



GOVERNMENT OF SIERRA LEONE

GOVERNMENT BUDGET

and

Statement of Economic and Financial Policies

For the Financial Year, 2005

DELIVERED BY

MR. J. B. DAUDA

Minister of Finance

At the Bank of Sierra Leone Complex

KINGDOM, FREETOWN

ON

Friday, 10th December, 2004

MR. SPEAKER, HONOURABLE MEMBERS

I rise to move that the Bill entitled “An Act to provide for the services for Sierra Leone for the financial year 2005” be read the first time.

Introduction

Mr. Speaker, Honourable members, it is my honour and privilege to present the Government Budget for 2005 to this House. This Budget is a defining instrument towards the achievement of Sierra Leone’s new development agenda, as articulated in the new country-owned and country-led Poverty Reduction Strategy Paper (PRSP), and the links with the Millennium Development Goals (MDGs).

2. Mr. Speaker, four years ago at the turn of the new millennium, in an historic declaration, Heads of State and Government signed up to an historic shared commitment to right the greatest wrongs of our time. These, among others include, ensuring every child should be at school by 2015; preventing avoidable infant deaths by 2015; and halving poverty by 2015. Unfortunately, the findings of the Global Monitoring Report 2004 by the IMF and the World Bank provide a sobering

assessment of progress toward the MDGs, and of progress in meeting the commitments made in Monterrey. As the report makes clear, on current trends, most countries, especially in Sub-Saharan Africa, will not meet most MDGs.

3. The Budget for 2005, therefore, and the ensuing medium-term perspective in the PRSP, reflect the Government's development priorities to fight poverty as it strives to achieve the Millennium Development Goals (MDGs). We are only too aware that owing to the economic, social and physical destruction caused by the decade-long civil conflict that officially ended in January 2002, Sierra Leone finds itself deeply impoverished, with the result that the current status of most MDGs and other socio-economic indicators, have deteriorated from their 1990 base year position.

4. The results from the Integrated Household Survey conducted in 2003/04 to determine the country's poverty situation suggest that poverty in Sierra Leone remains pervasive and widespread. About 70 percent of the population is poor, while 26 percent lives in extreme poverty. Poverty is also heavily concentrated and severe in the rural and other urban areas outside Freetown. Nearly 80 percent of the rural population is poor. Child mortality and maternal mortality rates are among the highest in the world, while life expectancy at birth is well below the average for Sub-Saharan Africa. Despite making some progress in the last few years, the status for other MDGs, such as reducing the proportion of people suffering from extreme hunger, increasing access to safe drinking water, and combating the spread of communicable diseases and HIV/AIDS is still of a major concern to Government. Having been delayed by the war for more than ten years, Sierra Leone will therefore have to make huge strides

in the years ahead in order to come close to achieving the MDGs by 2015. The completion of the full PRSP this year and its implementation in 2005 and over the medium term is expected to contribute significantly in the fight against abject poverty and in monitoring progress towards the attainment of the MDGs.

Key challenges and Medium-Term Economic Strategy

5. Mr Speaker, the main causes of this deplorable situation have been identified to include bad governance over the years; the brutal civil conflict; weak economic growth; high unemployment; inadequate social services; the high debt burden; and vulnerability of the economy to shocks, both domestic and external. With the onset of peace, Sierra Leone has made significant progress in consolidating peace, strengthening security, and improving governance as well as in reviving the economy and addressing some of the fundamental causes of poverty.

6. As a post-conflict country, Sierra Leone's development needs are still immense. More so, the country is now set to make the transition from post-conflict recovery to long-run growth through the implementation of a poverty reduction strategy, as indicated earlier. Apart from economic growth and poverty reduction challenges, our experience in the last three decades means that the continued strengthening of peace, security and governance is also critical for underpinning economic confidence. Both the FY 2005 Budget and the medium-term perspective reflect Government's commitment to fulfill this broad development agenda as defined by His Excellency the President in his Address on the Occasion of the State Opening of Parliament in June 2004, and subsequently reinforced by the wide-ranging consultations that have guided the preparation of the full PRSP.

7. Mr Speaker, following from the above, Government's overall medium-term strategy for sustaining high growth and significantly reducing poverty will therefore focus on the following key areas:

- (i) consolidating peace, security and good governance;
- (ii) sustaining high real growth and a stable macroeconomic environment;
- (iii) raising savings and investment;
- (iv) scaling up spending in infrastructure and ensuring greater effectiveness;
- (v) promoting agriculture, food security and rural development;
- (vi) promoting private sector development and private sector-led job creation by further liberalizing the trade regime and pursuing the divestiture strategy;
- (vii) implementing sectoral reforms aimed at improving strategic planning and service delivery; and
- (viii) improved management of public resources.

8. Government recognizes that higher investment in roads, energy, health, education, water and sanitation, institutional strengthening and capacity building in the early years of the poverty reduction strategy will lay a solid foundation for achieving higher growth, job creation and poverty reduction. Considerable resources and strong policies will be needed to advance the strategy. Thus, while continuing to rely on enhanced donor resources, Government will aim at reaching the country's full revenue potential, including mineral revenues.

9. Mr Speaker, the aforementioned are sub elements of the three main pillars of our full PRSP, namely:

- (a) promoting good governance, peace and security;
- (b) promoting pro-poor sustainable economic growth, and
- (c) promoting human development.

World Economic Situation

10. Mr Speaker, the full PRSP will assess our resource requirements, but it is clear that substantial additional external resources would be needed to make a leap towards meeting the MDGs. However, recent developments in the international economy give us cause for concern.

11. Mr Speaker, the recovery in the global economy provides good opportunity for addressing medium-term challenges that will have an impact on future prospects for growth, employment and poverty reduction. However, the sharp rise in crude oil prices has contributed to a weakening of global expansion towards the end of 2004 and it is projected that oil prices will remain high in 2005. These developments, coupled with the withdrawal of fiscal and monetary stimulus, will reduce the growth prospects of the world economy. As a result, global output growth is projected to fall to 4.3 percent in 2005 from 4.9 percent in 2004.

12. The economic outlook for Sub-Saharan Africa continues to improve, supported by deeper and broader macroeconomic stability, lower external debt burden, liberalization of trade and improved security in some countries. Hence, real GDP growth in Sub-Saharan Africa is projected to rise to 4.6 percent in 2004 and 5.8 percent in 2005. Economic growth prospects for sub-Saharan Africa are however unlikely to be sufficient for these countries to achieve the MDGs. In this respect, we look forward to the report early next year of the UK initiated Commission for Africa, which is addressing ways to strengthen development prospects for the continent. In general, many countries in Africa and the developing countries as a whole remain exceptionally vulnerable to the impact of unanticipated external shocks.

13. Inflationary pressures have also resurfaced across the world after being contained at low levels in mid 2003 mainly due to higher oil prices. These inflationary pressures, if they persist, may lead to higher interest rates. Indeed, for the heavily indebted

oil importing developing countries such as Sierra Leone, the combination of rising oil prices and rising interest rates would be particularly burdensome.

14. Mr. Speaker, while noting and appreciating the progress in implementing the enhanced HIPC initiative, it is now quite clear that debt relief at completion point would be grossly inadequate to support the MDG-related investments, as well as policies and institution building needed for growth and poverty reduction. Unfortunately, while the advanced countries continue to fall short of the agreed UN target of 0.7 percent of Gross National Income for delivering official development assistance, there continues to be difficulty for developing countries to access the markets of these industrial countries, particularly for agricultural producers. In this regard, we, in Sierra Leone, strongly appreciate the United Kingdom's alternative mechanism, the International Finance Facility (IFF), to increase resources available for the poorest countries. Sierra Leone, like many other developing countries, also welcomes the resumption of the Doha Round of multilateral trade negotiations. The Doha Round should result promptly in improved market access for developing country exports by removing high tariff and non-tariff barriers. The Doha round should also result in an accelerated reduction in industrial and agricultural tariffs and phasing out subsidies, especially in Agriculture. While the African Growth Opportunity Act (AGOA), the Everything-but-Arms Initiative (EBA) and other initiatives have provided temporary relief, long-term growth can only be more assured with a multilateral free trading system. In Africa in particular, which has the weakest trading links, the New Partnership for Africa's Development (NEPAD) initiative provides a very promising foundation.

The West African Monetary Zone

15. Mr. Speaker, I will now turn to recent developments in the sub-region, in particular, the object of establishing a common currency within ECOWAS. During March and May 2004, Government hosted the 3rd Forum of Finance Ministers of the West African Monetary Zone (WAMZ) and the Statutory Meetings, respectively. Due to the vulnerability of our economies to external shocks, member countries have failed in recording consistency in performance with respect to achieving the required macroeconomic convergence criteria. Furthermore, there are critical qualitative issues, including the free movement of persons, goods, services and capital, and the harmonization of customs tariffs and procedures, that are yet to be implemented or observed by member countries.

16. Mr. Speaker, against this background, the West African Monetary Institute (WAMI) was mandated during the August/September 2004 Statutory Meetings held in Conakry, Guinea, to undertake a study to determine the prospects of member countries in meeting both the quantitative and qualitative convergence criteria by the scheduled date of July 1, 2005 for the commencement of the monetary union. The study will facilitate an objective review by the Heads of State and Government and will help to guide future decisions on the way forward for the WAMZ monetary integration programme.

Domestic Economy: Performance Review and Prospects

17. Mr Speaker, after this brief reference to the global economic situation and the likely impact on Sierra Leone, let me now detail the macroeconomic and fiscal developments in the domestic economy: its performance in 2004 and prospects for 2005 and beyond.

Macroeconomic and Budgetary Performance in 2004

18. Mr. Speaker, economic recovery remained robust in 2004. Real GDP is projected to increase by 7.4 percent. The strong growth in output reflects expansion in agriculture, mining, construction and the services sectors. However, inflationary pressures persisted through out the year. Annual inflation rose sharply from 11.3 percent as at end December 2003 to an estimated 13.6 percent for 2004 versus a target of 4.8 percent. The rise in consumer prices was due initially to higher imported fuel and rice prices and later as a result of an expansionary monetary policy and a depreciation of the exchange rate. Rising domestic prices and higher than expected borrowing by the Government to support the budget also pushed up interest rates. The end-year treasury bill rate increased to 28 percent in November 2004 from 20.2 percent in December 2003.

19. Exports, mainly diamonds, rose significantly during the year. Total diamond exports rose from US\$ 76 million as at end December 2003 to US\$ 117 million as at end November 2004. Diamond exports are projected to reach US\$125 million by the end of the year. Imports, however, remain high on account of the continuing reconstruction activities and the higher fuel prices. Total imports amounted to US\$216.3 million as at end September 2004. As a result, the trade balance widened to US\$108.9 million as at September 2004. Despite the continued pressure from high fuel and rice prices, the current account deficit for 2004 increased only to 11.5 percent of GDP, compared to the original projection of 16.3 percent of GDP. This is due to part to continued strong export performance, mainly from diamonds. The exchange rate depreciated by 6.9 percent from Le2, 587.75 in January 2004 to Le2, 765.1 in October 2004 due to increasing demand combined with reductions in supply following the scaling down of UNAMSIL and NGO activities. Gross foreign reserves were the equivalent of 2.0 months of imports, compared with the target of 2.2 months of imports.

20. Mr. Speaker, fiscal performance in the recent past has been somewhat weaker than envisaged, largely due to overruns in domestic spending because of the rising incidence of unbudgeted expenditures. Domestic revenue collection was relatively stronger. However, the shortfall in external programmed loans and grants resulted in a large domestic financing of the budget, especially from the banking system.

21. Total domestic revenue in 2004 is expected to reach Le354.4 billion or 12.4 percent of GDP, better than the programme target of 11.7 percent of GDP. Of this, Customs and Excise collections will amount to Le222.4 billion or 7.8 percent of GDP and Income tax, Le97.3 billion or 3.4 percent of GDP. Non-tax revenues, excluding road user charges, are estimated at Le18.7 billion or 0.7 percent of GDP. Road user charges amount to Le16 billion or 0.6 percent of GDP. The improved performance in domestic revenues reflects the general increase in economic activities and intensified tax collection effort by the National Revenue Authority.

22. Total expenditure and Net Lending is estimated at Le737.7 billion or 25.8 percent of GDP. Total recurrent expenditures will amount to Le542.3 billion or 19.0 percent of GDP. Of this amount, wages and salaries are projected at Le173.8 billion and goods and services, Le189.8 billion. Total interest payments amount to Le123.1 billion with domestic interest payments totaling Le96.9 billion, almost one-third of total domestic revenues. Total development expenditures amount to Le196.6 billion or 6.9 percent of GDP. Domestically financed development expenditures are estimated at Le25.6 billion or 0.9 percent of GDP.

23. The overall budget deficit on a commitment basis and excluding grants amounts to Le383.3 billion or 13.4 percent of GDP. For the year as a whole, the deficit has been financed largely from external sources, facilitated by disbursements of budgetary support by our donors in the second half of the year.

24. Mr. Speaker, mainly on account of the increase in bank credit to Government during the first half of the year, money supply rose rapidly during the year. Broad money rose by 18.1 percent between December 2003 and October 2004.

Structural Policies and Institutional Reforms

25. Mr. Speaker, a number of reforms were undertaken in 2004 aimed at improving public financial management.

Government Budgeting and Accountability Act

26. Mr. Speaker, the Country Financial and Accountability Assessment (CFAA) conducted in 2001 showed that a number of provisions of the Public Budgeting and Accounting Act 1992 (as amended) did not adequately reflect the important oversight roles of both Parliament and the Audit service in the execution and monitoring of the national budget. In a bid to address this and several other deficiencies, a new Government Budgeting and Accountability bill is before this House for enactment. A key objective of this bill is to secure transparency, accountability, and sound management of the budget, assets and liabilities of the Government of Sierra Leone.

Integrated Financial Management Information Systems (IFMIS)

27. Mr. Speaker, Government is also establishing a decentralized public financial management system, supported by the World Bank under the Institutional Reform and Capacity Building (IRCB) project. The main objectives of this reform measure include: i) establishing a legal and regulatory framework with clear definitions of financial management and accountability; ii) establishing decentralised budget execution, accounting, and reporting processes and controls; and iii) providing intensive training for vote controllers, programme managers and accountants in public sector accounting, strategic planning and financial management.

28. With support from DFID, diagnostic studies were conducted on the Financial Management and Accountability System (FMAS) in the Accountant General's Department and Chart of Accounts. The results show that the FMAS lacks functionalities, such as automated bank reconciliation, user defined reports, audit trails and screen viewing. Hence, a new Integrated Financial Management Information System (IFMIS) is currently being developed to replace the FMAS. The IFMIS will meet the control and information requirements of the decentralized system of financial management.

29. The new accounting and financial management system is expected to be fully installed in early 2005 initially at the Ministry of Finance and will be extended gradually to all MDAs and Local Councils. The system will improve the capacity of the Accountant General's Department to reconcile expenditure data with bank records, as well as to publish accurate Annual Statements of Public Accounts on a timely basis. A new Chart of Accounts has also been introduced that is compliant with international standards and enables budget estimates to be classified and presented in a way that facilitates policy analysis and promotes accountability.

Public Expenditure Tracking Survey (PETS)

30. Mr. Speaker, as part of our continuing efforts to enhance transparency and accountability in the management and use of public resources, Public Expenditure Tracking Surveys (PETS) are being conducted on an annual basis. With support from our development partners, particularly UNDP and DFID, U.K., four rounds of PETS have so far been conducted. To facilitate the implementation of key recommendations from the PETS, the Ministry of Finance has prepared an Action Plan, which has been discussed with relevant stakeholders. Given the importance of fully implementing the Action Plan to our donors, with effect from 2005, the Ministry of Finance will severely limit the availability of budgetary allocations to MDAs that do not implement the recommendations of the Action Plan.

Procurement Law

31. Mr. Speaker, a new Public Procurement Act has recently been enacted by this House and I am grateful to the House for taking such prompt action. The object of the Act is to regulate public procurement of goods, works, intellectual services, and other services in Sierra Leone. The next steps include intensive capacity building for the procuring entities at various levels aimed at establishing a procurement cadre in the public service, the creation of a National Public Procurement Authority (NPPA), and an intensive public awareness campaign for the private sector on the provisions of the new Procurement Act. The Authority will be responsible to monitor the performance of public procurement and Procuring Entities for the judicious, economic and efficient use of state resources. Public procurement will also be decentralized to procuring entities, including Local District Councils, who will determine their procurement needs.

Privatisation

32. Mr. Speaker, the objective of the divestiture programme is to promote the operational efficiency of public enterprises with a view to making them financially viable, better service providers, and less dependent on government subsidies. This process ensures providing a scope for the private sector to participate in the provision of goods and services hitherto the preserve of the public enterprises thus generating competition that should lead to better quality and lower prices.

33. The following activities are included in the revised programme of the National Commission for Privatisation in 2005:

- (i) sale of the assets of the Sierra Leone Produce Marketing Board and Forest Industries Corporation;
- (ii) completion of due diligence studies for the sale of Government shares in the Rokel Commercial Bank;
- (iii) privatization of both the non-core activities and core functions of the Sierra Leone Ports Authority;

- (iv) franchising and corporatisation of the Sierra Leone Broadcasting Service/Television;
- (v) the sale of the National Development Bank (NDB) as a going concern;
- (vi) de-linking the Printing department from the Ministry of Information and Broadcasting Services;
- (vii) liquidation of the Sierra Leone Daily Mail;
- (viii) conclude management contracts for the National Power Authority (NPA) and the Sierra Leone Road Transport Corporation; and
- (ix) search for franchise for the Sierra Leone State Lottery.

Money Laundering

34. Mr. Speaker, Government is pleased to announce that it has joined the global effort to combat money laundering. The Anti-Money Laundering Act has recently been enacted by this House. The principal object of this Act is to provide a legal framework for combating the laundering of illicit money in Sierra Leone as our country cannot be made host to the proceeds of illegal financial transactions.

Value Added Tax (VAT)

35. Mr. Speaker, you would recall that on the occasion of the formal launch of the National Revenue Authority (NRA), His Excellency the President announced Government's decision to introduce the VAT by June 2007. The VAT is a strategic element of the Government's overall Medium Term Revenue Framework, including revenues from the mineral sector. Hence, introducing the VAT offers the greatest opportunity within the control of Government for both expanding the tax base and recording significant improvements in tax administration. Government is grateful for the technical and financial assistance it is receiving from a number of its partners including DFID, UK, the IMF and the ADB in support of this objective.

Fiscal Decentralization

36. Mr. Speaker, consistent with the provisions of the Local Government Act 2004, a devolution schedule has been developed for the 2005-2008 transition period. For the 2005 budget, the Ministry of Finance will hive out the budgetary provisions from line ministries for the devolved functions. The total budgetary provisions for these programmes will be distributed to all councils through a new temporary holding sector vote using a grants distribution formula that reflects the relative needs of each Council.

The Medium-Term Macroeconomic Framework, 2005 - 2007

37. Mr. Speaker, Sierra Leone has a three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund, which was approved on September 26, 2001. The Government has successfully completed five reviews under the PRGF, the most recent being November 12, 2004. Real GDP growth in 2003 and 2004 was stronger than expected and substantial progress was made in implementation of structural reforms to support the growth process. The medium-term macroeconomic framework projects annual output growth in the range of 6-9 percent. The rise in real GDP is expected to come from further large-scale resettlement and reconstruction services; major expansion of agricultural activities as the food security programme takes hold; expansion in mining and manufacturing activities; public investment in infrastructure projects; broadly sound economic policies; increased investor confidence, as well as growing remittances, investments and tourism by the large Sierra Leonean expatriate community.

38. Inflation is expected to reverse to single digit during the period. Inflation is projected to average 8.5 percent in 2005, 6.0 percent in 2006 and 5.0 in 2007. This will be achieved through the pursuit of prudent and complimentary fiscal and monetary policies.

39. The current account deficit, excluding official transfers, is expected to narrow down from 13.6 percent of GDP in 2005 to 7.8 percent of GDP in 2007 following the anticipated resumption of rutile and bauxite exports and the gradual reduction of reconstruction imports. Gross foreign reserves of the Bank of Sierra Leone are programmed to rise to the equivalent of at least 3 months of import cover by 2007.

The Medium-Term Fiscal Policy Framework, 2005 - 2007

40. Mr. Speaker, the Government's medium-term fiscal strategy aims at achieving a more sustainable fiscal position in order to address the emerging domestic debt problem. Fiscal policy will continue to be driven by measures to rationalize the tax system; and to strengthen control over spending while reorienting expenditures towards investment and poverty reduction.

41. In the medium-term, Government will focus on domestic revenue mobilization so as to reduce the heavy reliance on external budgetary support. In furtherance of privatization, sale of public assets will raise additional fiscal revenues to finance poverty-related projects. Thus, the overall budget deficit, excluding grants, is projected to decline from 14.6 percent in 2005 to 5.7 percent in 2007. Bank financing of the deficit will be limited to 0.9 percent of GDP in 2005 and eliminated in 2006-07.

Monetary Policy and Financial Sector Developments

42. Mr. Speaker, monetary policy will be geared towards containing inflationary pressures and rebuilding the nation's foreign exchange reserves. The central bank will thus ensure effective management of its net domestic assets. Hence, Reserve money will continue to be the primary intermediate monetary policy target.

43. The Bank of Sierra Leone is committed to developing a safe and efficient payments system. The Bank's thrust will range from operational matters pertaining to speed and efficiency to the payment delivery mechanism, policy issues, regulatory oversight and float management.

44. Mr. Speaker, the financial sector continues to grow, although dominated by the banking system. The Bank of Sierra Leone will intensify its drive to facilitate rural financial intermediation by embarking on the provision of community-banking services to regions where commercial banking is either limited or non-existent. During 2005, two more community banks will be established in Kabala in the north and Zimmi in the south in addition to the four already established rural banks in Konike, Marampa-Masimera, Segbwema and Mattru.

Promoting Small and Medium-scale Enterprises (SMEs)

45. Mr. Speaker, the contribution of Small and Medium scale Enterprises (SMEs) to economic growth cannot be overstated. However, a significant proportion of our private sector comprises small to medium scale businesses, which are mainly in the informal sector. These businesses are largely characterized by single person ownership and control, minimal operating capital, little or no business planning and lack of proper management systems, thus limiting their scope and contribution to growth.

46. In this regard, Government is taking deliberate steps to enhance the efficiency of this sector by increasing access to financing for SMEs at affordable prices. In addition to this, efforts will also focus on improving the management capacity of operators in SMEs as well as the processes and operating environment. The first step in this direction is the establishment of a Venture Capital Fund (VCF), which will serve as an artery for the transmission of finance and other required inputs to SMEs. The VCF will be modeled after institutions operating in similar

economic conditions with proven impact on their economies. Government will facilitate the provision of funds from both local and external sources to the VCF for on lending to SMEs.

47. Mr Speaker, I will now turn to the 2005 budget estimates and supporting revenue measures.

The 2005 Budget

48. Mr. Speaker, the 2005 budget will shift focus from post-conflict stabilization towards accelerating improvements in infrastructure (roads, energy, water and sanitation) and human development.

Expenditure proposals

49. Mr. Speaker, as 2005 will be the first year of implementation of the PRSP, the expenditure proposals I am about to announce are underpinned by the pillars of the PRSP, which reflect our developmental priorities.

50. Against this background, total expenditure and net lending will amount to Le924.3 billion or 27.6 percent of GDP in 2005. Recurrent expenditure is projected to rise from Le542.3 billion in 2004 to Le588.4 billion or 17.5 percent of GDP in 2005. Total development expenditures will amount to Le 335.8 billion or 10.0 percent of GDP. Domestic financing of the development expenditure will rise from Le25.6 billion in 2004 to Le35.1 billion or 1.0 percent of GDP in 2005.

51. Mr. Speaker, Government continues to attach top priority to the security of our country. The objective is to strengthen the capability of our security forces in defending the country and protecting our people. As the United Nation Mission in Sierra Leone (UNAMSIL), withdraws its peace keeping troops, Government will have to assume the responsibility for internal and border security. Reflecting these concerns, an amount of Le 41.8 billion is allocated to defence; Le 18.1 billion to the Police and Le6.7 billion to the Prisons Department.

52. Mr. Speaker, good governance plays the dual role of improving the investment climate to attract foreign and domestic investment and at the same time ensures the prudent utilization of public resources. To continue to strengthen good governance, Government is allocating Le5.7 billion to the various public institutions involved in the promotion of good Governance including, among others, the Anti-corruption Commission, the Audit Service, the Judiciary, Statistics Sierra Leone and the National Commission for Democracy and Human Rights.

53. Mr. Speaker, economic growth, poverty reduction and job creation are inextricably linked. Therefore, investing in sectors that contribute to economic growth is a top priority of Government in the medium-term. Investment in infrastructure in particular, is critical for promoting sustainable economic growth. In this connection, Government is allocating additional resources to compliment donor funding for the construction, reconstruction, rehabilitation and maintenance of roads, including the Hill-Side Bye pass and Lumley-Tokeh roads. In addition, as in 2004, Government is also allocating Le10 billion towards the completion cost of the Bumbuna Hydro-Electric Project.

54. Mr. Speaker, Agriculture the largest sector in our economy has a key role to play in promoting economic growth, job creation and ensuring food security. A total of Le 15.4 billion is allocated to the Agriculture sector, mainly for the implementation of Government's food security programme.

55. Mr. Speaker, investing in the social sectors is also very critical if we are to improve our level of human development and make progress towards the attainment of the MDGs. To achieve these objectives, a total of Le 99.4 billion is allocated to the key social sectors. Of this total, Le58.7 billion is allocated to the Education sector, of which, Le35.5 billion will be provided from the recurrent budget to cater for teaching and learning materials,

subsidy to primary schooling, textbooks, examination fees for the NPSE, BECE, and WASCE examinations as well as the promotion of the girl child education policy and other administrative costs. Grants to tertiary educational institutions will amount to Le22.0 billion.

56. The Health sector including Sanitation will receive Le 40.7 billion, of which Le 35.0 billion is allocated for the provision of primary, secondary and tertiary health care services, maternal and child health care and the purchase of drugs and medical supplies. An amount of Le 5.2 billion is allocated to the Water Services Sector mainly for the rehabilitation of rural water supply systems.

57. Mr Speaker, this expenditure estimates are additional to the amount of donor funding that is anticipated in the various sectors.

58. Mr. Speaker, the Government wage bill is projected to rise by Le20.3 billion from Le173.8 billion in 2004 to Le194.1 billion in 2005. The projected rise in the wage bill will be partly absorbed by the following components:

- Exchange rate adjustment for remittances to our foreign missions.
- Salary grants to local councils.
- Adjustment of the legal minimum wage from Le21,000 in 1996 to Le40, 000 per month.
- Increase in transport allowance by Le5,000 per month in respect of phasing in the new civil service terms and conditions of service.
- NASSIT contribution of 12.5% including 2.5 percent to meet the cost of validation of past services of public sector workers prior to the establishment of NASSIT.

- The cost of additional 2,615 unverified teachers employed in 2004.
- The impact of salary increases or new salaries for the Audit Service, Anti-Corruption Commission, National Policy Advisory Council, Law Officers Department, Local Government Service Commission, The UNDP Judiciary programme, National Public Procurement Authority, etc).
- Cost of increase in Police personnel by 1000.
- Pensions and gratuities.
- Normal annual increment in basic salaries.

Revenue Proposals

ECOWAS Common External Tariff (CET)

59. Mr. Speaker, a medium-term objective of trade policy is the adoption of the CET as part of the consolidation of the ECOWAS integration process. Hence, the adjustment of tariffs to the CET will be implemented in three phases with the first Phase commencing in January 2005. The adoption of the CET from January 2005 would result in an increase in the import duty rates of 75 commodity types from zero percent to 5%, including the raw materials of qualifying industries using market share; and of 6 commodity types from 5% to 10%. However, 17 commodity types will have their rates decreased from 20% to 15% and 7 commodity types from 30% to 20%. The adoption of the CET will also result in a reduction in the simple average tariff from 17½ percent to about 12 percent. The estimated revenue loss from the implementation of the CET in the first year is about Le 4.0 billion. However, joining the ECOWAS CET would allow Sierra Leone to benefit from the envisaged Economic Partnership agreement with the European Union (EU).

Reduction in Income Tax Rates

60. Mr. Speaker, the income tax proposals which were announced in the 2004 budget but the implementation of which was delayed, due to a huge shortfall in projected revenues, will now come into effect from January 2005. These measures include a reduction in the corporate rate of tax from 35 percent to 30 percent; and a reduction in the highest marginal personal income tax rate from 35 percent to 30 percent. To partly compensate for the loss of revenue from the implementation of these measures, I am introducing a sales tax of 10 percent on professional services and local telephone calls, both on land lines and mobile calls. The fees for certain services are also revised upwards. The new charges for the affected services are provided in the Schedule of Fees attached to this statement.

Aligning the Tax and Financial Years

61. Mr. Speaker, with effect from January 2005, the tax year will be aligned to coincide with the financial year, that is January –December.

Strengthening Tax Compliance

62. Mr. Speaker, to curb smuggling and other forms of tax evasion, our tax laws are being strengthened and modernized to incorporate international best practice and provide for mandatory sentences for tax offenders. To enhance compliance, the National Revenue Authority is taking steps to establish a Tax Fraud Investigations Unit that will be given robust enforcement powers under the laws which I will lay before this House during 2005. As a first step, I am increasing the rates of fines in Paragraph 12 of the Ninth Schedule (Miscellaneous Provision) of the Income Tax Act 2000 as per the schedule attached to this statement.

Non-Tax Revenue

63. Mr. Speaker, Government has fully delegated the assessment and collection of non-tax revenues to the NRA. The NRA is in turn putting in place a number of measures designed to create the appropriate institutional and legal framework to facilitate implementation of this policy. All government functionaries are hereby urged to continue to give their fullest cooperation to the NRA during the transition period and beyond.

Revenue projections

64. Mr. Speaker, on the basis of the projected expansion in economic activities and the tax policy and administration measures outlined above, total domestic revenue is projected at Le435 billion or 13.0 percent of GDP. Of this, Customs and Excise duties are expected to contribute Le263.4 billion or 7.9 percent of GDP. Import duties are expected to amount to Le200 billion or 6.0 percent of GDP. Excise duties on petroleum products are projected at Le45.9 billion or 1.4 percent of GDP.

65. Income Taxes will contribute Le118.4 billion or 3.5 percent of GDP. Company and Personal income taxes will contribute Le54.9 billion or 1.6 percent of GDP and Le61.2 billion or 1.8 percent of GDP, respectively. Mining licenses and royalties on rutile are expected to amount to Le12.9 billion. Royalties on fisheries will amount to Le5.9 billion. Road User charges are projected at Le21.7 billion or 0.6 percent of GDP. Dividends from parastatals are expected to amount to Le3.1 billion. Other non-tax revenues are projected at Le9.5 billion.

Conclusion

66. Mr. Speaker, the prospects for growth in the medium-term are encouraging. Mining projects, including rutile and bauxite, are expected to commence next year and agricultural production and service related activities are expanding. The Government is improving the investment climate through strengthening governance and transparency while developing the financial sector to mobilize savings and investment to enhance growth.

67. Mr. Speaker, let me conclude this statement as usual by thanking our development partners for their unflinching support through out the year. I will also extend my gratitude to my colleague Ministers and all the leadership and staff of the Ministry of Finance and other MDAs; management and staff of the Bank of Sierra Leone; members of Budget Oversight Committees; the Government Printer and his staff; and, above all, the Chairman and Honourable Members of the Parliamentary Finance Committee, for once again seeing me through this wonderful ritual.

68. Finally, Mr. Speaker, I am convinced that the implementation of the programmes announced in this Budget will begin to make a meaningful impact on the lives of all Sierra Leoneans.

69. Mr Speaker, I commend the Budget for fiscal year 2005 to the House.

**I THANK YOU FOR YOUR ATTENTION AND WISH YOU
ALL A MERRY CHRISTMAS AND A HAPPY NEW YEAR**

Table 1. Schedule of Fees, 2005

Details	Fees	
	<i>Old Rate</i>	<i>New Rate</i>
Clearing and Forwarding Agents	Le 1,000,000.00	Le 2,000,000.00
Certificate of Air-Worthiness	US\$ 500.00	US\$ 1,000.00
Aircraft Registration	US\$ 1,000.00	US\$ 2,000.00
Registration Fees for Pilot Engineers and Navigators	US\$ 15.00	US\$ 250.00
Passport Service Levy	nil	Le 60,000.00

Table 2. Income Tax Act – Ninth Schedule

Section	Offence	Old Rate (Le)	New Rate (Le)
150	Failure to file a return	50,000	200,000
154	Evading tax	1,000,000	4,000,000
155	Impede tax administration	500,000	2,000,000
156	Failure to observe secrecy	100,000	400,000
157	Contempt for Board of appellate	100,000	400,000
158	Making false statement in a tax return	1,000,000	4,000,000
160	Failure to produce books or records	50,000	200,000
162	Demanding money in excess of the authorized assessment of the tax	1,000,000	4,000,000