduct and provides something to the private individual or group that would not otherwise have been received. This made it difficult to compile corruption in the private sector and the overall effects of the acts of corruption facilitated by private sector actors to the overall economy.

Our second limitation was respondent bias. We noted that for many reasons, respondents can be unwilling to take part in a corruption survey or may be unwilling to admit to socially undesirable behaviour or afraid of being held responsible for the commission of a crime. There are doubts regarding anonymity or confidentiality. To overcome this limitation the research was redesigned to focus on key informant interviews (KII) and extensive literature review as opposed to gathering misleading survey data. The lead researchers were given extended days to conduct KIIs.

Third, time did not permit the research team to produce disaggregated data on the cost of corruption by gender and the particular challenges/costs faced by marginalized groups (including women and people with disabilities).

Perhaps, the greatest limitation was aggregating national GDP figures without double counting corruption estimates or mistakenly equating corruption in a particular sector to non-productivity or inefficiency at the GDP level.

We note that there are many instances where monies stolen from government MDAs go directly into construction of private houses or establishing/expanding private businesses, which may create jobs, taxes for GoSL and contribute to GDP growth. One act can be identified as corrupt or not corrupt by different people according to their different moral standards and perceptions. This means that in practical terms, the way corruption affects the economy can be interpreted differently by different people making it difficult to come up with aggregate costs. For example, some population categories like women and babies may lose state investment in improved health and education, whereas others are happy if corrupt monies from health and education benefit them in the form of direct private investments and job creation. It is for this reason that scholars such as Mushtaq H. Khan (Corruption, Governance and Economic Development 2004) advised for a focus on the outcome of investment of corrupt resources in calculating the economics of corruption.

This research missed out on calculating the net-cost benefit of corruption to Sierra Leone. As discussed in the analysis sections, this data is important because there are a number of accounts showing that while bribery and other ways of illegally influencing the state imposes costs on society, the net economic effect of corruption also depends on the type of intervention or subversion of policy that is achieved through the bribe. In these cases, corruption can have ambiguous effects. If the state can intervene in ways that accelerate development, even if these interventions create opportunities for corruption, as long as the cost of organizing the corruption does not snowball, corruption can coexist with substantial economic dynamism. On the other hand, if corruption results in useful interventions being subverted, the overall effect of corruption would be unquestionably damaging for the economy. For instance, often in developing countries, there are interventions that cannot be legally sanctioned, for political reasons, even though they are necessary for maintaining political stability or economic growth. In these cases ,too, the economic effects associated with corruption can be ambiguous, because the benefit of the intervention for growth or political stability can sometimes outweigh the costs associated with bribery and influencing. These distinctions between types of corruption are important for understanding both the economic and political effects of corruption and the appropriateness of different anti-corruption strategies.

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THEORETICAL AND CONCEPTUAL FOUNDATIONS FOR ESTIMATING CORRUPTION

5.1 WHY QUANTIFY THE COST OF CORRUPTION ?

Corruption is deeply rooted in the Sierra Leone society. The Truth and Reconciliation Commission found “that the central cause of the war was endemic greed, corruption and nepotism that deprived the nation of its dignity and reduced most people to a state of poverty.” It found that “many of the causes of the conflict that prompted thousands of young people to join the war have still not been adequately addressed. High among these factors are elitist politics, rampant corruption, nepotism, and bad governance in general. They are potential causes of conflict, if they remain unaddressed.” Over 15 years since the report was published, corruption remains rampant in Sierra Leone.

Corruption has eaten deep into the fabric of Sierra Leone and this has weakened the already poor public service delivery, which has led to citizens having little motivation to pay their taxes. Corruption permeates almost every sector of Sierra Leone’s public life, as reflected in governance indicators. Data from the ‘Pay no Bribe’ campaign, a DFID-funded project implemented by the ACC and civil society partners, shows over 71,000 people reported having paid a bribe in 14 districts of the country over a period of 27 months. Annual reports released by the national audit service over the last two decades indicate that successive governments have failed to fully account for public funds. According to the Ministry of Finance, technical audits conducted by the ASSL in four sectors covering the three years, revealed the equivalence of over \$1bn of funds unaccounted for. Other evidence includes ACC investigations /prosecutions, the recent special performance audits as well as reviews of government procurement.

The World Bank and several multilateral agencies have identified corruption as the single greatest obstacle to economic and social development and have taken the lead in promoting good governance as a key strategy to combat corruption. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends.

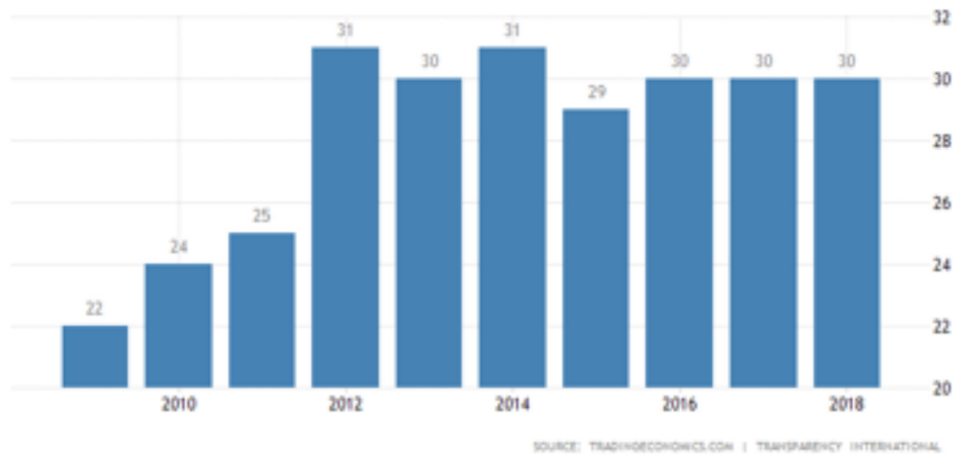
Most multilateral and bilateral aid agencies highlight combating corruption and establishing good governance as necessary parts of supporting sustainable development and achieving the Sustainable Development Goals or meeting the aspirations contained in the African Union's agenda 2063. The World Bank Worldwide Governance Indicators 2018 scored Sierra Leone a percentile rank of 38.92 for voice and accountability, 44.29 for political stability and absence of violence/terrorism and a meagre 11.54% for government effectiveness.

In recent years, Sierra Leone has made significant progress in the fight against corruption and there is every need to support the growing momentum. According to Transparency International's Global Corruption Barometer 2018, only 43% of citizens said that corruption increased in the past year – 2017/2018, compared to 70% in 2014. The vast majority of Sierra Leoneans (66%) reported that the government did well in tackling corruption in 2018, compared to 19% who said so in 2014. The progress made in tackling corruption between 2007 and 2011 led to the signing of \$44.4 million Millennium Challenge Corporation (MCC) Threshold Program grant to support policy reforms, build institutional capacity, and improve governance in the water and electricity sectors, with a focus on Freetown. Sierra Leone also passed the 2020 MCC Scorecard in many significant areas, including girls primary education completion rates and control of corruption indicators.

Combating corruption requires different approaches. A key to deciding the most effective tools to fight corruption is the ability to measure and better understand the scourge. The measurement of corruption is a means of documenting how power is subverted, and resources are lost. Quantifying the resources lost to the government can help plug gaps and leakages and help the ACC and other stakeholders in the fight against corruption to determine which sectors they need to focus on in the execution of their mandate. There is broad consensus that evidence-based assessments of corruption should be encouraged to better develop and implement anti-corruption measures. Strategies to combat the scourge needs to be based on evidence and data to stand any chance of succeeding.

Most of the recognized assessments on the impact of corruption are perception surveys. The most famous is the Transparency International Corruption Perception Index (CPI). Others include the Bribe Payer Index (BPI) and the Global Corruption Barometer (GCB).

Figure1: Performance of the Corruption Perception Index (CPI)



The CPI is an index produced annually by Transparency International and it compiles a wide range of surveys administered to experts and businessmen on the perception of corruption in the public sector (www.transparency.org/research/cpi). It ranks countries "by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys." The BPI is the result of survey distributed to employee in company from major export countries on their tendency to give bribe to foreigners. The Bribe Payers Index evaluates the supply side of corruption – the likelihood of firms from the world's industrialized countries to bribe abroad. The GCB published by Transparency International and Afrobarometer gives annually the public point of view of corruption as revealed by surveys distributed amongst the general population. It tracks people's experience of corruption in their countries and reveal regional trends.

There are significant differences between the perception of corruption and the actual incidence. The common indicators of corruption such as the BPI, CPI and GCB are indicators of the perception of corruption rather than its incidence. The reason is that it is hard to measure the incidence since those practices are generally hidden. However, it is possible to assess the incidence of corruption either per sector through individual micro-data or within a specific project. This report seeks to do more than assess citizen's perception. It seeks to quantify and estimate the cost of corruption. We hope this study will add impetus to the fight, and realistically shape the context that will enable the government to grow revenue, ensure greater fiscal discipline and deliver education and health services with fewer resources wasted.

The quantitative measurement of corruption is difficult but not impossible. Our overall objective is to undertake research using both qualitative and quantitative data collection tools to provide a methodologically sound and realistic estimate of the potential scale of corruption in Sierra Leone, including

both the public and private sector. Corruption is complex, multifaceted and riddled with nuance. As such, these measurements will not be exhaustive. They will, however, provide a guide and assessment of the losses incurred by the government and provide the ACC and other institutions with sufficient data for them to be able to address the scourge.

5.2 DEFINING CORRUPTION

This research study explored a range of meanings of corruption and adopted a suitable definition that reflects the scope of the assignment. The common and often cited definition of corruption is the one proffered by Transparency International. The global watchdog group defines corruption as “the abuse of entrusted power for private gain. It hurts everyone whose life, livelihood or happiness depends on the integrity of people in a position of authority.”

Corruption has also been defined as “the act of giving or receiving of any gratification or reward in the form of cash or in-kind of high value for performing a task in relation to his/her job description.” The American political scientist, Joseph LaPalombara defines corruption as “any act performed by officials when departing from their legal obligations in exchange for personal advantages.”

All of these definitions are inadequate. The term ‘corruption’ is notoriously difficult to define. Most key conventions and laws including the United Nations Convention against Corruption (UNCAC) and the Sierra Leone Anti-Corruption Act 2008 as amended do not define the term. They define corruption by stating what it encompasses. UNCAC defines specific acts of corruption. The illegal actions defined by UNCAC as corruption offences include: Bribery in the public and private sectors (articles 15, 16 and 21), Embezzlement in the public and private sectors (articles 17 and 22), Trading in influence (article 18) Abuse of functions (article 19), Illicit enrichment (article 20), Money-laundering (article 23), Concealment (article 24), and Obstruction of justice (article 25) related to the offences listed above.

The acts defined as corrupt in the Sierra Leone Act include: Possession of unexplained wealth (27), Offering, soliciting or accepting advantage (28), Using influence for contracts (29), Influencing a public officer (30), Bid rigging (32), Bribery of or by public officer to influence decision of public body (34), Soliciting, accepting or obtaining advantage for public officer, etc. (35), Misappropriation of public funds or property (36), Misappropriation of donor funds or property (37), Impeding investment (38), Abuse of office (42), Public officer using his office for advantage (44), Conflict of interests (45), and

Protection of public property and revenue, etc.(48)

For the purposes of this study, we will rely on the definition in Sierra Leone law which is consistent with UNCAC. But we will not limit ourselves to the legal definition of corruption. We will take a broad and public interest definition of corruption by characterizing it as anything that causes the mismanagement and/or the theft of public goods. For our purposes, corruption must also include any “action that goes against the generally accepted behaviour of individuals within an office and that is motivated by ulterior private incentives should be consider as corruption.” It is a departure from the set of accepted norms regulating any public interest or business-related environment caused by a selfish pursuit of wealth.

It includes grand corruption which consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good. It also includes petty or bureaucratic corruption which refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.

Political corruption is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth. “Political corruption” is considered a type of grand corruption due to its seriousness and the high-ranking level of public officials involved. It exists where politicians and government agents who are entrusted with enforcing laws are themselves corrupt: it occurs at the top levels of government.

Another type of grand corruption is “State capture,” which is defined as a type of systemic political corruption in which a private company, organization or interest shapes or significantly influences legislation, government policies and the state’s decision-making processes usually in a specific sector to their advantage.

5.3 THE SIERRA LEONE ECONOMY AND CORRUPTION

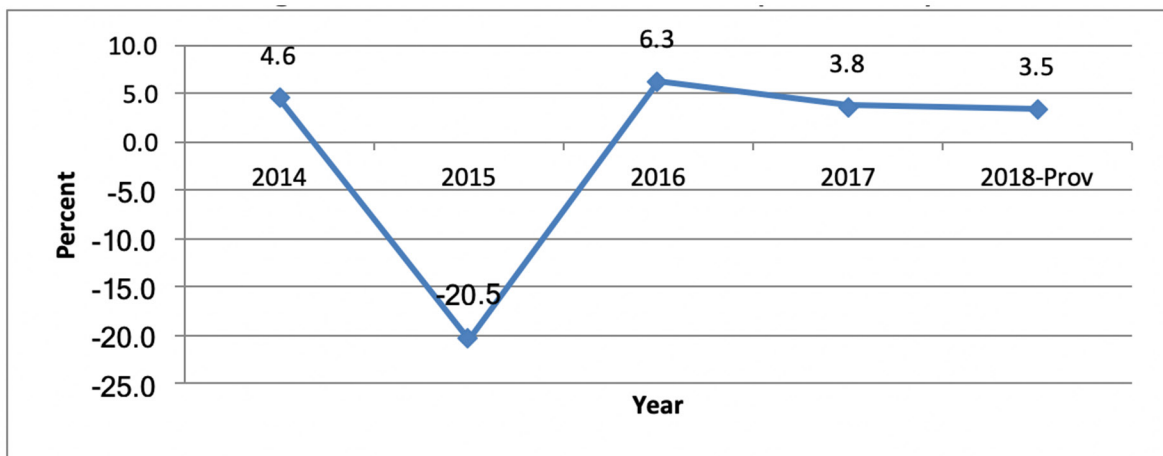
The weakness of the official definition of corruption is that it ignores many of the most significant causes and effects of different types of corruption. In the same way, it ignores some of the most important types of governance failure relevant for developing countries and concentrates on an analysis of governance failure (described as failures of “good governance”) that is at best

relevant for economies that have already achieved the transition to a developed economy.

Since 2016, the economy has shown signs of recovery from the twin shocks of the Ebola virus disease (EVD) and continuous decline of iron ore prices experienced in 2014 and 2015. By the end of 2015 it was clear that the economy was in deep recession and economic activities measured by the gross domestic product (GDP) contracted by 20.5 percent in 2015. However, the resumption of iron ore and other mining activities, revamping of agriculture, construction and service activities contributed to the recovery of the economy and GDP grew in 2016 by 6.3 percent. But in 2017, the recovery slowed and GDP growth was 3.8 percent, down from the 6.3 percent in 2016. Iron ore and diamond output was much less than anticipated in 2017, which contributed to the slowdown in growth.

In 2018 GDP growth fell to 3.5 percent, primarily due to the absence of iron ore

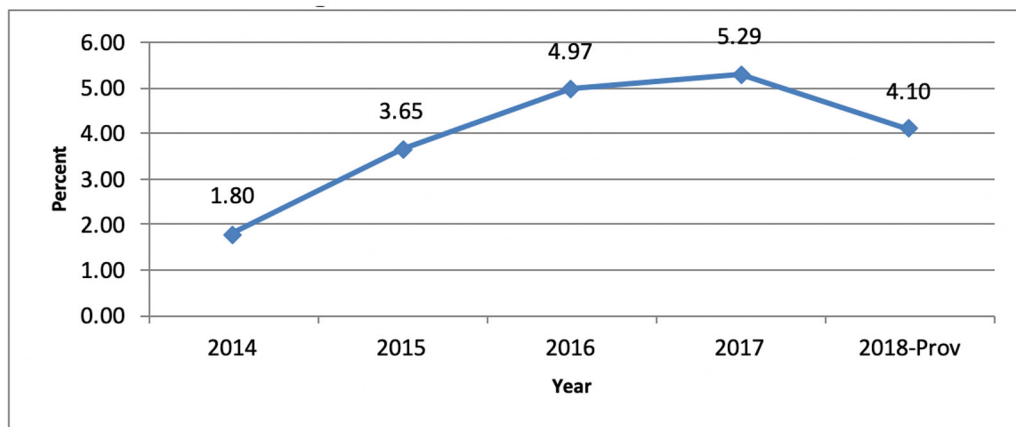
Figure 1: Real GDP Growth rate (2014-2018)



Services:

Services range from retail trade, hotels and restaurants to banking, insurance, non-profit institutions activities, transport, communication education, health and general government administration.

Figure 2: Services Growth Rates



Services grew by 4.1 in 2018 compared to 5.3 percent in 2017, supported mainly by banking and insurance, transport and communication and government services. Trade and Tourism grew by 1.9 percent in 2018 compared to 4.9 percent in 2017 due to a slowdown in imports and tourism activities, especially the lower occupancy rate recorded by hotels. Transport and communication declined by 4 percent in 2018 compared to the 5.2 percent recorded in 2017; a new mobile company commenced operations in 2018. Finance, insurance and real estate grew by 4 percent in 2018. Banking grew by 5.6 percent as banks introduced alternative products to maintain profitability, and e-products and internet banking services were widely launched in 2018. Insurance grew by 4.4 percent; real estate grew by 2.8 percent; other financial services grew by 3.4 percent.

Public administration services grew by 5.4 percent in 2018 compared to 7.1 in 2017 as government continued to support the economy and consolidated the wage bill. Other services declined by 4.7 percent in 2018. Education grew by 6.1 percent in 2018 compared to 5.7 percent in 2017, as government introduced the Free and Quality Education Programme for basic and Senior Secondary School Education. Health growth is stable at 4.8 percent in 2018 and 2017 as government continued to focus efforts on health-related matters following the end of the EVD in 2015. NGO services growth is also stable at 4.3 percent in 2017 and 2018 as NGOs support health, education and other related issues.

The agriculture sector, being the dominant economic activity of the majority of Sierra Leoneans, still contributes the greatest percentage to Sierra Leone's GDP. Of the 2018 GDP provisional figures, agriculture constituted about 52 percent; the manufacturing industry contribution remained stable at about 9 percent. Service sector less FISIM has a share of 36.7 percent in 2018 compared with 35.5 percent in 2017; while net taxes contribution slightly increased to 5.2 percent in 2018 from 4.9 percent in 2017.

Real GDP growth slowed to an estimated 3.5% in 2018 from 5.8% in 2017. The decline reflects lower than projected iron ore mining due to the decline of prices since 2014 and the 2017 closure of the main mining company, Shandong Iron and Steel Company.

THE COST OF CORRUPTION

The fiscal deficit continued to worsen to an estimated 7.7% of GDP in 2018 from 6.8% in 2017, due largely to a shortfall in revenue mobilization and overspending related to elections. The deteriorating fiscal position led to a sharp increase in public debt from 55.9% of GDP in 2016 to 60.8% in 2017. New measures, such as adopting the treasury single account and reducing waivers and exemptions from customs duties, could improve the government's position.

The Bank of Sierra Leone has proactively implemented a tight monetary policy and reduced the accommodation of government financing needs. But a lack of adequate internal control measures at the central bank continue to threaten reserve accumulation and macroeconomic stability. The exchange rate has depreciated by more than 30% since 2016, and inflation remained high at an estimated 13.9% in 2018.

The current account deficit worsened to an estimated 16.9% of GDP in 2018 from 13% in 2017, due to increased consumption of imported goods and weak export performance. Most of the country's exports are unprocessed commodities such as gold, diamonds, iron ore, and cashew nuts, while the bulk of imports are rice, petroleum, and machinery. Real GDP growth is projected to increase to 5.6% in 2019 and 5.8% in 2020. The main drivers of economic growth will be increased private agricultural and mining investments amid business climate reforms.

06

METHODOLOGICAL CONSIDERATIONS FOR ESTIMATING CORRUPTION

There are a number of methodological considerations in determining the financial cost of corruption. As defined above, any corrupt transaction is a type of “exchange” and therefore has two components. First, there is the bribe or the political support that is offered by the private sector individual or firm to the public official and this has a measurable cost in terms of lost investment or higher costs of business. The cost of this part of the transaction includes the cost of the resources used up in unproductive activities like lobbying, bargaining, and other activities that seek to identify and influence relevant public officials. It also includes the possible social cost implicit in transferring resources (the bribe) from productive users (if the bribe-givers are productive investors) to less productive ones (bureaucrats or politicians). The overall effect of this part of the transaction is therefore very likely to be negative, increasing the costs of doing business and the uncertainty for investors. In general, therefore, the first effect of any corrupt exchange is typically negative since bribe-giving or offering political support usually (though not always) transfers resources (the bribe) from more productive to less productive resource users, and the organization of the transfer or the support can itself be very costly and increase the uncertainty faced by investors.

Second, we argue that giving a bribe or political support to the public official is only one part of the corrupt transaction. In exchange, the public official offers something in return to the individual or firm offering the bribe or the political support in the form of an action or decision affecting resource allocation. For instance, the official can allow the person or firm offering a bribe to get access to some resources, or a decision that favours that individual or firm. All these actions have an (un)intended economic effect. Thus, corrupt transactions always have a second economic effect, since there is always some public decision affecting resource allocation that would not otherwise have been made. Another consideration is that the effect of corruption is not always negative. If the intervention that the public official offers in exchange adds to the productivity of the economy, the effect of this second component of the corrupt transaction is positive, and if it reduces social productivity, this effect is negative. Therefore, our judgement on the effects of corruption depends

primarily on an analysis of the types of interventions that either enhance or reduce productivity. Our analysis of the cost of corruption focuses on the effects of corruption on productivity.

6.1 MEASURING THE SIZE OF CORRUPTION

A variety of measurement initiatives, rankings and indicators have been produced by organizations like the World Bank, Transparency International, Global Integrity, the World Economic Forum, and Gallup International. Furthermore, regional initiatives such as the Eurobarometer, Afrobarometer and Latinobarometro include issues relevant to the measurement of corruption among those surveyed. Existing indicators suffer from several weaknesses, including a lack of time variation due to the sticky nature of perception-based measures, reliance on a limited pool of experts, and an inability to distinguish between corruption and institutional capacity gaps.

In addition, most studies have in the past focused on measuring expert and citizens' perceptions on the prevalence and nature of corruption. The Corruption Perception Index (CPI) produced by Transparency International is one of these. Its main limitation is that it is based on perceptions, which may not necessarily reflect reality. Another approach tried was to directly measure corruption with victimization surveys and bureaucratic quality indicators such as tax collection efficiency or fiscal transparency. Big data, including data from the Pay No Bribe campaigns or public expenditure tracking surveys (PETS), have also been used to measure the patterns and impact of corruption.

Figure 1: Real GDP Growth rate (2014-2018)

| Economic Sector | Sector Value Added (Millions SLL) | | | Sector Contribution to GDP (%) | | | |
|-----------------|-----------------------------------|----------|----------|--------------------------------|------|------|---------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | Average |
| Agriculture | 3903528 | 4097468 | 4264164 | 43.2 | 43.7 | 44.0 | 43.6 |
| Fishery | 608655.6 | 616744.4 | 634281.3 | 6.7 | 6.6 | 6.5 | 6.6 |
| Mining | 512070.8 | 442482 | 424566.5 | 5.7 | 4.7 | 4.4 | 4.9 |
| Electricity | 33387.05 | 35587.15 | 37649.01 | 0.4 | 0.4 | 0.4 | 0.4 |
| Construction | 180621.7 | 189858.3 | 177532.4 | 2.0 | 2.0 | 1.8 | 2.0 |
| Transport | 340828.9 | 354715.4 | 368813.7 | 3.8 | 3.8 | 3.8 | 3.8 |
| Communication | 324508.7 | 345259.9 | 359312.8 | 3.6 | 3.7 | 3.7 | 3.7 |
| Banking | 128309 | 136708.5 | 144419.7 | 1.4 | 1.5 | 1.5 | 1.5 |
| Education | 283702.3 | 300000.2 | 318391.5 | 3.1 | 3.2 | 3.3 | 3.2 |
| Health | 259986 | 272550 | 285590.9 | 2.9 | 2.9 | 2.9 | 2.9 |

Source : Statistics Sierra Leone

The study focuses on corruption in the sectors or subsectors of the economy that are shown in Table 1. The choice is driven by the fact that these are critical areas where government's attention in terms of policy statements or resources has been considered strong or are very critical to the welfare of the people. It is observed that these sectors contribute a total 72.5 percent to the Gross Domestic Product (GDP). The sectors that make up the remaining 27.5 percent are trade (wholesale and retail), manufacturing and handicrafts, insurance, non-profit institutions serving households (NPISH) and financial intermediation services indirectly measured (FISIM).

6.2 CORRUPTION DATA

The available data used in this study was extracted from secondary sources. Secondary sources were utilised because the focus is on public sector resources that went into corruption, which is normally known and documented only through secondary sources, especially written sources (for example, the audit report). Secondary data was collected on reported corruption in key sectors driving the economy (mining, agriculture, customs, infrastructure/construction, telecoms, banking and finance and manufacturing). Sources of data include: ACC reports – prevention reports, Audit reports, Police records, Judicial records, Academic publications, Newspaper reports, NGO reports and Financial Intelligence Unit reports.

6.3 DETERMINATION OF LOST GDP TO PUBLIC-SECTOR CORRUPTION

The available data used in this study was extracted from secondary sources. Secondary sources were utilised because the focus is on public sector resources that went into corruption, which is normally known and documented only through secondary sources, especially written sources (for example, the audit report). Secondary data was collected on reported corruption in key sectors driving the economy (mining, agriculture, customs, infrastructure/construction, telecoms, banking and finance and manufacturing). Sources of data include: ACC reports – prevention reports, Audit reports, Police records, Judicial records, Academic publications, Newspaper reports, NGO reports and Financial Intelligence Unit reports. The objective is to determine the amount of output (GDP) lost due to the diversion of public funds that could have been invested in the economy to raise outputs. The size of corruption itself is the amount of money that was meant to be channelled into the sector but did not, as it was diverted by a public official or a group of public officials or a combination of

public and private sector operators, and the incidence was discovered after the fact. The financial resources lost could be efficiently spent on building public sector productivity, the enabling environment for improved private sector productivity or the delivery of public services.

The principle of incremental capital-output ratio (ICOR) was adopted to determine the economic value added or lost due to corruption (what is lost due to corruption, out of the potential value addition in the economy). The potential GDP here is the GDP that would exist in the absence of corruption. The basis of this approach is that it highlights the loss to GDP from resources that could have been used for investment purposes, but were diverted from public sector spending to private returns rather than social returns. While the impact of corruption is broader than that of capital flight, the ICOR approach has been adopted by researchers investigating the GDP lost due to capital flight. This is on the basis that lost resources could have been used for investment in order to add to the output of the economy. The use of this approach includes the works of Nkurunziza (2015) and Ndikumana (2014). An alternative approach is the capital stock method but it relies on estimating the capital stock of the economy (and there is no data for capital stock in Sierra Leone). It also requires a number of assumptions, including an assumption about the rate of depreciation of capital stock.

The ICOR approach rests on the framework that public resources that went into corruption are as productive as those that what went into public investment. However, as some of the resources that went into corruption could have been spent on recurrent activities of the government even if they were recovered, the corruption figures were summed into what could have gone into recurrent expenditure and what could have gone into investments in that sector for the given year. Given the difficulty to obtain data on the distribution of sectoral expenditure by type of expenditure (recurrent and investment), the weights of public investment in total expenditure of the government was applied across sectors to obtain the proportion of corrupt resources that could have been invested domestically.

Subsequently, the loss in terms of GDP was obtained by dividing the derived figures by the ICOR value. The public finance data for 2016, 2017 and 2018 show that 35.9 percent of total expenditure in 2017 went into investment and 31.1 percent went into investment in 2018. Hence, the corruption figures in 2016, 2017 and 2018 were multiplied by 0.36 and 0.31 respectively to obtain the lost investment, which were then divided by the ICOR to obtain the lost GDP figures. The ICOR is the amount of investment necessary to have a unit of output of the economy. It is a measure of the efficiency of investment- a lower

higher efficiency. It is calculated as the ratio of investment to additional GDP in a given year. Box 1 shows some limitations of ICOR.

The data on public investment (in current prices) for 2016, 2017 and 2018 were obtained from the Ministry of Finance, Sierra Leone (Budget Implementation Data). The GDP data and GDP deflator were obtained from Statistics Sierra Leone real sector data for Sierra Leone.

The data on aggregate public investment, adjusted for current prices, was deflated by the GDP deflator for 2016, 2017 and 2018 to get real public investment. The real public investment data was then divided by additions to real GDP in 2016, 2017 and 2018 to obtain the ICORs for the three years

Box 1. Some Limitations of the ICOR as a tool for estimating the cost of corruption.

The incremental capital-output ratio (ICOR) is the ratio of investment to change in GDP. In this case, it is the ratio of public investment to change in GDP. The values for change in output due to corruption would depend on the estimated ICOR of the economy.

The ICOR itself is estimated using longer time series data, for example 2002 to 2018, excluding periods where there were investments but GDP growth was negative and the median is applied to the few periods of interest (example, 2016 to 2018). Thus, it assumes that as long as there is government investment, there will be an increase in GDP.

In this regard, ICOR studies for impact analyses is based on a counterfactual basis. That is, what would have been additional GDP had there been no corruption and the simulated GDP (GDP under no corruption) is compared to the actual situation with the existence of corruption to determine the GDP difference.

The result from this application shows that the ICOR for 2016, 2017 and 2018 was 1.2, 2.3 and 1.9 respectively, which is shown in Figure 4. These values show that the efficiency of investment in 2016 was higher than in 2017 and 2018, as the latter two had a lower ICOR.

Figure 1: Real GDP Growth rate (2014-2018)



SOURCE: CALCULATED BY AUTHORS FROM PUBLIC FINANCE DATA (MINISTRY OF FINANCE, SIERRA LEONE) AND GDP DATA (STATISTICS SIERRA LEONE).

Given the estimated ICOR for the economy, the lost GDP attributed financial resources that went into corruption was estimated as the total corruption value divided by the ICOR. The total loss to the economy is the gain from GDP if the proceeds of corruption went into productive investment, plus the actual value of the corruption itself. It is worth noting that this assumes that the sectoral ICORs are the same and are equal to the ICOR of the economy. This assumption is on the basis that data on sectoral investments are not available across sectors, while there is data on public investment in the overall economy and the ICOR is likely to vary across sectors.

As the amount lost to corruption in 2016, 2017 and 2018 were given in current prices (2016, 2017 and 2018 prices respectively for corruption levels), the amount lost to GDP was initially obtained in current prices and the values were converted to 2006 (constant) prices as the real GDP of Sierra Leone is in constant 2006 prices using the principle of deflating nominal figures by GDP deflators. That is, by multiplying by 100 and dividing by the GDP deflator for 2016, 2017 and 2018.

The GDP that would have been obtained if public resources that were lost to corruption had been invested domestically (potential GDP), was obtained by adding the actual GDP to the change in GDP calculated in this analysis. The aggregate of the GDP lost in all the sectors/subsectors was obtained to give the total GDP lost due to corruption in Sierra Leone. This is divided by total population to compare actual GDP per capital in 2016, 2017 and 2018 with what would have been the case with no public-sector corruption

07

DATA ON CORRUPTION IN KEY SECTORS

This section presents the dynamics of corruption at the sectoral level. It provides estimates of corruption in key sectors that is used to aggregate the financial cost of corruption at the GDP level. Data compiled in this section includes figures ranging from misuse of government allocation to corruption in managing domestic revenue and focuses largely on figures compiled in audit reports and other official documents. Ten sectors covered here form 65 percent of the Sierra Leone economy. In total an estimated SL 10.45 Trillion was lost to corruption in these sectors. Construction, mining, and electricity generation recorded the highest figures on corruption.

7.1 AGRICULTURE

Records from the accountant General's office show that for financial years 2016, 2017 and 2018, the GoSL disbursed approximately US\$18.6 Million for a range of agricultural materials, inputs and administrative support services. Combined spending from domestic resources and donors for the agricultural sector on average is 6 percent of the national budget over the three years. About 65 percent of expenditure goes into the procurement of inputs, (predominantly fertilizers and seeds) via private sector suppliers.

A special performance audit (2018) by Sierra Leone's auditor general reveals that when comparing the unit price paid by MAF to the one paid for fertiliser by another agency, the Rehabilitation and Community Based Poverty Reduction Project (RCPRP) which revealed overpricing in GoSL's procurement by 201% to(US\$9.0 Million).

Awoko Newspaper June 21, 2019.

Sierra Leone News:

ACC loses missing fertilizer Court case

On Thursday 20 June 2019, Justice Monfred Sesay, of the High Court of Sierra Leone, acquitted and discharged Mark Babatunde Dixon, the Store Keeper at the Ministry of Agriculture, Forestry and Food Security warehouse in Kissy. According to allegations from the anti-graft body, between 1 February 2016 and June 2016, Mark Dixon stole 980,000 bags of fertilizer from the Government of Sierra Leone. He was charged with two counts of misappropriation of public property contrary to Section 36 of the ACC Act of 2008 and Conspiracy. Justice Sesay noted the prosecution, which was headed by lawyer, Kelvin Masebo, from ACC, failed to prove its case beyond all reasonable doubt in both charges. He said nothing was before the Court to prove the accused stole the fertilizer. There was no evidence of store breaking being reported or mentioned in the matter.

Using the rate of over-invoicing in fertiliser we estimate that is between 66.8% to 68.0% lost for every payment made for each bag of fertilizer between 2016 and 2018. This means that at least \$12million dollars of agriculture funds is unaccounted for. Despite the loss, the court dismissed a prosecution by the Anti-Corruption Commission for lack of evidence (see text box).

The impact of corruption is grave for the sector. Sierra Leone ranks 103rd out of 117 countries on the 2019 Global Hunger Index. The country suffers from a level of hunger that is considered serious. Despite acknowledgment by successive governments that increasing food and cash crop productivity is the first step towards poverty reduction, Sierra Leone's agricultural productivity and output is among the lowest in the world. Increased financial investment has not translated into substantial agricultural output or productivity. For examples, rice productivity which was 1,129,338 tonnes in 2011 remains 1,169,418 tonnes in 2018; Cocoa - 123,699 tonnes in 2011 was 165,024 tonnes in 2018; Coffee 155,570 tonnes in 2011 and 134,867 tonnes in 2018.

7.2 FISHERIES

According to figures from the national statistical body, Statistics Sierra Leone, between 2016 and 2018, the fisheries sector contributed an average 6.58 percent to GDP, which was a slight dip from the 2016 figure of 6.74 percent. The contribution of fisheries and marine resources to GDP is heavily hampered by Illegal and Unregulated and Unreported (IUU) fishing. The Institute of Marine Biology and Oceanography at the University of Sierra Leone estimates that Sierra Leone has the potential to earn more than US\$50 million a year from its fisheries, yet it ends up with less than \$18 million because of illegal fishing and lack of policing. Revenue loss in terms of taxes, license fees, export, port revenues, stock reduction, unemployment, and food insecurity are some economic and social impacts of IUU fishing at both national and community/household levels. Just one trawler can catch up to 100 tonnes in a day by dragging a net along the ocean floor to harvest bottom-dwelling species of fish and shellfish.

Herald Guardian - Thurs Feb 25, 2016

- The continuing story of State House-endorsed corruption. Who benefited from the collapse of the 28 million dollar World Bank-funded West Africa Regional Fisheries Project? Why was this kept under wraps until the World Bank representative blew the cover off?

It was a press statement on the State House website titled "President receives Report on Fisheries Project" that could well have alerted many to a part of the goings-on at the country's ministry that is responsible for marine resources. The report delivered by one Dr. Max Amadu Sesay revealed that indeed investigations had been going on into a failed project and this after one Parminder Brar, World Bank Country Manager in Sierra Leone told the press that for the past two years, a key component in the fight against illegal fishing had been rendered non-operational.

According to the Freetown-based Concord Times news outlet, some twenty eight million dollars spent on the project had almost come to a grinding halt - not for 2 weeks, nor two months, but for two years and this under the watch of the rat who knows all too well the amount of revenue that could be derived from our marine resources, even without the help of one Haja Enkincha.

The Sierra Leone Maritime Administration identified three major forms of corruption in the fishing sector: a) There is bribery of field-level law enforcement officers. This is usually a small fee paid if a violation has been identified on board a vessel or in a port facility, or it may be solicited by the officer to avoid an inspection altogether; b) There is under-reporting of fishing licences which may involve middle or high levels of fishery authorities. This form of corruption has been reported by many international media houses, including the BBC and Aljazeera, who cited over 80 trawlers, predominantly from China, illegally allowed to fish in Sierra Leone waters; c) The third form of corruption is impunity in investigations and fines for illegal activities under the purview of fishery administrations. In our interview with two fishing officers, both said that they haven't seen a pair trawler arrested for years. Previous investigations by the BBC media documented attempts by trawlers to bribe local officials in order to continue with illegal activities and avoid punishments. Even the \$28M World Bank project designed to reform the fishing sector was hampered by corruption (see Herald Gurdian report in textbox).

There remains rampant illegal fishing and poor policing. A moratorium will do little to replenish the country's dwindling fishing stocks and Sierra Leonean authorities remain weak to police IUU.

A report published by the African Business Magazine (April 2019) stated three quarters of the foreign trawlers in Sierra Leone waters are Chinese. Chinese vessels, in particular, have been accused of using illegal methods in Sierra Leone waters such as pair trawling. This happens when two vessels thread a net between them and rake fish in the water in parallel. Pair trawling is highly effective and incredibly destructive because it rakes in all marine life it encounters. "A recent BBC News report documented widespread use of pair trawling by Chinese fishing boats along Sierra Leone's coast -despite the practice being illegal and relatively easy to spot using freely available online satellite maps."

Of extreme importance is the fact that most of these trawling done by international markets are transported overseas, meaning the country loses a much-needed local supply of fish and revenue.

7.3 EDUCATION

The contribution of education to Gross Domestic Product (GDP) in 2016, 2017 and 2018 is estimated to be approximately 3.3% (according to Statistics Sierra Leone). According to records from the Accountant General's Department, the total actual government spending on education in 2017 was about Le236 Billion (US\$29.7 Million), and it was increased to Le423 Billion (US\$53 Million) in 2018, a 79% increase. Total spending on education (excluding salary of teachers and civil servants) between 2016 to 2018 is around US\$100 Million. Procurement of education supplies accounts for a significant share of total spending in the sector. In 2018 procurements of core textbooks, teaching and learning materials, furniture and school feeding accounted for almost 30% of the education budget. A total amount of Le230,021,162,033 (equivalent to \$25M) which was the highest expenditure of any Government Ministry in that period. Audit reports have pointed to widespread corruption in the education sector. Table 2 provides a detailed list of incidences of corruption reported in official audits. Based on the data available, at least 70 percent of corruption and corrupt actions in education occurred in 2018.

Table 2 Type of Corruption in the Education Sector

| Type of corruption in education | Annual Estimates | | | Estimated Corruption |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 | |
| Contract Overpricing | | | 52,000,000 | 52,000,000 |
| Undelivered Teaching Materials to Local Councils | | | 31,792,265,000 | 31,792,265,000 |
| Procurement Malpractice | | | 90,000,000 | 90,000,000 |
| Transactions without supporting documentations | 6,639,455,202 | 1,653,072,929 | 1,871,871,841 | 10,164,399,972 |
| Expenditures without receipts | 1,555,723,575 | | 3,218,875 | 1,558,942,450 |
| Unpaid WHT to NRA | 62,078,440 | 346,253,738 | | 408,332,178 |
| University Subsidy Overpayment | | 2,754,739,660 | | 2,754,739,660 |
| Consultant Overpayment | | 72,588,682 | | 72,588,682 |
| Procurement Loss | | 266,379,736 | | 266,379,736 |
| GRAND TOTAL | 8,257,257,217 | 5,093,034,745 | 33,809,355,716 | 47,159,647,678 |

Source: Data compiled from official audits and records from ACC

7.4 HEALTH

In the years preceding this study, there were several corruption-related trials involving personnel in the health sector. A review of ACC and court records for the period did not show any major corruption case at the time. However, the table below presents data compiled by audit reports between 2016 and 2018 on corruption in the health sector. Sierra Leone recorded the highest loss to corruption in 2018 worth 2 billion Leones.

Case Summary: The GAVI Funds case/ S v Daoh

The GAVI Funds case/The State v. Kizito Daoh, Alhassan L. Sesay, A.A. Sandy, Edward Bai Kamara, Duramani Conteh before Hon. Mr. Justice Abdulai Charm 24 October 2013

Facts: Each Accused was charged with four counts of misappropriation of donor funds contrary to s. 37(1) ACA 2008, allegedly committed in Freetown between 2008 to 2011. All of the accused were staff of the Ministry of Health and Sanitation (MOHS). Daoh, the Chief Medical Officer, was charged with misappropriating twice the sum of Le 4,368,000 and twice the sum of Le7,894,466. Sesay, the Director of Primary Health Care, was charged with misappropriating thrice the sum of Le4,368,000 and once the sum of Le5,803,267. Kamara, the Permanent Secretary, was charged with misappropriating thrice the sum of Le4,368,000 and once the sum of Le7,894,466. Conteh, Director of Hospital and Laboratory Services, was charged with misappropriating twice the sums of Le4,368,000 and twice the sums of Le5,803,267. Sandy, Director of HR and Nursing Services, was charged with misappropriating twice the sum of Le4,368,000 and twice the sum of Le5,803,267.

The GAVI Draft Audit found that undocumented expenditures of its grant tallied at \$442,078, unjustified disbursements at \$556,487, overcharged procurement tallied at \$100,872 and diversion of assets at \$ 43,386. The GAVI Audit demanded these findings be investigated. A meeting of senior MOHS management including Daoh, Sesay and Conteh was held. Together they sought to get the needed documentation. On arrival, the GAVI team reduced the figures from \$ 1,143,000 to \$523,303 due to some documentation made available.

Verdict: All Accused were acquitted on all charges with costs awarded from the consolidated fund.

Table 3 Data on corruption in the Health Sector

| Type of Corruption in the health sector | Annual Estimates (Le) | | | Total Estimate (Le) |
|--|-----------------------|-------------|---------------|---------------------|
| | 2016 | 2017 | 2018 | |
| Overseas medical treatment not supported with relevant documents. | | | 1,142,782,257 | 1,142,782,257 |
| Bank withdrawals without supporting documents | 151,679,500 | 109,923,000 | 481,626,000 | 743,228,500 |
| No NRA receipt to confirm the payment of withholding taxes | | | 385,965,000 | 385,965,000 |
| Deceased staff on the payroll | | | 7,500,000 | 7,500,000 |
| Payments to theatre staff without approval from MOHS | 23,013,600 | | | 23,013,600 |
| Contract Documents for Diet <u>not</u> Made Available for Audit Inspection | 353,994,000 | | | 353,994,000 |
| Essential DSDP Drugs <u>not</u> Accounted for | 30,000,000 | | | 30,000,000 |
| Unaccounted Revenues from surgical operations, cost-recovery drugs, etc | 513,368,000 | | | 513,368,000 |
| Payments without Supporting Documents | 235,317,000 | | | 235,317,000 |
| TOTAL | 1,072,055,100 | 109,923,000 | 2,017,873,257 | 3,199,851,357 |

Source: Data compiled from official audits and ACC records

7.5 ENERGY SECTOR

The contribution of energy to gross domestic product is estimated to be 0.4%. The energy sector in Sierra Leone suffers from severe supply-side constraints, with electricity supply limited to a very small proportion of households in the country, estimated at less than 10%. Over the years there have been reports of corruption in the energy sector mainly related to the procurement of private power for supply.

For instance, a 2018 report indicates that procurement for the service of a private power producer for a sum of US\$25 million ultimately went up to US\$100 million and did not follow laid down competitive procurement processes. Some of these claims were confirmed in a special audit report of 2019. In addition, several unconventional concessions were awarded to the contractor and the total costs to GoSL was estimated at \$75M. Overall, these contracts were extortionate and provided the perfect avenues to channel funds from the system to private players.

The special technical audit conducted in 2018 brought out more compelling evidence on the level of mismanagement of funds in the energy sector which is used as a basis of our estimation of corruption in the sector. Approximately SL 1.165 Trillion (equivalent to US\$123 Million) was recorded as corruption with 2017 accounting for 80 percent of the losses. Fuel theft at the public generation company has been reported frequently and is said to be one of the main reasons for the shutdown of the power plants in Freetown. Collection rates among customers is low with a high number of post-paid meters still in the system. All of these weak institutions and inefficiencies create numerous avenues for acts of corruption.

Table 4 Data on Corruption in the Energy Sector

| Type of corruption in Energy Sector | Annual Estimates | | | Total |
|-------------------------------------|--------------------|--------------------|-------------------|----------------------|
| | 2016 | 2017 | 2018 | |
| Illegal payment | 7,954,919,750.00 | 858,845,303,425.00 | 42,686,482,576.00 | 909,486,705,751.00 |
| Lack of Payment Documentation | 147,459,317,000.00 | 850,078,145.55 | | 148,309,395,145.55 |
| Loss due to Illegal | | | 2,890,031,954.00 | 2,890,031,954.00 |
| Misappropriation | 28,692,391,000.00 | 2,971,515,000.00 | | 31,663,906,000.00 |
| Poor Contract | | 12,675,000,000.00 | | 12,675,000,000.00 |
| Procurement loss | | 52,359,547,299.00 | | 52,359,547,299.00 |
| Unauthorized Payment | 251,725,000.00 | | | 251,725,000.00 |
| Unsubstantiated payment | | 6,910,050,470.64 | | 6,910,050,470.64 |
| GRAND TOTAL | 184,358,352,750.00 | 934,611,494,340.19 | 45,576,514,530.00 | 1,164,546,361,620.19 |

Source: Data compiled from official audits and ACC records

Table 5 presents data from audit findings and discrepancies that were found, but by our definition, corruption was not established. Corruption is hampering the productivity of the energy sector. Sierra Leone has one of the highest rates of transmission and distribution losses estimated to be around 40%. Efforts to reduce this figure have been made over past years, but combined losses are still around 37%. There are also reported widespread illegal connections and power theft by households and businesses. These have all contributed to making the public utilities financially unsustainable and heavily reliant on different kinds of subsidies from government. The sector has been fraught with financial sustainability problems and relies heavily on government intervention for operations. Financial support to the energy sector accounted for more than 15% of the total budget in 2018, and a significant portion of that went to fuel costs to the power ship.

Table 5 Discrepancies in the energy sector that were not established as corruption

| Type/Form of Discrepancies in the Energy Sector | Annual Estimates | | | Estimated Discrepancy |
|---|------------------|--------------------|------|-----------------------|
| | 2016 | 2017 | 2018 | |
| Lack of value for money | 100,334,709,791 | | | 100,334,709,791 |
| Wrongful Payment to Board | 500,629,876 | | | 500,629,876 |
| Unlawful Payment | 1,489,116,531 | | | 1,489,116,531 |
| Negligence of Duty | 455,000,000 | | | 455,000,000 |
| Lack of Payment Documentation | | 265,792,072,192.00 | | 265,792,072,192 |
| Grand Total | 102,779,456,198 | 265,792,072,192.00 | | 368,571,528,390 |

Source: Data compiled from official audits and ACC records

7.6 ROAD INFRASTRUCTURE

This sector encompasses construction activities involving houses, transport and water infrastructure. The sector accounted for an average two percent (2%) of Sierra Leone's GDP in 2016, 2017 and 2018. Infrastructure was the flagship of the previous administration and construction comprised a significant portion of the total annual budget allocation. The sector is dominated by local and international private sector players who compete mainly for government and donor-funded construction projects.

A review of audit reports from 2016 to 2018 revealed that an estimated 4.9 Trillion Leones (approximately US\$532 Million) was lost in the sector due to corruption.

All of these acts of corruption took place in 2017. Ostensibly, construction was a key focus of government for 2017. Some believe it was for three reasons: a) it provided easy access to funds for elections; b) it created jobs for youth; c) it was a voter-winning investment. We note four reasons why fraud is huge and can go unnoticed in construction projects that are important for anti-corruption programmes: a) Uniqueness: No two construction projects are the same, thus making comparisons difficult whilst at the same time providing ample opportunity to inflate costs and conceal bribes; b) The delivery of infrastructure involves many professional discipline, tradespeople and numerous contractual relationships that make control measures difficult to implement; c) Work is concealed: Materials and workmanship are often hidden, e.g. steel reinforcing is cast in concrete, masonry is covered with plaster and cables and pipes enclosed in service ducts; d) The scale of infrastructure investments: Investments in infrastructure such as in highway construction can cost tens of millions of dollars making it easier to conceal bribes and inflate claims.

Table 6 Data on Corruption in the Road Sector

| Type of corruption in Road Sector | Annual Estimates | | | Estimated corruption |
|---|------------------|-------------------|------|----------------------|
| | 2016 | 2017 | 2018 | |
| Unaccounted Revenue from Sale of Government Quarters | | 2,260,000,000 | | 2,260,000,000 |
| Loss as a result of Poor Revenue Collection | | 4,926,869,456 | | 4,926,869,456 |
| Unaccounted Revenue from Mortgages and Rents | | 4,681,598,040 | | 4,681,598,040 |
| Unreconciled Variations in Revenue | | 21,274,642,376 | | 21,274,642,376 |
| Wrongful Payments to Third Party | | 3,479,089,950 | | 3,479,089,950 |
| Payment to Contractors without Approval | | 274,912,412,935 | | 274,912,412,935 |
| Unjustified Payment | | 279,669,274,069 | | 279,669,274,069 |
| Contract without Evaluation | | 5,495,331,900 | | 5,495,331,900 |
| Loss as a result of <u>road</u> contract price variations from original price (Several Roads) | | 1,497,089,860,864 | | 1,497,089,860,864 |
| Cost Implications for delays in project completion | | 2,785,880,072,625 | | 2,785,880,072,625 |
| Loss on Interim payment certificate and Interest Rate effects | | 22,844,088,000 | | 22,844,088,000 |
| GRAND TOTAL | - | 4,902,513,240,215 | | 4,902,513,240,215 |

Source: Data compiled from official audits and ACC records

7.7 TELECOMMUNICATIONS

A technical audit of the Sierra Leone telecoms sector revealed that corruption in the industry takes many forms including, but not limited to, the allocation of licenses and concessions, corruption of and political interference in oversight and price-setting, as well as corruption in customer services. For instance, in 2017 while constructing its headquarters, variation of works to the building increased the cost from Le 6,124,065 to Le 34,659,339,870 without following procurement laws or obtaining Board approval. In that same year, overdue 4G license fees from Africell, QCell and Sierratel amounted to Le 21,959,662,500, Le 9,750,000,000 and Le 39,000,000,000 respectively. An analysis of the technical audit report revealed that the sector lost an estimated Le 566,958,849,858.44 (equivalent to US\$61.6 Million) between 2016 to 2018, mostly to irregular procurement, billing manipulations and unsupported expenditures by the National Telecommunications Commission (NATCOM) and the Sierra Leone Cable Network (SALCAB). Almost 75 percent of the corruption occurred in 2016. The setting up of the Commissions of Inquiry to investigate instances of corruption in the telecoms industry between 2015 and 2018 and the liberalization of the telecoms gateway all represent positive reform efforts to improve accountability in the sector.

Table 7 Data on Corruption in Telecoms

| Type of corruption in Telecoms Sector | Annual Estimates | | | Estimated Corruption in SLL |
|--|------------------|------------------|-------------------|-----------------------------|
| | 2016 | 2017 | 2018 | |
| Unfair Competition and Unequal Treatment | 79,222,162,500 | | | 79,222,162,500.00 |
| Misappropriation | | | 9,108,000 | 59,108,000.00 |
| Non-performance of Contract | | | 1,200,000,000.00 | 1,200,000,000.00 |
| Wrongful Payments to Individuals | | 6,398,346,314.50 | | 6,398,346,314.50 |
| Lack of Loan Documentation | 345,750,000,000 | | | 345,750,000,000.00 |
| Loss as a result of poor billing | | 1,836,930,000.00 | | 1,836,930,000.00 |
| Poor Management of POS | | | 33,501,383,670 | 33,501,383,670.00 |
| Unaccounted POS Revenue Collected | | 19,471,002,855 | | 19,471,002,855.00 |
| Poor Management of Recharge Cards | | 398,120,000 | | 398,120,000.00 |
| Non-availability of vehicle fleet (50) | | | 2,488,571,624.44 | 2,488,571,624.44 |
| Irregular Contract and Payments | | 7,945,308,294 | | 7,945,308,293.50 |
| Unsupported Expenditure | | 20,310,811,942 | | 20,310,811,942.00 |
| Wrongful Payment to Board | | 385,976,200 | | 385,976,200.00 |
| Wrongful Donations | | 3,258,194,500 | | 3,258,194,500.00 |
| Loss due Poor Revenue Collection | | 44,732,933,959 | | 44,732,933,959.00 |
| GRAND TOTAL | 424,972,162,500 | 104,737,624,064 | 37,249,063,294.44 | 566,958,849,858.44 |

Source: Data compiled from official audits and ACC records

7.8 THE FINANCIAL SECTOR

Since 2013, there have been reports of fraud in the banking sector (see inbox below). The research also reviewed records of the auditor general relating to the financial sector. A detailed review of the forensic audit on foreign and domestic transactions between the Bank of Sierra Leone and MDAs during the period between July 2015 and June 2018. Objectives of the audit were to look into the following:

1. The potential misallocation of the funds, mismanagement or potential illicit activity within these organisations and/or any related parties, and the likely breadth and magnitude thereof;
2. The reconciliation of foreign currency transactions and balances between the BSL and MDAs;
3. The internal controls surrounding foreign currency transactions at and between MDAs and the BSL;
4. Any remedial measures required to strengthen internal controls at the MDAs and the BSL and the discharge of relevant fiduciary duties on the part of the management of the MDAs and the BSL; and

5. To provide advice on best practices in relation to any policies and internal controls that need strengthening including the reporting and accountability arrangements for transactions relating to currency management and banking operations.

Overall, this research study recorded about SLL198.9 Billion as estimated corruption during the period with the FY2017 recording 75 percent of all corrupt activities that took place within the sector over three years (see table 8 below).

Table 8 Data on Corruption in the Financial Sector

| Type/Form of Corruption | Estimates | | | Estimated corruption |
|-------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | 2016 | 2017 | 2018 | |
| Ineligible Pension Payment | | 23,300,462,335.00 | | 23,300,462,335.00 |
| Variance in Forex Transaction | 32,675,988,160.00 | 108,596,292,200.00 | 16,711,691,440.00 | 157,983,971,800.00 |
| Conflict of Interest | | 3,898,687,500.00 | | 3,898,687,500.00 |
| Overpayment for Land | | 12,135,487,441.00 | | 12,135,487,441.00 |
| Illegal Payment | | 1,548,000,000 | | 1,548,000,000 |
| GRAND TOTAL | 32,675,988,160.00 | 149,478,929,476.00 | 16,711,691,440.00 | 198,866,609,076.00 |

Source: Data compiled from official audits and ACC records

Discrepancies that were not recorded as corruption were significantly higher. About 1.97 Trillion Leones (equivalent to US\$219 Million) was recorded as discrepancies. Again, 2017 carried about 99.5 percent of the discrepancies.

Table 9 Estimated discrepancies in the financial sector

| Type/ Form of Discrepancies | Estimates | | | Estimated Discrepancy |
|---|--------------------------|-----------------------------|----------|-----------------------------|
| | 2016 | 2017 | 2018 | |
| Ineligible Pension Payment | | 2,488,629,102.08 | | 2,488,629,102.08 |
| Unlawful Investments | | 1,181,978,803,738.17 | | 1,181,978,803,738.17 |
| Inappropriate Procurement Method | | 266,400,000,000.00 | | 266,400,000,000 |
| Non-Performing Investments | | 202,643,094,751.84 | | 202,643,094,751.84 |
| Unsecured Debentures | | 250,752,085,310.00 | | 250,752,085,310 |
| Uncollected Revenue | 11,436,628,842.51 | | | 11,436,628,842.51 |
| Illegal Loan | | 12,978,148,812.22 | | 12,978,148,812.22 |
| Illegal Debenture | | 10,000,000,000 | | 10,000,000,000 |
| Non-payment of Staff Loan | | 42,440,554,099.09 | | 42,440,554,099.09 |
| Grand Total | 11,436,628,842.51 | 1,959,681,315,813.40 | - | 1,971,117,944,655.91 |

Source: Data compiled from official audits and ACC records

7.9 MINING

Sierra Leone's mineral resources - rutile, bauxite, diamond, iron ore and gold contribute about 24% to GDP and over 80% to export earnings for the period under review. The sector is in many ways underproductive and contributes well below its potential. The sector is dominated by foreign companies and artisanal miners. Of interest to this study is the loss Sierra Leone gives away to large scale mining companies which raised only SLL 527 Billion (Approximately US\$57.3 Million) from 2016 to 2018. We estimate that total loss to corruption in the mining sector for 2016 – 2018 was Le 2.35 Trillion. The research tried to establish the reasons for this low revenue reported by mining companies. First, it seems it is as a result of trade mispricing. This is the falsification of the price, quality and quantity of traded goods for a variety of purposes. These could range from the desire to evade customs duties and domestic levies to the intent to export foreign exchange abroad. A report by BAN (2017) showed that trade mispricing was US\$87 Million per annum. The BAN report is corroborated by a similar study on Africa by the AU Commission led by Thabo Mbeki, which established that under-invoicing of exports was quite common in Africa, and particularly in the natural resource sector. The intention of such practices is to reduce the amount of money to be remitted to the exporting country from such sales. Since no reforms were initiated to address trade mispricing, this study adopted BAN's estimate and extrapolated their findings to 2016 – 2018.

Table 10 Sources of corruption in the mining sector

| A | B | C | D | E | F |
|-------|------------------------------------|--|--|--|-----------------------|
| Year | Revenue (Le Million) Source NRA | Estimated Loss from variation in tax mining Agreements and the 2009 Mining Law. Source Ban projections) | Duty waiver And GST waiver (Source NRA) | Estimated Under-invoicing Source: BAN Projections | TOTAL Loss of revenue |
| 2016 | 155,287.00 | 46,586.10 | 14,277.89 | 677,970.00 | 738,833.99 |
| 2017 | 149,029.00 | 44,708.70 | 20,905.73 | 711,450.00 | 777,064.43 |
| 2018 | 222,773.00 | 46,831.90 | 3,851.74 | 786,780.00 | 837,463.64 |
| Total | 527,089.00 | 138,126.70 | 39,035.36 | 2,176,200.00 | 2,353,362.06 |

Source: Data compiled by research team from official sources and published research

Second, the discretionary waivers continue to be a source for revenue loss. During the period under review, total duty waiver figures for mining companies between 2016 and 2018 stands at SL 39.035 Billion. Government's justification for duty waivers to mining companies is that it reduces production costs, which are needed to encourage foreign direct investment. Government hopes to collect revenue by taxing profits. However, there is a problem in this logic. Profit taxes can be highly manipulated and therefore difficult to track. NRA also lacks capacity to generate profit-based taxes.

Loss in revenue can also be attributed to the lack of openness in granting mining licenses. Although an open-bidding requirement exists in the 2009 Mines and Minerals Act, the practice of granting mining licenses and oil prospecting remains at best very murky. It has been usual practice for officials at State House and the Ministry of Mines to engage in direct negotiations with companies too often without compliance with the 2009 act. Two recent mining contracts (SL Mining Ltd. and Shandong Mining Ltd.) were hastily approved by parliament at midnight of 5th December 2017 without any thorough scrutiny. As a result, the National Minerals Agency (NMA) advised that the contracts be cancelled.

Another challenge is the unlimited Years of Prospecting for Precious Minerals. There are a number of mining companies, especially those in the gold industry, that have spent years prospecting and returning little or no revenue to Sierra Leone. While large-scale gold mining is taking place in the districts of Bo and Koinadugu, the Precious Minerals Office (formerly Government Gold and Diamond Office GGDO) have been unable to produce any records for gold export for the three years under observation. Tariffs on gold are 7% in Sierra Leone compared to 3% in the Mano River Union (MRU). This high tariff provides great incentives for smuggling of gold to neighbouring Liberia and Guinea, and due to the porous nature of Sierra Leone's borders and limited capacity of law enforcement along these borders it is difficult to track down the smuggling network.

08

CORRUPTION AND PRIVATE INVESTMENT

In the previous section we tried to calculate the cost of corruption to the public sector and reflected on various official sources. This section looks beyond government budgets to look at the wider impact of corruption on society including private businesses.

It is important to note that any corrupt transaction is a type of “exchange” and therefore has two components. First, there is the bribe or the political support that is offered by the private sector individual or firm to the public official and this has a measurable cost in terms of lost investment or higher costs of doing business. The cost of this part of the transaction includes the cost of the resources used up in unproductive activities like lobbying, bargaining, and other activities that seek to identify and influence the relevant public officials. It also includes the possible social cost implicit in transferring resources (the bribe) from productive users (if the bribe-givers are productive investors) to less productive ones (bureaucrats or politicians). The overall effect of this part of the transaction is therefore very likely to be negative, increasing the costs of doing business and the uncertainty for investors. In general, therefore, the first effect of any corrupt exchange is typically negative since bribe-giving or offering political support usually (though not always) transfers resources (the bribe) from more productive to less productive resource users, and the organization of the transfer or the support can itself be very costly and increase the uncertainty faced by investors.

But giving the bribe or political support to the public official is only one part of the corrupt transaction. In exchange, the public official offers something in return to the individual or firm offering the bribe or the political support in the form of an action or decision affecting resource allocation. For instance, the official can allow the person or firm giving a bribe to get access to some resources, or make a decision that favours that individual or firm and all these decisions also have an economic impact. Thus, corrupt transactions always have a second economic effect, since there is always some public decision affecting resource allocation that would not otherwise have been made. But this effect is not always negative. If the intervention that the public official offers in exchange adds to the productivity of the economy, the effect of this

second component of the corrupt transaction is positive, and if it reduces social productivity, this effect is negative. Our judgement of the second effect of corruption depends on an analysis of the types of interventions that are productivity-enhancing or productivity-reducing. This is why any analysis of corruption involves an analysis of the role of the state in economic development. Some interventions by corrupt public officials can clearly have damaging consequences for the economy.

8.1 BRIBERY AND THE PRIVATE SECTOR

To understand the extent of corruption in the interaction between government and the private sector the research drew on a recent World Bank Enterprise Survey relating to incidences of bribery and the culture of public officials expecting gifts for public services. Figure 5 below provides a composite index of corruption, the bribery incidence, that reflects the percentage of firms experiencing at least one bribe payment request across six different transactions including paying taxes, obtaining permits or licenses, and obtaining utility connections. The percentage of Sierra Leone-based firms experiencing bribe payments are much higher than the average low-income countries and sub-Saharan Africa. The same is true for payment of gifts for government contracts. Figure 6 displays the extent to which firms are requested to pay a bribe in order to receive selected public services. Businesses may be asked to pay bribes when they request a construction permit, while trying to secure a government contract, or during meetings with tax officials. These three types of transactions are common instances where opportunities for bribery occur.

A number of businesses interviewed reported that the cost of paying bribes makes it very difficult for newcomers. This evidence was corroborated by data available for 2018 procurement, which showed that procurement is centralized in the hands of a few individual/groups. Data was utilized to produce a picture of procurement fraud and the estimates of corruption from these activities.

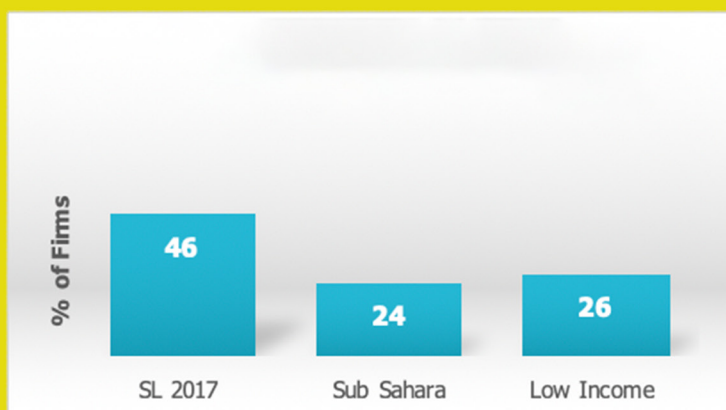


Fig 5: Bribery incidence (percent of firms experiencing at least one bribe payment request)

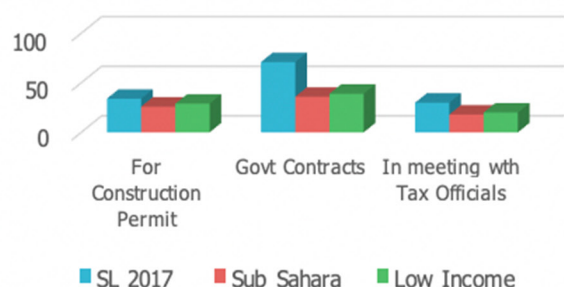


Fig 6: Percentage of firms requested or expected to give gifts or informal payments

Public procurement is highly centralized with 94% of procurement taking place in Freetown and only 6% happening in the rest of the country. Moreover, only a few companies are the main suppliers to government.

8.2 PUBLIC PROCUREMENT AND PRIVATE SECTOR

A procurement analysis of the National Public Procurement Authority (NPPA) shows that total procurement for 2018 was approximately US\$80 Million which was about 11 percent of the national budget. About 62% (Le450,182,188,688.66) of the total procurement budget went to the top-ten government suppliers. Interviews with private sector interlocutors revealed that these top-ten suppliers (see list below) concentrated in Freetown face little or no real competition.

Table 11 Top paid government suppliers

| TOP PAID GOVERNMENT SUPPLIERS | | | |
|-------------------------------|--|---------------------------------|----------------------------|
| Sn | NAMES OF MDA'S | NUMBER OF PROCUREMENT CONTRACTS | VALUE OF PROCUREMENTS (LE) |
| 1 | Winmat publishers Ltd | 5 | 126,929,782,056 |
| 2 | Alie Abess Transport and General Enterprise | 1 | 64,230,930,377 |
| 3 | China GCO-Engineering group (CGC) | 1 | 52,101,547,494 |
| 4 | Sulaimatu Ent | 3 | 48,916,440,000 |
| 5 | BAR-MEE ENT | 1 | 34,943,699,000 |
| 6 | Brunnenbaa Conra SL Limited. European Drilling company limited | 1 | 30,938,307,840 |
| 7 | Centurion AIAC Joint Venture | 1 | 29,789,534,620 |
| 8 | Matu and Dondo Enterprise | 20 | 27,077,815,000 |
| 9 | Liverpool Investment | 24 | 19,977,208,670 |
| 10 | Africa water swanitation energy | 1 | 15,276,923,632 |
| 11 | AA ENTERPRISE | 128 | 11,007,618,084 |
| 12 | mikala Ltd | 2 | 10,554,718,510 |
| 13 | capitol printing company | 1 | 9,221,509,425 |
| 14 | B.M. Kodemi | 1 | 8,382,803,040 |
| 15 | Anagkazo venture company LTD | 1 | 8,272,503,000 |

Source: National Public Procurement Authority - 2018 Procurement

Interviews with other private sector suppliers who do not benefit from government contracts reveal the following:

- a) The feeling/perception by many business owners that government contracts are awarded even before bids are advertised and opened up. Therefore, it will be a waste of time and resources to even attempt;
- b) The perception is that government contracts are for politically connected individuals;
- c) The long delays by government to pay their suppliers lead to additional costs, particularly in cases where the seed capital is from bank loans.

The NPPA also noted that teaching and learning materials, construction of bore holes, purchase of vehicles, food stuff and furniture attracted the highest expenses in 2018. As noted above, total average loss during the GoSL procurement process is around 34%. This means that an estimated US\$27 Million is lost in government procurement processes every year. In total, at least \$80 Million could have been lost by government procurement between 2016 to 2018.

In interpreting the contribution of these corruption figures to GDP, it is advisable to be cautious. Indeed, a large share of the proceeds from corruption potentially come as kickbacks to public sector employees facilitating the transaction. There are two big losses to the state, though: a) this exchange is unlikely to add to the productivity of the private firm – some of the profits from these transactions are repatriated in the form of capital flight out of the country which reduces social productivity of the corruption; b) the proceeds that remain with public sector employees may not be productively utilized. In many cases, it forms part of the spoils to share among hometown and family networks. The net effect of corruption is always negative for Sierra Leone.

09

THE SIZE OF CORRUPTION AND ITS FISCAL BURDEN TO THE STATE

This section compares the corruption figures to various fiscal variables and the size of the economy. Table 12 shows that overall, *the volume of corruption between 2016 and 2018 was 10.45 Trillion Leones (Equivalent to US\$1.47 Billion). The volume of corruption was higher than the combined revenue for the three years under study, which was 8.8 Trillion Leones.*

The Financial Year 2017 recorded the highest volume of corruption. In 2017 alone, the value of corruption was Le 7.2 trillion, which is equivalent to 26.3 percent of GDP for that year and 2.6 times tax revenue. The volume of corruption in 2017 was 3.1 times capital expenditure and 1.1 times total public expenditure of the government. In 2016, the value of corruption was Le 1.9 trillion, which is equivalent to 7.9 percent of GDP, 76.8 percent of tax revenue, 114.5 percent of capital expenditure and 37.4 percent of total government expenditure. In 2018, the value of corruption was Le 1.3 trillion Leones, equivalent to 4.0 percent of GDP, 37.1 percent of tax revenue, 62.2 percent of government capital expenditure and 18.8 percent of total government expenditure.

The corruption size and trend suggest that the negative economic impact of corruption on government operations was significant in 2016 to 2018, though there was a sharp decline in corruption figures in 2018. The decline in the corruption numbers in 2018 may be attributed to the change of government and reforms in the ACC and the hype around the Commission of Inquiry (COI).

These figures on corruption may appear high but are likely underreported. The figures are obtained from secondary sources, which means that there are more incidences that were not recorded. It may also be the case that because of unavailability of data for 2016 and 2018, less corruption was recorded than in 2017. The available data further show that in 2016, mining recorded the highest levels of corruption, which was followed by fisheries. In 2017, the highest volume of corruption was in construction, followed by electricity. In 2018, the highest level of corruption was in the mining sector, followed by fisheries.

Table 12: Summary of Corruption Data

| | Current SLL Millions | | | % of GDP | | | % of tax revenue | | | % of Capital Expenditure | | | % of total Expenditure | | |
|--|----------------------|---------------|---------------|----------|------|------|------------------|-------|------|--------------------------|-------|------|------------------------|-------|------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Agriculture E including Livestock and Forestry) | 32500 | 55400 | 24000 | 0.1 | 0.2 | 0.1 | 1.3 | 2.0 | 0.7 | 1.9 | 2.4 | 1.2 | 0.6 | 0.9 | 0.3 |
| Fishery | 294400 | 297000.0 | 297000.0 | 1.2 | 1.1 | 0.9 | 11.8 | 10.6 | 8.5 | 17.5 | 12.9 | 14.3 | 5.7 | 4.6 | 4.3 |
| Mining | 738834.0 | 777064.4 | 837463.6 | 3.0 | 2.8 | 2.6 | 29.5 | 27.6 | 24.0 | 44.0 | 33.7 | 40.2 | 14.3 | 12.1 | 12.2 |
| Electricity | 184385.4 | 934611.5 | 45576.5 | 0.8 | 3.4 | 0.1 | 7.4 | 33.2 | 1.3 | 11.0 | 40.5 | 2.2 | 3.6 | 14.6 | 0.7 |
| Construction | - | 4902513.2 | - | - | 17.8 | - | - | 174.3 | - | - | 212.4 | - | - | 76.5 | - |
| Transport | 207043.6 | - | - | 0.9 | - | - | 8.3 | 0.0 | 0.0 | 12.3 | 0.0 | - | 4.0 | - | - |
| Communication | 424972.2 | 104737.6 | 37249.1 | 1.7 | 0.4 | 0.1 | 17.0 | 3.7 | 1.1 | 25.3 | 4.5 | 1.8 | 8.3 | 1.6 | 0.5 |
| Banking | 32676.0 | 149478.9 | 16711.7 | 0.1 | 0.5 | 0.1 | 1.3 | 5.3 | 0.5 | 1.9 | 6.5 | 0.8 | 0.6 | 2.3 | 0.2 |
| Education | 8257.3 | 5093.0 | 33809.4 | - | - | 0.1 | 0.3 | 0.2 | 1.0 | 0.5 | 0.2 | 1.6 | 0.2 | 0.1 | 0.5 |
| Health | 1072.1 | 109.9 | 3199.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Total | 1,924,140.4 | 7,226,008.68 | 1,295,010.12 | 7.9 | 26.3 | 4.0 | 76.8 | 256.9 | 37.1 | 114.5 | 313.1 | 62.2 | 37.4 | 112.8 | 18.8 |
| Nominal GDP (millions of Leones) | 24,296,187.92 | 27,465,429.50 | 32,401,626.10 | | | | | | | | | | | | |
| Tax (millions of Leones) | 2,505,355.00 | 2,813,230.30 | 3,490,849.20 | | | | | | | | | | | | |
| Capital Expenditure (millions of Leones) | 1,680,245 | 2,308,037.10 | 2,083,137.27 | | | | | | | | | | | | |
| Total Expenditure and net Lending (millions SLL) | 5,149,622.00 | 6,405,638.50 | 6,884,952.53 | | | | | | | | | | | | |

9.1 THE IMPACT OF CORRUPTION ON GDP

This sub-section presents what would have been gained by a multiplier effect, had the proceeds from corruption been spent on public investment. Two scenarios are considered: firstly, where a fraction of the proceeds of corruption is spent on public investment; and secondly where all the proceeds are spent on public investment. The fractions applied are the fractions of public expenditure that went into public investment in 2016, 2017 and 2018 respectively. These were 27 percent, 36 percent and 31 percent, respectively. It would have been useful to use an actual proportion of public expenditure in investment in each of the sectors, but due to the lack of disaggregated public expenditure data by sector, the share of government investment expenditure in total government expenditure is used.

Table 13: The impact of corruption on GDP

| ECONOMIC SECTOR | (MILLIONS OF USD) | | | (MILLIONS OF SLL) | | | Percentage of Actual GDP | | |
|---|-------------------|--------|-------|-------------------|--------------|------------|--------------------------|--------|-------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| AGRICULTURE (LIVESTOCK & FORESTRY) | 1.20 | 1.14 | 0.46 | 7,563.74 | 8,620.96 | 3,894.18 | 0.031 | 0.031 | 0.012 |
| FISHERY | 10.89 | 6.13 | 5.72 | 68,515.82 | 46,217.06 | 48,190.47 | 0.3 | 0.2 | 0.1 |
| MINING | 27.34 | 16.03 | 16.12 | 171,949.10 | 120,921.34 | 135,884.74 | 0.7 | 0.4 | 0.4 |
| ELECTRICITY | 6.82 | 19.29 | 0.88 | 42,912.07 | 145,437.71 | 7,395.13 | 0.2 | 0.5 | 0.023 |
| CONSTRUCTION | | 101.16 | | - | 762,894.86 | - | | 2.8 | |
| TRANSPORT | 7.66 | | | 48,185.33 | - | - | 0.2 | | |
| COMMUNICATION | 15.72 | 2.16 | 0.72 | 98,903.92 | 16,298.54 | 6,043.94 | 0.4 | 0.1 | 0.019 |
| BANKING | 1.21 | 3.08 | 0.32 | 7,604.69 | 23,260.87 | 2,711.60 | 0.031 | 0.085 | 0.008 |
| EDUCATION | 0.31 | 0.11 | 0.65 | 1,921.71 | 792.54 | 5,485.82 | 0.008 | 0.003 | 0.017 |
| HEALTH | 0.04 | 0.002 | 0.06 | 249.5 | 17.11 | 519.2 | 0.001 | 0.0001 | 0.002 |
| TOTAL | 71.19 | 149.10 | 24.93 | 447,805.88 | 1,124,460.99 | 210,125.09 | 1.8 | 4.1 | 0.6 |
| GDP LOST (% OF TOTAL VALUE ADDITION FROM THE STUDY SECTORS) | 2.2 | 4.9 | 0.8 | | | | | | |
| GDP LOST (% OF ACTUAL GDP) | 1.8 | 4.1 | 0.6 | | | | | | |

Source: Calculated by Authors using the economy ICOR, the Corruption and GDP data. GDP data is from Statistics Sierra Leone.

Table 13 (above) shows the gain in GDP due to the investment of 27 percent, 36 percent and 31 percent of public-sector corrupt resources in 2016, 2017 and 2018 in Sierra Leone, if the proceeds of corruption were invested by the government. We estimate an additional US\$245.2 Million would have been gained in GDP due to government's investment of part of the corrupt resources. The table shows that in 2016, 2017 and 2018 the value of GDP that would have been created from these fractional investments of the corrupt resources are USD 71.2 million, USD 149.1 and USD 24.9 million, respectively, which are equivalent to Le 447.8 billion, Le 1.1 trillion and Le 210.1 billion in 2016, 2017 and 2018 respectively. Comparing these lost GDP figures to actual

GDP values for 2016, 2017 and 2018, it shows that the loss in additional GDP in 2016 were 1.8, 4.1 and 0.6 percent of GDP in 2016, 2017 and 2018 respectively.

Table 14 adds the figures from table 13 (the multiplier from assuming a portion of corrupt proceeds are invested by the government) to the total volume of corruption identified in each year. Under this scenario it is assumed there is a multiplier loss from reduced investment, combined with a total volume loss (i.e. assuming the total volume of corruption is a loss to the economy). This scenario is likely as a significant portion of corrupt proceeds are often transferred abroad, which takes away from national GDP, as well as the associated public investment multipliers (this is in line with the Thabo Mbeki (2013) High Level Panel report on Illicit Financial Flows which argues that as little as under 10 percent of the proceeds of corruption actually stay in the country where the fraud takes place). Under this scenario, this results in a total loss due to corruption in 2016 of USD 337.1 million (Le 2.4 trillion), which is equivalent to 9.7 percent of GDP. In 2017,

Table 14 Economic loss due to corruption in the public sector (scenario 1)

| SECTORS | (Millions of USD) | | | (Millions of SLL) | | | (Percentage of GDP) | | |
|---------------|-------------------|----------------|---------------|---------------------|---------------------|---------------------|---------------------|--------------|-------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Agriculture | 6.37 | 8.49 | 3.31 | 40,063.74 | 64,020.96 | 27,894.18 | 0.13 | 0.23 | 0.11 |
| Fishery | 57.70 | 45.51 | 40.95 | 362,915.82 | 343,217.06 | 345,190.47 | 1.48 | 1.27 | 1.05 |
| Mining | 144.80 | 119.07 | 115.47 | 910,783.10 | 897,985.74 | 973,348.34 | 3.71 | 3.24 | 3.02 |
| Electricity | 36.14 | 143.21 | 6.28 | 227,297.47 | 1,080,049.21 | 52,971.63 | 0.98 | 3.93 | 0.12 |
| Construction | | 751.23 | | | 5,665,408.06 | | | 20.58 | |
| Transport | 40.58 | | | 255,228.93 | | | 1.10 | | |
| Communication | 83.29 | 16.05 | 5.14 | 523,876.12 | 121,036.14 | 43,293.04 | 2.11 | 0.46 | 0.12 |
| Banking | 6.40 | 22.91 | 2.30 | 40,280.69 | 172,739.77 | 19,423.30 | 0.13 | 0.58 | 0.11 |
| Education | 1.62 | 0.78 | 4.66 | 10,179.01 | 5,885.54 | 39,295.22 | | | 0.1 |
| Health | 0.21 | 0.02 | 0.44 | 1,321.60 | 127.01 | 3,719.10 | 0.001 | 0.0001 | 0.002 |
| TOTAL | 377.10 | 1107.27 | 178.55 | 2,371,946.28 | 8,350,469.67 | 1,505,135.21 | 9.74 | 30.39 | 4.65 |

Table 15 shows the gain in GDP due to investment of all the public-sector corrupt resources, if the corrupt resources were recouped and invested by the government or had not gone into corruption but instead invested. In total US\$758.3 Million would have been gained by GDP if all the proceeds of corruption were invested. The table shows that in 2016, 2017 and 2018, the value of GDP that would have been created from government investment of all the corruption resources are USD 263.7 million, USD 414.2 million and USD 80.4 million, respectively, which are equivalent to Le 1.7 trillion, Le 3.1 trillion and Le 677.8 billion in 2016, 2017 and 2018 respectively.

Comparing these lost GDP figures to actual GDP values for 2016, 2017 and 2018, it shows that the loss in additional GDP in 2016 were 6.8, 11.4 and 2.1 percent of GDP in 2016, 2017 and 2018, respectively.

Table 15 Impact of corruption on GDP with 100% investment of corrupt resources (scenario 2)

| Economic Sector | (Millions of USD) | | | (Millions of SLLL) | | | (Percentage of GDP) | | |
|---|-------------------|-------|-------|--------------------|--------------|------------|---------------------|-------|------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Agriculture (including Livestock and Forestry) | 4.45 | 3.18 | 1.49 | 28,013.84 | 23,947.11 | 12,561.87 | 0.12 | 0.09 | 0.04 |
| Fishery | 40.34 | 17.02 | 18.44 | 253,762.28 | 128,380.74 | 155,453.14 | 1.04 | 0.47 | 0.48 |
| Mining | 101.3 | 44.54 | 52 | 636,848.51 | 335,892.60 | 438,337.89 | 2.62 | 1.22 | 1.35 |
| Electricity | 25.27 | 53.57 | 2.83 | 158,933.59 | 403,993.64 | 23,855.26 | 0.65 | 1.47 | 0.07 |
| Construction | | 281 | | - | 2,119,152.38 | - | | 7.72 | |
| Transport | 28.37 | - | - | 178,464.20 | - | - | 0.73 | | |
| Communication | 58.24 | 6 | 2.31 | 366,310.82 | 45,273.72 | 19,496.58 | 1.51 | 0.16 | 0.06 |
| Banking | 4.48 | 8.57 | 1.04 | 28,165.53 | 64,613.52 | 8,747.09 | 0.12 | 0.24 | 0.03 |
| Education | 1.13 | 0.29 | 2.1 | 7,117.46 | 2,201.51 | 17,696.20 | 0.03 | 0.01 | 0.05 |
| Health | 0.15 | 0.01 | 0.2 | 924.07 | 47.52 | 1,674.84 | 0.004 | 0.000 | 0.01 |
| TOTAL | 263.7 | 414.2 | 80.4 | 1,658,540.31 | 3,123,502.74 | 677,822.86 | 6.83 | 11.37 | 2.09 |
| GDP lost (% of total value addition from study sectors) | 8.22 | 13.7 | 2.52 | | | | | | |
| GDP lost (% of Actual GDP) | 6.83 | 11.37 | 2.09 | | | | | | |

Source: Calculated by Authors using the economy ICOR, the Corruption and GDP data.

Table 16 adds the figures from table 15 (the multiplier from assuming all corrupt proceeds are invested by the government) to the total volume of corruption identified in each year. Under this scenario it is assumed there is a large multiplier loss from reduced investment, combined with the total volume of corruption loss (i.e. assuming the total volume of corruption is a loss to the economy, alongside the multipliers that would have been gained if it were invested). As above, this scenario assumes that a significant portion of corrupt proceeds are transferred abroad. The table reveals that under this scenario the economy of Sierra Leone lost USD 569.6 million dollars due to corruption in 2016 (Le 3.6 trillion),

which is equivalent to 14.7 percent of GDP. In 2017, the total loss was USD 1.4 billion (Le 10.3 trillion), which is equivalent to 37.7 percent of GDP and in 2018, it was USD 234.0 million (Le1.97 trillion), which is equivalent to 6.1 percent of GDP.

Table 16 Total Economic Loss Due to Public Sector Corruption (in current prices) with 100% Investment of the proceeds of Corruption

| | (Millions of USD) | | | (Millions of SLL) | | | (Percentage of GDP) | | |
|---------------|-------------------|----------------|---------------|---------------------|----------------------|---------------------|---------------------|--------------|-------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Agriculture | 9.62 | 10.52 | 4.34 | 60,513.84 | 79,347.11 | 36,561.87 | 0.22 | 0.29 | 0.14 |
| Fishery | 87.15 | 56.41 | 53.67 | 548,162.28 | 425,380.74 | 452,453.14 | 2.24 | 1.57 | 1.38 |
| Mining | 218.71 | 147.58 | 151.34 | 1,375,682.51 | 1,112,957.00 | 1,275,801.49 | 5.62 | 4.02 | 3.95 |
| Electricity | 54.58 | 177.50 | 8.24 | 343,318.99 | 1,338,605.14 | 69,431.76 | 1.45 | 4.87 | 0.17 |
| Construction | | 931.08 | | | 7,021,665.58 | | | 25.52 | |
| Transport | 61.29 | | | 385,507.80 | | | 1.63 | | |
| Communication | 125.80 | 19.89 | 6.73 | 791,283.02 | 150,011.32 | 56,745.68 | 3.21 | 0.56 | 0.16 |
| Banking | 9.67 | 28.39 | 3.02 | 60,841.53 | 214,092.42 | 25,458.79 | 0.22 | 0.74 | 0.13 |
| Education | 2.44 | 0.97 | 6.11 | 15,374.76 | 7,294.51 | 51,505.60 | | | |
| Health | 0.32 | 0.02 | 0.58 | 1,996.17 | 157.42 | 4,874.74 | 0.004 | 0.0002 | 0.01 |
| TOTAL | 569.59 | 1372.35 | 234.03 | 3,582,680.71 | 10,349,511.42 | 1,972,832.98 | 14.73 | 37.67 | 6.09 |

10

CONCLUSION AND RECOMMENDATIONS

10.1 CONCLUSION

Addressing corruption will require not only understanding the cost of corruption and its effects on the economy, but a thorough appreciation of the political economy of the environment in which corruption takes place, as this will help sharpen the response of the State. The study findings show five facts about corruption and state building in Sierra Leone:

- 1 Corruption intensifies in the last year to election:** Among the three years under review, the incidence of corruption was at its peak in 2017, a year to the election, compared to 2016 and the post-election period in 2018. At least 69 percent of the proceeds of corruption were accrued in 2017. This means that for anti-corruption programmes to be more effective there should be specific programming on elections and corruption as the country approaches 2023. From our observation, it would appear that there is some appetite for reform in the early beginnings of a new administration, as exposing corruption under the outgoing administration is one way to gain legitimacy and show that they can deliver results. It is not surprising, therefore, to see commissions of inquiry (CoI) being set up to investigate corruption under the former regime as well as the decision taken at the start of the new administration to renegotiate an electricity contract with independent power providers. One could make the argument that the COI and the hype around accountability by the ACC may have contributed to reducing the rate of corruption in 2018. However, the true proof of commitment to reform by the current government, including their commitment to minimize the use of state resources for back-channel electoral financing and to producing results will be reflected in the official audit reports of last two years leading to the 2023 elections.
- 2 Corruption starts at the planning stage:** Analysis of the budgets of Ministries, Departments and Agencies (MDAs) reveals weak commitment to reform and delivery by many institutional leaders during the planning and resource allocation phase. We noted consistently large volumes of

resources allocated to budget lines and sectors where it is relatively easier to seek rent and appropriate wealth for personal gains. For instance, 65 percent of the average budget for the Ministry of Agriculture (2016 -2018) was allocated to fertilizer, while the bulk of the overall national budget went to roads and electricity as opposed to investing in health and education, where transfers could be made directly to communities through decentralised structures. It is also evident in all audit and public expenditure tracking reports that there is significant loss in these sectors as public officials are able to easily collude with the few private suppliers that dominate the sector. An effective anti-corruption programme should therefore embark on preventive activities such as engaging with the public finance management process right from the resources allocation stage instead of waiting for audit report after the damage has taken place.

3 High volumes of Illicit Financial Flows Recorded in high-return sectors:

Generally, there is heavier loss to GDP in sectors such as infrastructure, mining, telecoms, electricity and fisheries that are dominated by foreign companies. We noted the possibility of a significant transfer of proceeds of corruption abroad which takes away from the national GDP. The findings of this report are in conformity with the Thabo Mbeki (2013) High Level Panel report on Illicit Financial Flows which argues that as little as under 10 percent of the proceeds of corruption actually stay in the country where the fraud takes place. The sectors where such activities take place are the most critical economic sectors and have the biggest potential to boost the revenue base of the country and thus deprive Sierra Leone of resources needed to invest in poverty reduction activities.

4 Weak capital formation by local elites means that the proceeds of corruption is unproductive:

Weak capital accumulation behaviour of elites engaged in corruption was cited in all expert interviews as one of the main causes of reduction in GDP. Most interlocutors cited two areas where the proceeds of corruption go: a) to build private houses; and b) to transfer monies and favours to communities and extended family networks. Because of this unproductive transfer of state resources through these back channels, Sierra Leonean elites rarely accumulate capital and create wealth, thereby causing the country loses on both ends. Even though rates of corruption are high, GDP remains low and the political class is perpetually poor and rely on a vicious cycle of violence to propel themselves to leadership and maintain power.

5 Impunity and weak institutions: Noncompliance with existing laws and policies were common across sectors. Failure to adhere to official audit recommendations were pervasive. This means that elites are largely

unchecked and for example, can make unilateral decisions to inflate prices of existing contracts with impunity. Impunity is the biggest driver of financial loss to the state. In addition, the critical role of law makers to oversee contract negotiations and to ensure that bad contracts are rejected is largely ignored; and the executive branch has been complicit in granting tax reductions, and in some cases, waivers to mining companies for production and sale. Until Sierra Leone develops a parliament that is compliant with its own laws and policies and stop presiding over agreements that only benefit a few private companies, tackling corruption will remain a challenge. It is worth recommending the efforts of the Anti-Corruption Commission for having actively worked with the Sierra Leone Parliament in 2019 to amend the anti-corruption law to include a provision that empowers the Commissioner to cancel any public contract that is not in the best interest of the country. It is hoped that this would help reduce instances of inflating contracting prices in the public sector.

10.2 RECOMMENDATION

To address these leakages, we argue, in this concluding section, that a robust policy response has to be based on a proper understanding of the types of corruption that dominate each of these sectors and target state-building programmes that are most important for achieving rapid transformation and

- 1 Bring the public on board:** We note that liberalization, privatization and prosecution has been the key approach by anti-corruption institutions in addressing the diverse forms of corruption identified in this paper. That is, unnecessary bureaucracy in granting permissions, shady deals leading to inflation of contract prices, unauthorised payments to key individuals/firms, protecting and contracting out to inefficient industries. Existing efforts have not succeeded in deterring the perverse incentives and benefits from this action. We recommend further anti-corruption approaches such as intensifying openness and transparency in sharing public financial management data in newspapers, radio and television, including terms of contracts, and procurement processes, publicly accessible beneficial ownership registers. The increasing accessibility of social media and various analytic apps makes it easier to share with citizens' information on contract negotiations, contract prices, revenues and expenditures. Publishing these data will help government gain public support for its programmes and intensify citizen monitoring.

- 2 A Long-term fight** - We strongly recommend that the country adopts a targeting approach of its anti-corruption fight on long-term, high-return institution building activities, coupled with generating political will to hold those who transgress accountability standards. Linked to the recommendation above, the central reform activity in these institutions is to ensure automation. Sierra Leone has established a whole Directorate of Science, Technology and Innovation (DSTI) that is helping MDAs build electronic platforms to manage government finances; biometric systems to bring integrity to personnel and government payment systems. There is need to focus energy on the critical growth sectors by establishing web-based platforms and blockchain technology to provide greater transparency to PFM in these sectors, including contract negotiations and procurement systems which form a significant source of corruption and leakage in Sierra Leone.
- 3 Ensure legal compliance in all contracting processes:** One of the main drivers of corruption in the mining sector is deliberate collusion between public officials and their private sector patrons to flout existing laws relating payment of royalties and fees. Royalties paid by almost all mining companies are lower than the stipulated percentage in the 2009 Mines and Minerals Act. Also, Parliament has been weak in ensuring that contacts with private companies in telecoms, immigration and the ports yield optimal revenue for Sierra Leone. Bad contacts only benefit few individuals and undermine the revenue potential for Sierra Leone.
- 4 Training CSOs and Media Actor on Addressing Corruption at the Budget Allocation Stage:** The ACC and MDAs should take steps to tackle corruption arising from misallocation of resources. Given the understanding that some institutional leaders have devised a strategy to deliberately concentrate resources on budget lines and sectors where it is easier to convert monies into personal use, the role of the ACC prevention unit should be to engage with MDA resource allocation processes, ensuring that integrity systems are properly built around key budget lines, especially those relating to procurement and contracting to the private sector. The Ministry of Finance usually organizes public budget hearings where civil society groups as well as the general public are invited. However, these hearings have not been very effective as most civil society groups and the public lack the skills to effectively scrutinize budget preparation and execution. We recommend that training be provided to CSOs and the media to detect, engage and deter misallocation of at the budget preparation phase.

- 6 Conduct Operational Research on Drivers and Patterns of Corruption in Major Purchases and Contracting Processes** – This research and many others have focused on the financial cost of corruption. While shedding light on volumes of monies lost to fraud may create the need for reform, most of these endeavours miss out on documenting and revealing the corruption patterns and drivers in the supply chain in key sectors, which form the basis for system reviews and reforms. We recommend that further work be done on documenting and understanding corruption patterns in key sectors such as mining deals, construction contracts and procurement processes especially in health and education.

- 5 Automate Public Procurement System** – Every year, the annual report of the Auditor-General highlights the fact that the procurement of goods and services is a major source of corruption in Sierra Leone. According to the NPPA 2018 Annual Report, public procurement is estimated to account for 11% of government expenditure for 2018, and approximately 36% of procurement is operated under non-competitive bidding, which potentially leads to suboptimal resource allocation and fiscal indiscipline. As it is a major source of corruption, it is important to put in place transparent and open procurement management system by instituting an online and open procurement and contract system. The National Public Procurement Authority (NPPA) together with the Anti-Corruption Commission (ACC) launched the revised Standard Bidding Document to increase transparency, competitiveness, bring sanity to the public procurement landscape and ensure value for money on public procurement. The ACC and NPPA should be supported to establish an online platform for procurement processes, with full involvement of the public.

- 7 Political party financing** – Corruption remains endemic in politics. Political Parties are sponsored by godfathers and individuals who are rewarded with contracts, appointments etc when the political party attains power. In many instances, those individuals capture the state and substitute their private interests for that of the state. It is therefore important that the funding of political parties be effectively regulated. The African Union Convention on Preventing and Combatting Corruption, ratified by 40 countries, specifically requires state parties to incorporate the principle of transparency into political party funding, and to proscribe the use of funds acquired through corruption. Section 20 of the Political Parties Act 2002 provides that the declaration of assets, accounts and audits of political parties shall be regulated by the Political Parties Registration Commission (PPRC).

Unfortunately, the PPRC has not prioritized this aspect of its work. It has often lacked the resources and commitment to enforce this law. We recommend that there is an urgent need for the PPRC, ACC and other government agencies to work together to ensure that political party funding is effectively regulated.

- 8 Urgent need to radically reduce illicit capital outflows** – The Report of the High-Level Panel on Illicit Financial Flows (IFFs) From Africa was launched in Addis Ababa on February 1, 2015 by the African Union’s Economic Commission on Africa. Also known as the Mbeki report, it proposes a number of recommendations which we recommend that Sierra Leone should implement. These include the need to ensure that we have clear and concise laws and regulations that make it illegal to intentionally incorrectly or inaccurately state the price, quantity, quality or other aspect of trade in goods and services in order to move capital or profits to another jurisdiction or to manipulate, evade or avoid any form of taxation, including customs and excise duties. Sierra Leone should also require that beneficial ownership information is provided when companies are incorporated, or trusts registered and that such information is updated regularly and that such information is placed on the public record. Beneficial ownership declarations should also be required of all parties entering into government contracts. False declarations should result in robust penalties as was recommended by the Mbeki Panel. The National Corporate Governance Code makes it such a requirement in Sierra Leone. However, the Code is policy not law. We recommended that the Companies Act needs to be amended to make submission of data mandatory. In addition, the incorporation and annual return forms must be amended so that the Corporate Affairs Commission can start collecting the relevant data.
- 9 An effectively implemented money-laundering framework helps limit corruption:** the volume of corruption shown in this report could make it safe to conclude that new and more obscure ways of money laundering have emerged, including cash smuggling and triangulated transactions routed through Africa. The Anti-Money Laundering and Combating of Financing of Terrorism Act, 2012 is inadequate in several respects. It fails to criminalize proliferation financing and tax evasion, one of the 21 predicate offences proscribed by the Financial Action Task Force (FATF). In addition, it does not establish the centrality of the Financial Intelligence Unit (FIU) as the primary and exclusive government agency for the receipt, analysis and dissemination of Financial Intelligence Information. The FIU also lacks the range of enforcement powers to help it obtain evidence and is subject to the direct supervision of its operational activities by political authorities.

Although it regularly sends financial intelligence reports to several law enforcement agencies, it is doubtful whether these agencies read or make good use of those reports. As a result of all of these deficiencies, Sierra Leone has not been able to join the Egmont Group of Financial Intelligence Units, an informal network of 164 financial intelligence units (FIUs) that provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing. We recommend that the Anti-Money Laundering and Combating of Financing of Terrorism Act, 2012 be amended to ensure that it meets all the requirements to enable Sierra Leone join the Egmont Group. We also advocate for improved collaboration between the ACC and the FIU and for the greater sharing of intelligence. The FIU is inadequately funded, and more resources will have to be allocated to it for accelerated progress in combating money-laundering.

- 10 Better Screening and Monitoring of Political Exposed Persons (PEPs) –** Both the ACC and the Financial Intelligence Unit (FIU) have PEPs list, individuals who are or have been entrusted with prominent public functions. Both effective asset disclosure systems and implementation of PEPs requirements form an important part in fighting corruption. The ACC Act has recently been amended to help improve the asset declaration regime. With an improved asset declaration regime and better collaboration between the ACC and the FIU, both institutions can work with the central bank and other financial institutions to ensure that the FAFT recommendations dealing with PEPs are fully implemented. These include, having appropriate risk-management systems to determine whether a customer or the beneficial owner is a politically exposed person; obtaining senior management approval for establishing (or continuing, for existing customers) such business relationships; taking reasonable measures to establish the source of wealth and source of funds and conducting enhanced ongoing monitoring of the business relationship. The requirements for all types of PEPs should also apply to family members or close associates of such PEPs.



