

Mr. Chairman, Distinguished Guests, Ladies and Gentlemen, I am proud to present to you the activities and achievements of the Ministry of Finance at this fourth state of the nation symposium for the period under review.

MISSION

First, I will start by stating our mission and our objectives. The Mission of the Ministry of Finance is to “develop and manage macroeconomic, financial, monetary and fiscal policies for the maximum benefit of every citizen on the basis of social justice and equality of economic opportunities.” Our vision is a stable macroeconomy and sound public finances.

STRUCTURE OF THE MINISTRY OF FINANCE

2. In fulfilling its mission, the Ministry of Finance pursues the following broad objectives:

- a. Formulate and implement financial and economic policies to achieve sustainable economic growth for poverty reduction;
- b. Identify and pursue revenue-generating sources for enhanced domestic revenue mobilization;
- c. Formulate and implement budget policies consistent with prudent spending for improved service delivery;
- d. Manage government’s external and domestic debt to achieve lasting exit from the debt burden; and
- e. Coordinate and manage bilateral and multilateral donor assistance to achieve timely interventions and effective utilization of donor resources.

3. In this regard, the Ministry’s structure has the following key Divisions, each division being responsible to achieve a specific objective: i) Economic Policy and Research Unit; ii) Revenue; iii) Budget Bureau; iv) Public Debt Division; v) Economic Affairs Division; and vi) Administrative Division. Each Division/Unit is headed by a Deputy Financial Secretary or a Director. The Financial Secretary is the professional and

administrative head of the Ministry, assisted by a Principal Deputy Financial Secretary, who is also the Chairman of the Central Tender Board.

4. The Ministry of Finance also oversees the operations of the Accountant General's Department, the newly created National Revenue Authority (NRA), and the National Commission for Privatisation (NCP). The **Organogram** of the Ministry of Finance is available for ease of reference.

5. Mr. Chairman, Ladies and Gentlemen, for this presentation, our record of achievements during the period is discussed alongside our broad objectives. This presentation is, therefore, divided into a number of sections. The next section discusses economic policy formulation; this is followed by sections on public finances and public expenditure management; public debt management; regional integration arrangements; and external resource mobilization. The presentation ends with a conclusion that outlines the prospects for the economy in the near term.

ECONOMIC POLICY FRAMEWORK

6. Mr. Chairman, Ladies and Gentlemen, during the period under review, my Ministry worked closely with the Bank of Sierra Leone and our development partners to formulate and implement policies to promote economic recovery and maintain a stable macroeconomy while raising the resources to finance critical reconstruction and rehabilitation needs. The macroeconomic framework for the period under review aims at achieving a growth rate in real GDP of about 6 to 7 percent, maintaining inflation at about 5 percent and increasing gross foreign reserves to the equivalent of over 2 months of import cover.

7. The macroeconomic achievements for the period under review are summarized below.

Economic Growth

In 2002, real Gross Domestic Product (GDP) rose by 6.3 percent compared to 5.4 percent in 2001. Real GDP is projected to rise to 6.5 percent in 2003. The growth in output is mainly due to recovery in agriculture, continued expansion in construction, manufacturing and the service sector.

Inflation

Annual average inflation declined from 2.2 percent in 2001 to minus 3.1 percent in 2002. During 2003, inflation remains at single digits despite recent price increases.

Gross Foreign Reserves

In 2002, the gross foreign exchange reserves of the Bank of Sierra Leone rose to US\$84.6 million (2.2 months of imports) from US\$52 million (1.8 months of imports) in 2001. Gross foreign reserves are programmed to increase to US\$ 87 million in 2003.

Exchange Rate

Despite the recent slight depreciation of the Leone against the United States dollar in the foreign exchange market, the exchange rate has been relatively stable during the period. It is hoped that with the recovery in agriculture exports and the continuing expansion in diamond exports, we will soon witness an appreciating stable exchange rate.

Financial Sector Developments

8. Financial sector reforms will continue to aim at improving the efficiency and stability of the banking system as well as strengthening bank supervision and enforcing prudential regulation. To promote rural financial intermediation and foster the mobilisation of rural savings, the Bank of Sierra Leone is reopening community banks under the supervision of the newly created Private Sector Development Unit (PSDU). These community banks will serve as the institutional mechanism to implement the National Micro Finance Policy and is the conduit through which micro-finance will be integrated into the formal financial system.

PUBLIC FINANCES AND PUBLIC EXPENDITURE MANAGEMENT

Domestic Revenue Policies and Performance

9. Mr. Chairman, Ladies and Gentlemen, enhancing domestic revenue generation is a *sine qua non* for financing higher expenditures for reconstruction, salaries of public servants, health and education while reducing our reliance on donor resources to fund our development programmes. In this regard, since assuming office as minister, I was concerned about the colossal amount of revenue lost through duty waivers and duty free concessions. Hence, my Ministry adopted a series of measures to streamline the award of duty waivers extended to NGOs and other humanitarian institutions, including church organizations to minimize revenue leakages.

10. As part of these measures, excluding the UN system, diplomatic missions and multilateral donor funded projects, the responsibility to recommend requests for duty waivers from humanitarian organisations was passed on to NaCSA, which is also empowered to conduct regular monitoring of the activities of these organizations. The newly established National Revenue Authority (NRA) now processes duty waiver requests from all other NGOs. As is indicated below, these measures have enhanced domestic revenue and has reduced reliance on bank financing of the budget deficit.

11. During the period, the import duty rates of certain basic educational and primary health products were reduced from an average tariff of 20 percent to 5 percent. To minimize the tax burden on non-resident Sierra Leoneans wishing to invest in landed properties in the country, taxes withheld from rents under Section 120 of the Income Tax Act of 2002 were also reduced from 25 percent to 10 percent. The maximum redundancy payment that is to be excluded from employment income was also increased from Le4 million to Le10 million. I am also pleased to inform the general public that Cabinet recently approved the abolition of import duty and sales tax on all drugs, insecticides and diagnosis equipment imported into the country for the treatment of malaria and HIV/AIDS respectively.

12. Mr. Chairman, despite these reductions, the controls on the abuse of duty free concessions and greater efforts at domestic resource mobilization resulted in improved domestic revenue performance. Domestic revenue increased from Le207.7 billion or 14.0 percent of GDP in 2001 to Le238.7 billion or 14.5 percent of in 2002. In 2003, domestic revenue is projected to increase to Le271.7 billion or 14.8 percent of GDP in 2003.

Tax Administration

13. Mr. Chairman, Ladies and Gentlemen, I am pleased to report that my Ministry recently completed a critical reform in tax administration following the promulgation by Parliament of the National Revenue Act. The Customs and Excise and Income Tax Departments have now been integrated into the National Revenue Authority (NRA). The NRA is a holistic approach to administer direct and indirect taxes in an effective and efficient manner while widening the tax net. The Authority has recently concluded the recruitment of top management. It is now in the process of restructuring staff and securing logistics and equipment to facilitate its operations. We expect to see much higher revenue collections in the years to come.

Expenditure Policies and Management

14. Mr. Chairman, Ladies and Gentlemen, in the post conflict period, our expenditure policies are aimed at reducing widespread poverty as well as financing reconstruction,

rehabilitation and security requirements. This is being achieved by providing the largest share of resources to the social and economic sectors, especially education, health, agriculture and security. During the period, total expenditures increased from Le 472.3 billion or 29.8 percent of GDP in 2001 to Le562.3 billion or 34.2 percent of GDP in 2002. In 2003, total expenditure is projected to increase to Le726.1 billion due to the requirement to finance activities to facilitate the extension of Government authority and the delivery of basic services countrywide.

Participatory Budget Process

15. The budget process is being opened up to enhance greater transparency and accountability with the inclusion of all stakeholders in defining budget priorities, implementation of the budget and the monitoring of budget outcomes. The preparation of the national budget continues to follow the Medium-Term Expenditure Framework (MTEF) process, adopted in 2001. The MTEF process aims at promoting planning and budgeting over a three-year horizon, channeling resources to key priorities, and promoting efficiency and effectiveness of public expenditures.

16. To enhance the participatory nature of the process, Government has established Budget Oversight committees in all the regions to assist in the determination of priorities and monitor budget implementation in their respective districts. The Budget Oversight Committees will fully participate in the formulation of expenditure priorities for the 2004 budget and beyond.

17. Mr. Chairman, Ladies and Gentlemen, a public financial management committee, comprising government and resident donor representatives, has been established to implement the recommendations of the limited scope Country Financial Accountability Assessment (CFAA) carried out in 2001 and monitor progress in the European Union Matrix of Corrective Actions and the Poverty Reduction Framework Arrangement with the United Kingdom. A key objective of this committee is to identify ways to improve financial accountability, strengthen accountability systems and ensure that public funds are properly utilized for the benefit of all Sierra Leoneans.

18. In the Accountant General's Department, a new Financial Management and Accounting Systems (FMAS) unit was established to improve the accuracy and timeliness of cash management and adherence to financial regulations. This has resulted in significant progress at the Accountant General's Department to control commitments, firm up the payroll, improve the accuracy and timeliness of information on budget implementation, cash management, and the accrual of arrears. The Internal Audit in the Ministry of Finance is also being strengthened and is working closely with the Auditor General's Department to ensure adherence to financial regulations.

The Procurement Process

19. In order to improve public procurement procedures, my Ministry, in consultation with the UNDP and World Bank is reviewing the procedures and operations of the Central Tender Board. In this regard, Government has appointed a Procurement Reform Steering Committee chaired by the Vice President and comprises representatives of resident donors, Ministry of Finance and the President's Office. The steering committee has approved the UNDP/IAPSO's 6-month Action Plan, which includes new procedures and regulations, selected outsourcing, accelerated capacity building of procurement officers and the preparation of a draft Procurement Act.

Public Expenditure Tracking Surveys (PETS)

20. Mr. Chairman, as part of the accountability structures to monitor the use of public funds, a complimentary participatory Public Expenditure Tracking Survey (PETS) was introduced within the MTEF. The PETS traces the flow of expenditures from the Central ministries in Freetown to the regional and district offices and assess improvements in service delivery, especially in rural areas. The PETS exercise provides feedback on the extent to which pro-poor outlays reach the intended beneficiaries.

21. Two PETS surveys have been conducted covering public expenditures for FY2001. The results revealed resources transferred to provincial offices are negligible relative to the allocations made by the Ministry of Finance. This practice has hampered progress in improving service delivery with consequent negative effects for the rural

population. Preparations for the PETS covering public expenditures for 2002 are underway. This, and subsequent surveys, will include an objective relating to compliance with financial procedures and regulations.

PUBLIC DEBT MANAGEMENT

22. Mr. Chairman, Ladies and Gentlemen, public debt management is an integral part of the overall economic management in Sierra Leone. The main objective of public debt management is to ensure that Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

External Debt Stock

23. As at June 2003, Sierra Leone's total external debt stock stood at about US\$1.52 billion from US\$1.48 billion as at end 2002. The marginal increase in the external debt stock is largely due to substantial disbursements of loan resources in the last two years from the International Monetary Fund (IMF), the World Bank, the African Development Bank (ADB), the Islamic Development Bank (IDB), and the Arab Bank for Economic Development (BADEA) to facilitate reintegration and reconstruction activities.

24. On bilateral debt, Sierra Leone is indebted to sixteen bilateral creditors, including eleven Paris Club member countries – namely, **Austria, Belgium, Germany, France, Italy, Netherlands, Norway, United States of America, United Kingdom, Japan and Switzerland** and the non-Paris club creditors, including **China, Morocco, Kuwait and Saudi Arabia**. As at March 2003, total debt owed to the bilateral creditors including arrears amounted to about US\$386.4 million, of which US\$321.1million was owed to Paris Club creditors. Total outstanding debt owed to non-Paris Club bilateral creditors amounted to US\$65.4 million.

External Debt Management

25. Mr. Chairman, Ladies and Gentlemen, Government also continued to maintain good relations with our multilateral creditors, whose debts are largely concessional. As was reported elsewhere, following significant improvements in economic management in the last year, the country qualified for interim debt relief under both the normal Paris Club debt rescheduling (Agreed Minutes) and the enhanced Heavily Indebted Poor Country (HIPC) Initiative after reaching 'decision point' in March 2002.

26. Prior to this, the Paris Club creditors cancelled 67 percent of our eligible debts and rescheduled the remaining 33 percent over a longer repayment period. Total eligible debt rescheduled amounted to nearly US\$180 million. As a result of our continued good performance under the IMF's Poverty Reduction and Growth Facility (PRGF), the Paris Club again agreed on July 10, 2002 to top – up debt relief. In addition, some creditor countries, including the Federal Republic of Germany, the United Kingdom, Norway, Italy, the Netherlands, Switzerland and the United States of America have provided exceptional debt relief by agreeing to cancel 100 percent debt service payments falling due during our HIPC interim period.

27. Consequently, the amount of debt relief offered by Paris Club creditors is estimated at US\$13 million in 2003. These gains, which were anticipated during the preparation of the Budget, have already been factored into our poverty programme expenditures for the Fiscal Year 2003 and allowed us to significantly enhance allocation of resources to critical poverty activities. However, we are required to maintain this track record of sound economic management, good governance and accountability as well as make good progress in preparing a satisfactory full Poverty Reduction Strategy Paper (PRSP) to continue to benefit from interim debt relief, and reach completion point for full cancellation of the entire stock of debt owed to Paris Club creditor countries.

28. Mr. Chairman, I am pleased to report that following protracted negotiations over the last two years, Government recently concluded negotiations with the Organisation for Petroleum Exporting Countries (OPEC) Fund on outstanding claims due that

organization. On the expected approval by its Board in September this year, the Fund would suspend or lift sanctions on outstanding disbursements as well as resume new portfolio activities in Sierra Leone. During the negotiations, the OPEC Fund representative intimated government that it will provide financing for the completion of the Waterloo-Coastal road Project, the Bumbuna Hydroelectric Project as well as possible co-financing for the rehabilitation and extension of Fourah Bay College.

Domestic Suppliers Arrears

29. There is a huge quantum of arrears owed domestic suppliers in respect of goods and services supplied to government ministries, departments and agencies (MDAs) dating as far back as 1987. To address this problem, in August 2000, Cabinet approved a domestic debt buy-back strategy and mandated the Ministry of Finance to put in place implementation modalities, including ascertaining and verification of the claims as well as the development of an action plan for the settlement of the verified claims, to reduce the debt.

30. At our request, the Ministry received a huge quantum of unpaid claims amounting to Le56.7 billion from several domestic suppliers, which were verified in early 2002 by an independent audit firm, Pernel Kerr Forster. Total outstanding verified domestic arrears amounted to Le29.0 billion. Following Cabinet directive in August 2002, action was initiated to settle those suppliers whose claims were deemed justifiable and whose total outstanding tax liabilities were to be set-off against amounts payable by Government. In total, Government has paid out about Le8.3 billion. All eligible creditors have received no less than 50 percent of their verified claims. It is expected that much of the eligible domestic debt will be fully amortised by the end of this financial year.

Arrears of Bills owed to Public Utility Companies

31. Mr. Chairman, Ladies and Gentlemen, there has been a significant buildup in the quantum of arrears of utility bills owed by government ministries, departments and agencies. This has been due largely to a number of factors, including uncontrolled misuse of the facilities, especially telephones and electricity, unauthorised installations, non

reconciliation of bills, and poor billing practices. This has severely affected the cash flow of utility companies and hence affected their performance in providing an effective and efficient service.

32. To resolve this problem, my ministry, in collaboration with the utility companies, set up a Task Force to conduct a survey with a view to producing a directory of eligible users as well as to determine government's indebtedness to facilitate a comprehensive cross-debt settlement with the utility companies. The report of this survey is now available and I wish to use this forum to urge all stakeholders for their fullest cooperation in implementing the recommendations of this survey.

33. In the meantime, Government has made partial settlement of accumulated bills reflecting our scarce budgetary resources. For instance, to improve the cash flow of NPA, Government fully cleared all arrears owed to the Company as at end March 2003 amounting to Le4.52 billion. We are also discussing with other parastatals, especially the telecommunications company, for an amicable settlement of cross-liabilities.

REGIONAL INTEGRATION ARRANGEMENTS-THE WEST AFRICAN MONETARY ZONE (WAMZ) CONVERGENCE CRITERIA

34. Mr. Chairman, Ladies and Gentlemen, you would recall that at the Convergence Council meeting of the West Africa Monetary Zone (WAMZ) held in Conakry, Guinea in November 2002, it was concluded that monetary union for the second monetary zone could not be launched in January 2003 as originally planned. Primarily, this was due to the fact that macroeconomic convergence was not attained by member countries. The launching of the Union was, therefore, deferred to July 2005.

35. To monitor performance, the Convergence Council of WAMZ also met in May 2003 in Banjul, The Gambia to review progress in attaining macroeconomic convergence of member states. In general, the review reported that the performance of member countries in respect of progress towards convergence in 2002 was poor. However, due to

our own determined efforts to pursue prudent economic and fiscal policies, Sierra Leone attained three out of four primary convergence criteria, putting us ahead of the other member countries. Even if we must say it ourselves, this is no mean achievement given that we are just coming out of conflict and faced with huge reconstruction and rehabilitation costs. We must, therefore, congratulate ourselves on this remarkable progress.

EXTERNAL RESOURCE MOBILIZATION

Poverty Reduction and Growth Facility (PRGF) Arrangement

36. Mr. Chairman, Ladies and Gentlemen, in September 2001, the International Monetary Fund approved a three-year arrangement for Sierra Leone supported under the Poverty Reduction and Growth Facility (PRGF) amounting to SDR 130.8 million. In the last two years, Government has successfully implemented two annual programmes under this arrangement and performance has been satisfactory as reported in the three reviews carried out so far by the IMF. Total disbursements under the PRGF so far amounted to SDR 88.84 million or about US\$124 million. These proceeds are for balance of payment support to build up gross foreign reserves and support the operations of the foreign exchange auction held at the Bank of Sierra Leone.

37. In September 2003, an IMF mission will visit Freetown to conduct the fourth annual review of the programme, based on end-June 2003 quantitative and structural performance criteria. Preliminary data available indicate that all the Quantitative Performance Criteria for end June 2003 are met. However, progress in the implementation of the structural performance criteria has been slow. Measures have now been put in place to accelerate the pace of implementation of these criteria including the photo verification of teachers and payment of all teachers' salaries into the bank accounts of their respective schools. I want to use this forum to thank the Ministry of Education, Science and Technology and the executive of the Sierra Leone Teachers Union for their cooperation in these matters.

Poverty Reduction Framework Agreement between Government and the Government of the United Kingdom and Northern Ireland

38. A Poverty Reduction Framework Arrangement (PRFA) was agreed between the Government of the United Kingdom and Northern Ireland and the Government of Sierra Leone in 2002 for an amount of £120 million over a number of years. The funds provided under the Agreement will support our national development goals including budgetary support, funding of the security sector and the police. In the meantime, following a successful review of progress under the Agreement, an amount of UK £5 million was disbursed to Government as budgetary support this financial year. Authorisation for the release of another tranche of £5 million by year end is now being sought following yet another successful recent review of progress.

Third Economic Recovery and Rehabilitation Credit (ERRC III)

39. Following the successful completion of the second ERRC, the Executive Board of the World Bank approved a successor programme-the Third Economic Rehabilitation and Recovery Credit (ERRC III). The credit amounting to US\$30 million will be disbursed in two tranches as budgetary support to finance various development objectives in the country. The credit has been ratified by Parliament and we are making every effort to fulfil the remaining credit effectiveness conditions to access the proceeds of the first tranche of US\$15 million this year. Negotiations are planned with the African Development Bank for a second Economic Recovery and Rehabilitation Loan (ERRL II).

40. The resources from these credits will consolidate macroeconomic stability while providing the foreign exchange resources to facilitate the importation of essential commodities, including food, petroleum products, raw materials and intermediate goods required for economic reconstruction. The Leone equivalent of these credits have also allowed the ministry of finance to substantially increase resource allocations to the economic and social sectors.

HIPC Interim Debt Relief

41. Following our attainment of the decision point under the enhanced HIPC Initiative, total interim debt relief resources received in 2002 amounted to Le79.3 billion (equivalent to about US\$35.8 million). These resources were used to fund the Supplementary Contingent Poverty Budget approved by Parliament in the second half of 2002. This budget provided enhanced allocations to the health, education, social welfare, security and rural development sectors. For example, payment of examination fees for pupils in government and government-assisted schools for all national school examinations – NPSE, BECE and WASCE. Provisions were also made to cater for the reintegration of street children and the empowerment of women.

42. In 2003 and beyond, interim debt relief assistance is factored as part of the annual budget resources, thus obviating the need for a supplemental budget. About Le89 billion or (US\$42 million) of interim debt relief resources are expected this year. These debt relief resources will allow us to significantly increase allocations in health, education, agriculture, rural water supply, feeder roads and government's domestic development expenditure during this and subsequent years.

Project Support

43. Mr. Chairman, Ladies and Gentlemen, apart from budgetary and balance of payments support, our development partners also provide resources to fund specific projects in key sectors. For example, during the review period, my Ministry led negotiations and consultations between Government and our development partners to access concessional funding to support our reconstruction and development efforts. Some of these include the Rehabilitation of Basic Education Project (REBEP), the Health Sector Reconstruction and Development Project, the National Social Action Project, Rehabilitation and Extension of the N'jala University College and the Rural Water Supply and Sanitation Project.

Development Partnership Committee

44. A Development Partnership Committee (DEPAC) was set up by Government and our development partners to monitor progress in attaining the poverty and security benchmarks identified at the last Consultative Group (CG) meeting in November 2002 and those relating to the National Recovery Strategy. These benchmarks provide a framework to assess the fulfilment of our mutual responsibilities in support of our national development goals and the overall progress we are making towards achieving sustainable peace and development. The Committee has met three times this year under the able chairmanship of the Vice President. My Ministry has been fully active in coordinating the activities of DEPAC and its deliberations.

CONCLUSION

45. My Ministry recognises that in the post conflict period, poverty reduction will be closely linked to higher economic growth and job creation. In this context, the government's medium-term macroeconomic programme will promote economic growth while maintaining macroeconomic stability to improve the living conditions of all Sierra Leoneans and, consequently, eliminate the wide disparities between rural and urban incomes.

46. The rebound of the economy is expected to continue as peace consolidates and the macroeconomic situation remains stable. Real GDP growth is projected at about 6.8 percent in 2004. This growth will be supported mainly by the anticipated recovery of the agricultural sector, the substantial increase in reconstruction and investment activities, and the continued rebound in the services sector. Annual average increase in consumer prices is projected at about 3.5 percent in 2004.

47. The Government will continue to maintain strict fiscal discipline while enhancing measures for fiscal accountability and improvements in service delivery. In this regard, measures aimed at enhancing revenue generation to finance post-conflict reconstruction and reduce the heavy reliance on donors will be given utmost priority. With your support,

we can achieve these noble objectives. I, THEREFORE, LOOK FORWARD TO OUR CONTINUED COOPERATION.

I THANK YOU FOR YOUR ATTENTION