

MR. SPEAKER, HONOURABLE MEMBERS

I. Introduction

Mr. Speaker, I rise to move that the Bill entitled “An Act to provide for the services for Sierra Leone for the Financial Year (FY) 2010 be read for the first time”.

2. Mr. Speaker, Honourable Members, 2009 marks the first year of the effective implementation of our second Poverty Reduction Strategy - the Agenda for Change. The Agenda for Change draws out a defining path towards a brighter and prosperous future for all Sierra Leoneans. It details a shared strategy and priority areas of intervention for achieving economic growth and human development, and how these twin objectives can be achieved during the period 2009-2012.

3. The Agenda for Change prioritized the provision of affordable urban and rural energy, enhanced agricultural productivity, road adequacy, affordable health care, education, water and sanitation services, as the compelling elements for achieving sustained high economic growth, quality jobs and overall improvement in the welfare of the common man and woman in Sierra Leone. The Agenda for Change is also firm on the critical importance of building and sustaining an enabling environment of good governance, rule of law, peace, security and macroeconomic stability as preconditions for effective realization of its varied objectives and activities.

4. Mr. Speaker, in the short time since the Agenda for Change was formulated, we have made notable progress in terms of new initiatives, projects and policies, some of which are already coming to fruition. During the year, we have used the limited fiscal space available to particularly finance a mini fiscal stimulus package through investments in basic infrastructure projects, some of which are being implemented by the local councils. With budget support from our development partners, poverty-related expenditures are protected to ensure the continued delivery of basic services. Governance reforms are also yielding good results. The country's ranking in the Corruption Perception Index, published by Transparency International, improved by 12 points between 2008 and 2009. Furthermore, there is clear evidence of increased agricultural activities, availability of electricity, construction of trunk and feeder roads, decline in infant and maternal mortality rates, increases in school enrolment, and improvements in the doing business indicators.

Poverty Situation

5. Mr. Speaker, Honourable Members, despite such progress on implementation of the Agenda for Change, significant challenges still remain. Income per capita, life expectancy at birth, adult literacy rates, and the proportion of population with access to safe drinking water, though improving, are still low even by developing country standards. Current poverty levels, though falling, are still high and poverty remains wide spread. The gap in affordable housing continues to widen. The current economic growth rates, despite being relatively impressive, given the prevailing circumstances, are far below the growth rates required to make visible in-roads into poverty reduction.

6. Our youths, with their creativity and enterprise, present a huge potential for labour intensive investments. Despite this, high youth unemployment remains a major concern to Government.

7. This situation has been compounded by the second round effects of the global financial and economic crisis, which are undermining our efforts in promoting inclusive economic growth and poverty alleviation. In particular, the global economic contraction has resulted in a weak demand for our mineral exports, decline in remittance inflows, and a slow down in foreign direct investment.

8. Mr. Speaker, these challenges notwithstanding, we have continued to pursue prudent macroeconomic policies and deepen the governance agenda, including implementation of public financial management reforms, to ensure the effective and efficient use of public resources, and to lay a strong foundation for sustainable economic growth and poverty reduction. This is manifested by two successful reviews of our performance under the economic reform programme with the International Monetary Fund (IMF) during the year. For the first time ever, all the quantitative performance targets were met during the fifth review under the IMF- supported Poverty Reduction and Growth Facility (PRGF) in September 2009. Our relations with all other development partners continues to strengthen, given the high level commitment to implementation of sound macroeconomic policies.

Theme and Objectives of Budget 2010

9. Mr. Speaker, even though the global financial crisis is still lingering, the world economy has started showing signs of recovery. This provides an opportunity to turn around our domestic economy. The measures I will be proposing in this Budget are anchored on the Theme: “**Confronting the Future**”. The theme compels Government to make ‘tough policy choices’ and provide a ‘clear direction’ as it balances economic growth and human development.

10. Thus, the 2010 Budget is premised on the need to urgently overcome the socio-economic challenges that we face in the short to medium term. These include the need to deepen and broaden the agenda for inclusive development, and to ensure that no individual, community or region is denied the opportunity to participate and benefit from the development process. As part of our initiatives, we

will strive to put the economy on a long term growth trajectory, thus, providing the impetus for building a cohesive and prosperous Sierra Leone that we all desire.

11. The main objectives therefore of the 2010 budget are to:
 - * boost investment in infrastructure and eliminate other investment barriers to support private sector activities for job creation;
 - * support the productive sectors of the economy to generate high sustainable broad-based growth that will make in-roads into poverty reduction; and
 - * improve the delivery of health care, education and water services to facilitate the attainment of the Millennium Development Goals (MDGs) while enhancing our ranking in the UNDP Human Development Index (HDI).

II. Global Economic Developments and Outlook

12. Mr. Speaker, in 2009, the world was mirrored in the deepest recession that we have seen for decades. The causes of this recession, driven by the US sub-prime housing crisis, ensued into a generalised financial crisis, which spread contagion across global markets, including developing countries like Sierra Leone. The impact of this crisis has been seen in business closures, loss of jobs, significant fall in corporate and personal incomes and increasing levels of poverty globally.

13. Mr. Speaker, despite these negative consequences, the recent World Economic Outlook published by the International Monetary Fund (IMF) credits the strong and decisive action of Governments in the developed and developing world for the high degree of policy coordination and collaboration that is helping to alleviate the worst effects of the crisis. Successful measures taken include rapid monetary easing and liquidity injections to sustain

credit and large fiscal stimuli. These measures have worked to keep financial markets operating. They have also reinstated consumer confidence and supported demand for goods and services. As a consequence, many experts believe we have experienced the worst of the global downturn and are now on the path to recovery. Recent data suggest that major economies such as the United States of America, Japan, Germany, France and the United Kingdom may have already emerged from recession during the third quarter of 2009.

14. Mr. Speaker, despite these welcome signs of recovery, economies around the world continue to experience low growth rates, depressed consumer spending and shortages of credit. According to the IMF, the world experienced a global recession in 2009 in which global economic output contracted by 1 percent. However, growth is expected to return to positive levels in 2010. The evolving debt crisis in Dubai has however triggered new risks in international financial markets, but the expectations are that this will be temporary, with minimal systemic impact.

III. Regional Economic Developments and Outlook

15. Mr. Speaker, Honourable Members, as the world economy plunged into recession, the demand for and prices of the exports of many African countries dropped. Capital flows to these countries also reversed, causing a slow down in economic growth, and a widening of budget and current account deficits. Oil exporters and Middle Income Countries in the region have been particularly hard hit; the former due to the decline in demand for exports and the associated fall in commodity prices, while, the latter, due to their strong financial linkages with the international capital markets.

16. Mr. Speaker, low income countries in Sub-Saharan Africa, including Sierra Leone, are relatively less affected compared to the oil exporters and middle income countries. This is partly because

subsistence agriculture accounts for a large share of our domestic output. Furthermore, our economies are less integrated into the global financial markets. Consequently, the output of this group of countries is projected to drop by 2.5 percentage points of GDP compared to a drop of 6-7 percentage points of GDP for oil exporters and middle income countries..

17. Overall, growth in Sub-Saharan Africa is projected to experience a sharp slow down to around 1.3 percent in 2009 from 5.5 percent in 2008. Despite this fall in output, improved governance and strong policy frameworks in recent years, including prudent macroeconomic policies and bold structural reforms, have helped sub-Saharan African countries to be less affected by the crisis. As the global economy recovers, output in Sub-Saharan African economies is projected to rise by 4.1 percent in 2010, and further, by 5.5 percent in 2011. There are also encouraging signs that nonfuel commodity prices will recover from the sharp fall reached in 2008.

IV. Regional Integration

18. Mr. Speaker, regional integration presents a better opportunity to sub-Saharan African countries not only to weather the negative impact of the global recession, but also to facilitate trade among countries in the sub-region. Despite the visible effort and gains from other subregional initiatives in this area, it is unfortunate that the meeting of the Convergence Council of Ministers and Governors of Central Banks held in Abuja, Nigeria in May this year noted that the State of Preparedness of the five member countries in the West African Monetary Zone (WAMZ) for monetary union was not adequate to achieve the single currency objective on the scheduled date of 1st December, 2009. Most countries did not meet the pre-conditions necessary for convergence, including macroeconomic convergence criteria and the establishment of the appropriate institutions. In light of these developments, the new road map provides for the launch of the ECOWAS single currency in 2020, at the same time as the common Central Bank which will be responsible for the management of the currency. The launch of the Eco, the currency for WAMZ, is scheduled for an earlier date in 2015.

V. Macroeconomic and Budgetary Performance in 2009

Macroeconomic Performance

19. Mr. Speaker, in spite of the adverse impact of the global financial and economic crisis on our economy, progress continued to be made in maintaining a stable macroeconomic environment with positive growth. Economic growth in 2009 is estimated at 4 percent, driven mainly by the intensification and expansion of agricultural activities, investment in basic infrastructure, and expansion in the construction and services sectors.

20. Inflation declined to single digits during January-August 2009, from 12.2 percent in December 2008, reflecting significant increase in domestic production of food commodities, combined with the decline in international prices of food and fuel from their higher levels in 2008. The pass-through effect of the recent depreciation of the Leone against major international currencies is fuelling inflationary pressures. Hence, end October inflation rose to 10.99 percent from 9.7 percent in August 2009.

21. Export performance was adversely affected by the fall in global demand and commodity prices. Total exports declined by 15 percent during January – July to US\$ 126.8 million, compared to US\$149.1 million in the corresponding period in 2008. This is mainly on account of the sharp drop in mineral exports, which declined by 34.6 percent to US\$80.3 million as at July 2009 from US\$122.8 million for the same period in 2008. In particular, diamond exports dropped by 42.3 percent to US\$45.5 million, compared to US\$78.8 million for the same period in 2008. By contrast, agricultural exports rose substantially during the period to US\$33.1 million from US\$6.7 million in 2008.

22. Total value of imports during January to July 2009 amounted to US\$ 310.7 million, compared to US\$331.3 million during the same period in 2008. The value of food imports remained at almost the

same level for the first seven months of 2009, at about US\$68.7 million. However, the value of petroleum imports decreased by 50.1 percent to US\$57.8 million from US\$116 million due to the decline in the international prices of fuel.

23. The drop in import value was not enough to compensate for the decline in export value. As a result, the trade deficit widened slightly to US\$183.9 million as at end July 2009, from US\$182 million for the same period in 2008.

24. In terms of foreign exchange earnings, the increase in agricultural exports could not compensate for the corresponding drop in mineral exports. Gross foreign reserves, including the new SDR allocation of US\$128 million, amounted to US\$330.7 million (equal to 6.5 months of import cover) at end October 2009. Excluding the SDR allocations, gross foreign reserves amounted to US\$202 million (or 4 months of import cover). These gross foreign reserve levels fell below the end 2009 programme target by between US\$2-3 million.

25. After remaining fairly stable in recent years, the Leone depreciated against major international currencies during the latter part of 2009. This reflected the drop in the availability of foreign exchange as export receipts and remittances continued to decline. Despite this trend, the rate of depreciation of the Leone is less than that of other currencies in the region.

Budgetary Performance in 2009

(a) Domestic Revenue Performance in 2009

26. Mr. Speaker, total domestic revenue is estimated at Le725.5 billion (11.3 percent of GDP) in 2009. For the first nine months of the year (January to September 2009), total collections amounted to Le549.7 billion, exceeding the target for the period by Le15.1 billion.

(b) Grants

27. Total foreign grants are estimated at Le472.9 billion in 2009. Of this, external budget support is estimated at US\$70.9 million or Le221.6 billion; HIPC debt relief US\$3.9 million or Le13.5 billion; and the Peace Building Fund, Le34.4 billion. The European Commission is providing additional budget support of •18.4 million under the Food and Financial Crises Response Programmes. Project grants are estimated at Le203.3 billion.

(c) Expenditure Outturns in 2009

28. Mr. Speaker, total expenditure and net lending is estimated at Le1.5 trillion in 2009 (23.0 percent of GDP). Of this, recurrent expenditure is estimated at Le988.3 billion and capital expenditures at Le495.8 billion.

29. Foreign-financed capital expenditure amounted to Le410 billion while domestically financed capital expenditure amounted to Le85.7 billion.

30. The overall budget deficit, on a commitment basis, and including grants, is estimated at Le285.8 billion (4.4 percent of GDP). Excluding grants, the overall budget deficit is estimated at Le758.6 billion (11.8 percent of GDP).

31. The budget deficit was financed mostly by foreign borrowing, which amounted to Le213.2 billion. Domestic financing of the deficit amounted to Le159.4 billion. Of this, bank financing including the drawdown of MDRI debt relief resources at the Bank of Sierra Leone is estimated at Le152.1 billion. Non-bank financing is estimated at Le7.3 billion.

VI. Monetary and Financial Sector Developments in 2009

32. Mr. Speaker, monetary policy objectives during the year 2009 focused on containing inflationary pressures to levels consistent with positive economic growth.

33. In this regard, the Bank has utilised Le32.5 billion of the approved Le60 billion of government securities to mop up excess liquidity to contain inflationary pressures. To complement monetary operations, the Bank increased its sales of foreign exchange through public auction from US\$34.3 million in 2008 to US\$58 million in 2009. To ensure the supply of foreign exchange to support the importation of critical food commodities and petroleum products, the Bank increased the weekly sales of foreign exchange from US\$750 thousand in 2008 to US\$2 million in 2009. This action by the Bank has helped to stabilise the inflationary impact of the food and fuel crises, while reducing the volatility in the exchange rate. The Bank has continued to adopt a tight monetary stance with an additional US\$30 million made available for auction in Q4 of 2009 to mop up excess liquidity.

34. In June 2009, the Bank replaced the rediscount window with repo and reverse repo operations, deepening the interbank market and better managing the overall liquidity in the banking system.

35. Monetary operations were further enhanced with the lengthening of maturity profile of existing securities, from 91-days treasury bills to 182-days and 364-days treasury bills. The three-month treasury bills rate increased from 9.1 percent in December 2008 to 11.9 percent in October 2009. The prime lending rate offered to preferred customers by the commercial banks dropped from 24 percent in 2008 to 22 percent in 2009, while the general overdraft lending rate fell slightly from 30 percent in 2008 to 29 percent over the period.

36. The financial sector continued to deepen, led by the expansion of the banking sector. There are currently 14 commercial banks in the country compared to 13 in 2008. The number of branches however increased from 57 in 2008 to 73 in 2009. There are 6 community banks operating in the country and plans are underway to establish additional community banks and financial services associations with funds provided by the International Fund for Agricultural Development (IFAD) and the Italian Cooperation Agency. These organisations will also facilitate the establishment of an Apex

institution to regulate and supervise community banks. Together, these new institutions will help to deepen and expand micro finance services, especially in rural areas.

37. The Sierra Leone Stock Exchange, which was launched by His Excellency the President in July 2009, has commenced trading.

38. Mr. Speaker, the growing competition in the banking industry has brought about welcomed innovations in bank operations in terms of new products and services offered to the public. The increase in the number of banks has led to an increase in the volume of bank credit to the private sector. Commercial bank credit to the private sector increased by Le140 billion during the year, though mostly concentrated in the services sectors.

39. In order to strengthen the banking system, the capital requirement of banks was increased from Le12 billion at end December 2008 to Le15 billion at end December 2009. The capital requirement has been further reviewed upwards to Le30 billion on a graduated basis over 5 years commencing 2010. The increase in the capital base of the banks allows for more credit to be extended to customers. It also provides the banks with comfortable headroom for absorbing risks.

40. To meet the challenges in the financial system, the Bank of Sierra Leone is strengthening the supervision of banks to ensure their safety and soundness. The Banking Act and the Other Financial Services Act are being reviewed to make them compliant with international best practices. The Anti-Money Laundering and Countering the Financing of Terrorism Act 2009 will soon be forwarded to Parliament for enactment. This Act addresses the weaknesses of the Anti-Money Laundering Act 2005 and incorporates terrorism financing issues.

41. Mr. Speaker, overall, a full blown Financial Sector Development Plan (FSDP) was developed by Government in collaboration with development partners and the private sector. The objective of the FSDP is to provide a framework for creating a sound,

diversified, responsive and well-functioning financial system that would provide appropriate support to productive activities, thereby contributing to economic growth and poverty alleviation. The FSDP focuses on four priority areas, namely:

- * building a strong, competitive and effectively functioning commercial banking system;
- * increasing access to finance by broadening outreach, strengthening microfinance, rural credit governance and supervision, and addressing the community banks;
- * improving the mobilization and investment of long-term funds, through strengthening contractual savings institutions and the capital market; and
- * establishing a permissive and an enabling legal environment.

VII. Financial Performance of Public Enterprises in 2009

42. Mr. Speaker, I will now briefly review the financial performance of our public enterprises for the year ended 2008 and for the first three quarters of 2009, as reported by the National Commission for Privatisation (NCP).

Rokel Commercial Bank

43. Mr. Sepaker, the operating income of the Rokel Commercial Bank for the year ended December 2008 was Le32.5 billion with an operating profit of Le2.9 billion. The performance of the bank for the first three quarters of 2009 shows an improved position. Actual operating income for the first three quarters amounted to Le32.3 billion compared to the projected amount of Le25.1 billion, exceeding the projection by Le7.2 billion. Actual expenditures for the same period amounted to Le19.6 billion compared to a projected forecast of Le18.5 billion.

44. The bank launched new mobile banking services as part of its overall strategy to take banking to the doorsteps of the unbanked population. Its services continue to be fully enhanced by the SMS banking system wherein customers are able to obtain information on their accounts using cell phones. The bank has also progressed with VISA Issuer products in 2009 for which it has secured the appropriate licenses from VISA.

Sierra Leone Commercial Bank

45. Mr. Speaker, the Sierra Leone Commercial Bank (SLCB) recorded an operating loss of Le2.1 billion as at the end of 2008. The financial performance for the first three quarters of 2009 indicates signs of an impressive turnaround in the operations of the bank. Actual income amounted to Le21.2 billion compared to a forecast of Le22.9 billion. The bank also experienced an increase in customers' deposits by nearly 20 percent and accounted for 27 percent of the market share in local and foreign currency deposits.

46. The bank is now focused mainly on consolidating its market positions through organic growth and increasing priority on the following objectives: re-branding of the bank; centralization of credit risk management; completion of review of supply chain operators; and consistent application of cost optimization and targeting to attract short and medium term funds. The bank launched a new Premium Plus deposit product mainly attracting investors in Treasury Bills and Bonds which in turn was the key driver for the double-digit growth in customer deposits.

National Insurance Company

47. Mr. Speaker, the share of the National Insurance Company (NIC) in the domestic insurance market has been dwindling over the period. The company's premium growth has been below the industry average, resulting in the loss of market share to competitors.

48. However, operating profit after tax increased by 24.8 percent from Le447.2 million in 2007 to Le552 million in 2008. The company's short-term investment in equities, government securities, and the money market increased by 12.5 percent in 2008. Correspondingly, investment income increased from Le270.9 million in 2007 to Le288.9 million in 2008, representing an increase of 6.7 percent.

49. Actual operating income of the company for the first three quarters of 2009 was Le5.4 billion. With an expenditure of Le5.5 billion, the company made a loss of around Le 100 million, due to the huge provision for bad and doubtful debts accumulated over the years.

Sierra Leone Housing Corporation (SALHOC)

50. Mr. Speaker, The Sierra Leone Housing Corporation (SALHOC) has liquidity problems and continues to experience difficulties in collecting rent from tenants, especially at the OAU Village. However, the corporation's turnover increased sharply from Le295.7 million in 2007 to Le725.4 million in 2008. Total operating profit, before tax, as at end 2008 was Le20.5 million, compared to a loss of Le140 million as at end 2007.

51. Actual turnover for the first three quarters for 2009 was Le560.5 million. With an expenditure of Le632.3 million, the company made a loss of Le71.8 million. To strengthen SALHOC's operations, the NCP has commissioned a study to develop a corporate and business plan for the company.

Sierra Leone State Lottery Company Limited

52. Mr. Speaker, the Sierra Leone State Lottery Company's (SLSL) total operating profit before tax as at end 2008 was estimated at Le173.9 million compared to Le605.5 million in 2007, representing a decrease of 248 percent. Actual turnover for the first three quarters of 2009 was Le8.4 billion. With an expenditure of Le8.5 billion, the company made a loss of Le95 million. The loss was as a result of the drop in sales virtually in all product lines with the exception of KICK PO and PIK 6.

53. The Company has now launched two new products, FOOTBALL POOLS and PIK 3 which are in their introductory stages. It is expected that by the first quarter of 2010, both products would have reached their growth stages. Efforts are also underway to effectively focus on a crafted road map to consolidate and reposition the company in the industry with the view to overcoming challenges on operational stability and product development.

Sierra Leone Postal Services Limited (SALPOST)

54. Mr. Speaker, the financial performance of SALPOST improved in 2008. The operating income of the company increased to Le2.02 billion for the year ended December 2008 from Le1.02 billion for the year ended 2007, representing an increase of 103 percent. Total operating profit, before tax, as at end 2008 was estimated at Le196 million compared to a mere Le6 million in 2007. Actual Operating income for the first three quarters of 2009 is estimated at Le1.4 billion.

55. During the year, the Universal Postal Union developed an Integrated Postal Reform and Development Plan (IPDP) for SALPOST with support from the United Nations Development Programme. This plan provides both guidelines and a road map for the successful transformation and reform of the company, beginning in 2010.

National Power Authority (NPA)

56. Mr. Speaker, with support from Government and the World Bank, the operational and financial performance of the National Power Authority improved during 2008 and 2009. The company recorded a profit of Le 2 billion in 2008 compared to a loss of Le16 billion in 2007.

57. Total revenue for the first three quarters in 2009 is estimated at Le49 billion compared with a total expenditure of Le44.4 billion. The Authority made a surplus of approximately Le5 billion during the period under review.

Guma Valley Water Company (GVWC)

58. Mr. Speaker, the Guma Valley Water Company (GVWC) recorded a deficit of Le12 billion against a projected deficit of Le6 billion in 2008.

59. The overall performance for the first three quarters of 2009 shows an operating profit before tax of Le5.3 billion.

Sierra Leone Telecommunications Company Limited (SIERRATEL)

60. Mr. Speaker, SIERRATEL's turnover increased by 186 percent in 2009 as a result of the increase in the volume of international traffic as well as the introduction of the CDMA project. However, operating expenses increased by 169 percent in the first quarter of 2009 as a result of the intensive marketing, sales and promotional activities in the introduction of the CDMA services into the market.

61. Actual turnover for the first three quarters of 2009 was Le42.2 billion. With a total expenditure of Le38.3 billion, the company made a profit of Le3.9 billion

Sierra Leone Airports Authority (SLAA)

62. Mr. Speaker, the Authority recorded a loss before tax of Le796 million mainly resulting from the impact of the global downturn on passenger traffic and the increasing cost of self generated electricity supply.

63. The concessioning of the Ground and Cargo Handling activities at the Freetown International Airport has been finalized. The new operator is expected to commence operations soon. This will enhance the SLAA's income generating capacity as well as provide the much needed investment in ground handling equipment to improve the image and enhance efficiency of operations at the airport.

Sierra Leone Ports Authority (SLPA)

64. Mr. Speaker, the Sierra Leone Ports Authority (SLPA) Company made a profit of Le5.2 billion during the year ended 31st December 2008. The total turnover for the six months ended 30th June 2009 amounted to Le23.4 billion against a budget of Le20.9 billion.

65. Government has approved the proposal for the restructuring of SLPA, including its transformation from a service port to a landlord port, involving the concessioning of the container terminal to the private sector and the issue of licenses for stevedoring services. The implementation of these reforms is expected to commence soon, resulting in increased levels of container traffic at the port which will enhance revenue generation and profitability.

Sierra Leone Roads Authority (SLRA)

66. Mr. Speaker, SLRA's income for road maintenance, derived from fuel levy, vehicle registration and license fees, for the first 3 quarters of 2009 amounted to Le34.5 billion as against a projected income of Le39.3 billion, resulting in a shortfall of Le4.8 billion. During the period, Government has provided substantial funds to the SLRA for (a) emergency road maintenance programmes; (b) counterpart funding on donor funded road construction and rehabilitation projects; and (c) studies for the design and rehabilitation of roads in the Western Area and District headquarter towns.

67. The SLRA is also currently finalizing contract arrangements for some major trunk roads including the Port Loko – Lungi Road, part of the Kenema-Koindu corridor and the Freetown Hill-Side road while supervising several other major donor funded road construction projects around the country. In the meantime, work is underway to create an independent road maintenance fund as well as the restructuring of the Authority to enhance its operational effectiveness and efficiency.

Sierra Leone Road Transport Corporation (SLRTC)

68. Mr. Speaker, the operating revenue of the Corporation for the year ended December 2008 was Le5.2 billion. By the first quarter of 2009, the enterprise closed its books with a healthy revenue base of over Le1 billion.

69. The company has secured an ECO Bank loan for the purchase of six transport service buses. It was also able to finance a cash transaction for six additional buses from its savings during 2009.

VIII. Medium-Term Macroeconomic Policy Framework, 2010 - 2012

70. Mr. Speaker, Honourable Members, I will now turn to the management of the economy in 2010 and the medium term prospects up to the year 2012. To start with, our medium-term economic strategy will focus on reducing poverty by further stimulating economic growth while preserving macroeconomic stability. The policies to achieve these objectives are elaborated in the second-generation Poverty Reduction Strategy- the Agenda for Change of His Excellency the President, Dr Ernest Bai Koroma. The macroeconomic projections for this period do take account of the impact of recent domestic and external economic and financial developments, particularly the global economic downturn.

71. Real output is projected at 4.7 percent in 2010; rising gradually to 6 percent by 2012 as the global economy recovers. Growth in domestic output will be supported by the improved supply of electricity, ongoing private and public sector initiatives to increase agricultural productivity and intensification, and higher public investment in basic infrastructure, including roads and water services. Inflation is projected to decline to 8 percent in 2010, and to remain in single digits through 2012.

72. The recent rebound in mining production and higher exports of agricultural products (in particular, cocoa and coffee), combined with the anticipated slow growth in imports, would reduce the external current account deficit from 9.4 percent of GDP in 2009 to about 8.7 percent of GDP in 2010. Gross official reserves, including the recent SDR allocation, are projected to remain at an annual average of 6 months of import cover during 2010-2012.

IX. Monetary and Financial Sector Policies for 2010

73. Mr. Speaker, Honourable Members, monetary operations in 2010 will continue to be geared towards containing inflationary pressures arising from the second round effects of the global financial and economic crisis. Accordingly, the Bank of Sierra Leone will strengthen its weekly liquidity forecasting framework, which guides auction sizes of securities used for open market operations. The Bank will also continue with the daily liquidity management framework as a way of fine tuning its interventions in the interbank market to ensure stable liquidity conditions.

74. As in previous years, the core monetary policy activities in 2010 will be conducted through open market operations and the interbank market. To this end, an additional Le50 billion of non-negotiable, non-interest bearing securities will be converted into marketable securities for open market operations. The Bank will also continue to implement repo and reverse repo operations and deepen the inter-bank market. As in 2009, the Bank will balance treasury bill sales and foreign exchange auctions for an optimal monetary policy mix. In 2010 an amount of US\$104 million is estimated to be sold via the weekly foreign exchange auction.

75. The Bank will continue to maintain exchange rate flexibility. The exchange rate is expected to move in line with the difference between domestic inflation and inflation in the economies of our trading partners.

76. Consistent with the objective of containing inflationary pressures, reserve money is targeted to grow by about 13 percent in 2010. Given the government's domestic financing requirement, this would allow for adequate expansion in private sector credit and a

further buildup of gross foreign reserves. In 2010, Government will actively consider the introduction of long term securities to support medium to long term public investments, including in roads, housing, energy and water projects.

77. In collaboration with Statistics Sierra Leone, the Bank will commence the computation of a Business Confidence Index to track factors responsible for economic cycles in the country. This index, among others, will track consumer orders, vendor performance, capital orders, building permits, consumer expectations, access to finance, interest rates, and changes in prices in the economy.

X. Public Debt Management in 2010

78. Mr. Speaker, as at end June 2009, total external debt stock stood at a much reduced level of US\$662 million, following the provision of debt relief in September 2006 by our multilateral creditors under the enhanced Highly Indebted Poor countries (HIPC) and Multilateral Debt Relief Initiatives. To avoid a relapse into debt overhang, Government will continue to implement a prudent debt management policy while strengthening the capacity to address emerging challenges posed by the global financial crisis.

79. To reduce our debt burden of US\$250 million owed to commercial creditors, the World Bank has provided an initial funding of US\$950,000 under a Project Preparation Facility for the financing of advisory services to assist in the preparation and implementation of the second external commercial debt-buy-back operation. The procurement of the legal and financial advisory services for the verification of debt claims and implementation of the debt buy-back is at an advanced stage and the actual debt buy-back operations will be carried out during 2010.

80. Mr. Speaker, Government, in collaboration with the UK-based Debt Relief International (DRI) and the West African Institute for Financial and Economic Management (WAIFEM), conducted the second post HIPC Debt Sustainability Analysis (DSA) workshop in July this year. This is a standard requirement to reassess Sierra Leone's medium to long term debt outlook, as well as to determine

the potential risks the global crisis may have channeled into the total debt portfolio. In spite of the adverse effects of the financial crisis on our export receipts, particularly diamonds, I am pleased to inform you that the DSA results show that Sierra Leone's external debt remains sustainable in the short to medium term. To maintain this, Government will continue to borrow on highly concessional terms.

81. Mr. Speaker, while significant gains have been made on the external debt front, the buildup of domestic debt poses a serious challenge to achieving overall debt sustainability. To address domestic debt arrears, Government is conceptualizing a comprehensive domestic debt strategy with a medium term amortization framework, underpinned by the principles of equity and transparency. In a bid to strengthen the capital base of the Bank of Sierra Leone, Government has given approval for the conversion of Le84.4 billion worth of the remaining balance of the stock of non-negotiable non-interest bearing securities into a 5 year bond at an interest rate of 9 percent per annum. Government will also provide additional securities valued at Le15.6 billion as replenishment in respect of losses incurred by the Bank in 2006 and 2008. Thus a total of Le100 billion worth of securities will be issued in two tranches of Le50 billion each in 2010. Interest payments in respect of these securities will amount to Le6.8 billion.

82. Mr. Speaker, Government has secured financing from the African Development Bank to develop a National Debt Law, aimed at providing a solid framework for Government's borrowing policy and implementation of sound debt management practices. It will also reinforce the borrowing procedures required by state-owned enterprises and local councils, including the framework for issuing guarantees and raising contingent liabilities.

XI. Structural Reforms in 2010

83. Mr. Speaker, the Agenda for Change places strong emphasis on economic growth and the delivery of social services, which are both necessary for poverty reduction. To this end, Government will continue to pursue and implement structural reforms aimed at

promoting efficiency, transparency and accountability in the use of public resources, as well as reducing the cost of doing business, to set the stage for high and sustainable growth.

(a) Promoting Efficiency, Transparency and Accountability in the Use of Public Resources

84. Mr. Speaker, public financial reform efforts in 2010 will focus on (i) strengthening public procurement (ii) improving budget execution, and (iii) improving public service records management including personnel and financial records. On public procurement, the National Public Procurement Authority (NPPA) will continue to monitor transparency in the public procurement process by publishing approved procurement plans, notices of invitations to bid and contracts awarded, as well as monitor the procurement activities of MDAs. NPPA will also continue to provide price norms as a guide for all public procurement. All MDAs and Local Councils are now required to submit their procurement plans to the NPPA one month prior to the beginning of the financial year to which they relate. This will allow early initiation of the procurement process for activities planned.

85. Mr. Speaker, a challenging feature of budget execution in recent years has been the difficulty of disbursing in full the approved amounts allocated to MDAs. This has adversely affected delivery of their stated programmes during the fiscal year; resulting in relatively unsatisfactory rate of overall budget implementation over the years. In part, this has been due to the unpredictability and volatility of both domestic revenues and external budget support. In order to increase predictability of budget support in particular, Government is in dialogue with the Multi-Donor Budget Support partners to ensure that firm disbursement decisions are made prior to the commencement of the budget cycle for each successive year. This is critical for budget planning, as it allows Government to know exactly what it can expect in each year. In addition, Government is strengthening the integration of procurement planning in the budget process in order to better synchronize sectoral plans with annual budget allocations.

86. Mr. Speaker, to improve the coverage and quality of internal audit functions in MDAs, 23 internal audit units have been established in key MDAs, of which 8 are now fully functional. The number of functional internal audit units will be increased to 16 in 2010.

87. Government will also continue to make progress in bringing the annual reports of the Auditor-General to Parliament on a timely basis and, ultimately, within 12 months of the close of each financial year. The Public Accounts for 2007 have been laid before Parliament. The 2008 Public Accounts are currently being audited and will be laid before Parliament to meet the Statutory Provision of 31st December. The application of Standing Order 75 has now been clarified. The Auditor-General's Report on Public Accounts is now made public immediately it is laid before Parliament. The Public Accounts Committee (PAC) now debates the Auditor-General's Report in open hearing sessions. Government intends to maintain this momentum going forward.

88. Mr. Speaker, as part of a wider programme to strengthen accountability and anti corruption, Government is rebuilding the structures required to manage public financial records, focusing initially on civil service pay and personnel records. A Records Management Improvement Program was established within the Human Resource Management Office (HRMO) to improve civil service personnel records with the objective of ensuring a stable and predictable civil service payroll. This has resulted in significant improvements in the reliability and completeness of records and the ability to use these to verify the payroll.

89. In 2010, the project will be extended to teachers' records. The objective is to create a file for every teacher in order to support payroll and human resource management.

(b) Improving the Business and Investment Climate

90. Mr. Speaker, significant progress has been made in improving and modernizing the business regulatory framework, and removing the administrative barriers to investment. As a result, Sierra Leone's ranking in the World Bank's Doing Business Report has been consistently improving, climbing 20 places up the ranking in just three years.

91. One of the main obstacles to business expansion and development in the country is the inability of the domestic financial sector to support investment activities. The problems of the financial sector range from high intermediation costs to an inability to adequately assess investment opportunities. The Financial Sector Development Plan developed by Government and referred to earlier, will, among others, address these critical areas of the financial system.

92. Government will also continue to fund projects that will significantly eliminate infrastructural bottlenecks, including roads, port services, electricity and water supply. The combined effect of these reforms is to reduce the cost of doing business in the country. Public-Private Partnerships will also provide an opportunity to attract the necessary resources for investment without creating unsustainable fiscal burdens. In this regard, Government has developed a Public Private Partnership (PPP) framework which will facilitate the engagement of the private sector in major public sector projects, particularly in infrastructure, while minimizing risks to Government.

93. Furthermore, as part of the overall strategy to encourage domestic as well as foreign investment, a comprehensive package of investment incentives has been put together to reinforce the Investment Promotions Act, 2004. The package includes both general investment incentives and sector specific incentives, focusing on agriculture, mining, manufacturing, tourism, and infrastructure investments. In this regard, relevant sections of the Income Tax Act, the Customs Tariff Act, and the Tourism Development Act will be amended accordingly. These revisions are incorporated in the 2010 Finance Bill, to be laid today before this Noble House.

XII The Budget Profile for Financial Year 2010

94. Mr. Speaker, Honourable Members, I will now turn to the budget proposals for 2010. As indicated earlier, the 2010 budget aims at promoting sustained high economic growth while consolidating macroeconomic stability. The proposed budget provides a significant shift from recurrent to capital spending, reflecting government's focus on investing in our future. This refocusing is consistent with the Agenda for Change.

Revenue Projections for Financial Year 2010

95. Mr. Speaker, total revenue, including external grants, for the financial year 2010 is projected at Le1.41 trillion. Of this amount, domestic revenue is projected at Le844.1 billion (11.6 percent of GDP), and grants at Le567.5 billion (7.8 percent of GDP).

96. Income taxes are expected to amount to Le240.5 billion (3.3 percent of GDP), with corporate taxes contributing Le69.4 billion and personal income taxes, Le130.4 billion. Customs and Excise duties are projected at Le 477.7 billion (6.6 percent of GDP). Import duties will contribute Le342 billion; excise duty on petroleum products, Le106.3 billion, and excise duty on domestically manufactured goods, Le8.7 billion. The new Goods and Services Tax (GST) is projected to contribute minimally at 0.1% of GDP in 2010. Freight Levy is projected at Le5.5 billion.

97. Non-tax revenues, excluding road user charges, are projected at Le68.6 billion. The projection assumes the full application of policy measures adopted in the 2009 Finance Act relating to the transfer of all off-budget revenues into the Consolidated Revenue Fund. Of this amount, mining revenues, in the form of licenses and royalties on rutile, bauxite, diamonds and gold will contribute Le20.3 billion. Royalties on fisheries are projected at Le6.6 billion. Dividends from parastatals are expected to amount to Le5.8 billion. Revenues collected by other Government departments will amount to Le36 billion. Road User Charges and Vehicle licenses are projected at Le57.3 billion.

98. Of the total external grants expected in 2010, budget support will amount to US\$ 64.3 million or Le234.8 billion, while HIPC debt relief is projected at US\$4.1 million or Le14.8 billion. Project grants are projected to increase from Le203.3 billion in 2009 to Le317.8 billion in 2010.

Revenue and Tax Policies for the Financial Year 2010

99. Mr. Speaker, a key objective of the Agenda for Change is to intensify mobilization of domestic revenue. Accordingly, Government will continue to step up effort to broaden the tax base while strengthening tax administration and collection.

100. Mr. Speaker, Honourable members, you would recall that the import duty on cement was temporarily reduced from 20 percent to 10 percent in 2006 when the domestic manufacturing industry was expanding its capacity and therefore could not produce enough to meet the local demand at a time when it was expected that the post war reconstruction would create a demand in excess of local supply. The aim was to encourage other business interests to import cement in order to compensate for the temporary shortfall in domestic supply. However, with our overarching aim to support local industries and promote job creation, the import duty on imported cement is now restored to its original rate of 20 percent.

101. In the same vein, import duty on imported mineral, aerated water and monosodium glutamate, locally known as 'Maggi', is also increased from 5 percent to 20 percent, to create a level playing field for both importers and domestic manufacturers. These changes are also reflected in the Finance Bill 2010.

102. Mr. Speaker, significant progress has been made in modernizing the operations of the National Revenue Authority (NRA), including the installation of the ASYCUDA ++ software. The efficiency gains from the complete installation of the ASYCUDA software in customs clearing processes will, among others, benefit the national economy by increasing revenue collection; providing information on trade; and protecting the country by combating fraud and illegal trafficking of prohibited and restricted goods.

103. In the near term, Government will also focus on closing the loop holes that provide opportunities for revenue leakages and rent seeking. In particular, the NRA will (i) accelerate the establishment of the domestic taxes department; (ii) enforce the provisions in the existing tax legislation with the aim of eliminating tax evasion and ad-hoc tax exemptions; (iii) intensify field audits, (iv) prevent further accumulation of tax arrears, (v) enforce the payment of all tax obligations, and (vi) impose stiff interest and penalties for under and/or late settlement of tax.

104. Mr. Speaker, Government will soon submit to Parliament amendments to the laws and regulations governing taxation of income and external trade that will reduce the opportunities for discretionary tax exemptions; increase transparency in exemptions; and provide for regular audit of exemptions. This policy action will contribute to a higher revenue effort and increase transparency in preferential tax treatment.

105. Mr. Speaker, implementation of the Goods and Services Tax (GST) will finally commence on 1st January, 2010 at the current import and domestic sales tax rate of 15 percent. The introduction of the GST is expected to increase domestic revenue generation due to the broadening and integration of the tax base as well as improvements in business records keeping. At the outset, let me state that a broad range of food and several other essential items are exempted. The list of those items is available at the National Revenue Authority.

106. Mr. Speaker, in line with the proposals in the 2009 Budget, the introduction of Fiscal Stamps on all tobacco and alcoholic beverages will become effective on 1st April , 2010. Fiscal Stamps will be affixed on all tobacco and alcoholic beverages imported and manufactured in Sierra Leone. These stamps will be supplied to manufacturers and importers at no extra cost during the first year.

107. Mr Speaker, the spate of logging for exports has increased significantly in recent months, which poses one of the greatest threats to our forests, roads and the environment in general. In this regard, to meaningfully compensate for environmental and road destruction, the tax on export of timber products per every 20 cubic metres of such timber or part thereof is increased from US\$1,500 to US\$10,000, payable in foreign currency.

XIII. External Resource Mobilization Strategy

108. Mr. Speaker, as we seek significant improvements in our domestic revenue effort, aid remains a critical part of financing development in Sierra Leone. It currently constitutes 18 percent of GDP and provides essential support to many critical growth sectors and basic services. In this regard, the continued and intensified support from our development partners remains critical for successful implementation of the Agenda for Change. Realising that aid effectiveness is a fundamental issue for both Government and the development partners, Government has formulated an aid policy that defines modalities for channeling aid to the country. These include: general and sector budget support, multi-donor sector-based trust funds, and programmatic support for priority sectors. According to the aid policy, Government will take firm leadership over development finances and aid coordination. Donor support will be aligned to Government's priorities and development partners will harmonize their financing and implementation mechanisms while ensuring greater predictability of their pledges and disbursements, both in terms of volume and timeframe. The aid policy endorses the importance of NGOs, bilateral economic cooperation agreements and technical assistance programmes as important aid modalities.

109. Overall, aid will be channelled through harmonized modalities and procedures to the extent possible as this will lessen transaction costs for all stakeholders. Harmonised modalities will enable Government to provide requisite oversight over specific modalities. The Government will also encourage development partners to work with each other to ensure that the international principles on aid effectiveness are adhered to.

110. Mr. Speaker, tackling governance issues remain a top priority for the Government in order to unlock significant aid flows. In this respect, in consultation with development partners, Government has defined a set of key governance priority areas; performance and monitorable indicators it will focus on in 2010. These governance commitments cover several elements, including political democratic governance, application of the rule of law,

control of corruption, government effectiveness, state security, and economic governance. For instance, to enable Government access increased financial resources from the World Bank and the African Development Bank under their performance-based allocation systems Government will particularly need to continue to implement measures that will improve our rating on the Country Policy and Institutional Assessment (CPIA). Government will also try to achieve policy targets under the Performance Assessment Framework (PAF) agreed with multi donor budget support partners as well as those emanating from joint mid-term reviews of financing agreements. The range of governance commitments cut across practically all government sectors and it is imperative therefore that all MDAs pay special attention to those commitments pertaining to their operations.

111. Mr. Speaker, in an effort to address the funding needs in infrastructure, the World Bank is setting up a programmatic multi-donor trust fund for the development of infrastructure in Sierra Leone. The Trust Fund will be structured around broad sectoral priorities, as articulated in the Agenda for Change and will be implemented through specific projects identified by the Government. It will be administered by the Bank; on behalf of collaborating partners and will follow Bank procedures and guidelines for project identification, preparation, appraisal and supervision.

112. The United Kingdom's Department for International Development (DFID) has already indicated its interest in participating in the Fund by contributing £15 million over a five year period for power sector investments. The Fund is also expected to leverage approximately US\$35 million of World Bank co-financing support for development projects in infrastructure over the next four years. The United Nations has also established a trust Fund for human development and good governance.

113. Furthermore, as a country vulnerable to the effects of climate change, and as we struggle to preserve our remaining forestlands, we will strictly endeavour to exploit to the extent possible international climate change financing mechanisms, including carbon trading, to secure additional development funds.

XIV Expenditure Priorities and Allocations for Financial Year 2010

114. Mr. Speaker, on the basis of the projected levels of domestic revenues, external budget support, MDRI and HIPC debt relief resources and the permissible level of domestic borrowing, total expenditure and net lending in 2010 is projected at Le1.8 trillion (24.4 percent of GDP). Of this, recurrent expenditure is projected at Le1.1 trillion (14.8 percent of GDP) and capital expenditures are projected at Le696.6 billion (9.6 percent of GDP). Domestically funded capital expenditures are increased from Le 87.5 billion (1.3 percent of GDP) in 2009 to Le201.7 billion (2.8 percent of GDP) in 2010 to facilitate improvements in infrastructure, particularly roads, energy and water supply.

Wages and Salaries

115. Mr. Speaker, Honourable Members, Government is currently carrying out a comprehensive restructuring of pay and grades for public sector workers. The aim of the exercise is to ensure a realistic pay package that will attract, retain and motivate quality staff in the public service. The report of the restructuring exercise will be submitted to Government in early 2010.

116. In the meantime, Government is proposing an increase in the wage bill from Le 400.2 billion in 2009 to Le453.3 billion in 2010. The proposed wage bill includes a minimum increase of 20 percent in basic pay for civil servants, teachers, police, military, prisons and fire force officers. It also accommodates the hiring of 2000 new teachers and 1000 police officers in 2010. Personnel in the foreign missions are not covered by the salary increase. It is expected that salary adjustment for this category of staff will be based on the announced annual cost of living index in their respective countries of assignment. For subvented institutions, the announced salary increase has been reflected in their respective subventions and must therefore be passed on to their staff accordingly. Dollarised and composite wages are also excluded, given that these are based on special circumstances and are therefore negotiated separately. Further clarifications regarding eligibility in respect of the wage increase will be provided by the Financial Secretary and the Accountant General in the Ministry of Finance and Economic Development.

Interest Payments

117. Mr. Speaker, total interest payment in 2010 is projected at Le137.6 billion (1.9 percent of GDP). Of this, domestic interest payment is projected at Le120.1 billion, reflecting the cost of servicing the roll-over of government securities used for monetary operations, the medium term bonds issued for the recapitalization of the Bank of Sierra Leone, the issuance of securities to cover the operating loss of the Bank of Sierra Leone, and the planned conversion of additional Le50 billion from the non-negotiable non-interest bearing securities into tradable securities to support monetary operations in 2010. Foreign interest payment will amount to Le17.4 billion.

Non-salary, Non-interest Recurrent and Capital Expenditure Allocations

118. Mr. Speaker, after providing for the non-discretionary expenditures, that is, wages and salaries and interest payments, non-interest, non-salary recurrent expenditures are projected at Le483.4 billion (6.7 percent of GDP) in 2010. This will be complemented by the sharp increase in capital expenditures from Le 495.8 billion (7.7 percent of GDP) in 2009 to Le696.6 billion (9.6 percent of GDP) in 2010.

119. Mr. Speaker, expenditure allocations in 2010 are based on the strategic priorities presented in the Agenda for Change. Specifically, in 2010 and beyond, budget implementation will be guided by the desire to effectively and efficiently implement programmes detailed in the Agenda for Change. Accordingly, enhanced expenditure allocations have been made to the following priority sectors: Roads, Agriculture, Energy, Health and Education.

120. For non-priority activities, the budgets of Ministries, Departments and other Government Agencies (MDAs) have been structured in a way that will facilitate the implementation of projects and programmes in the Agenda for Change. Thus, budgetary

allocations have been restricted to only key line items. These include utilities, fuel and lubricants, stationery items, office supplies and other specialized services such as diet for eligible hospitals and schools, state security services and drugs.

Roads

121. Mr. Speaker, a modernized and efficient road system enables the movement of people and goods, reduces the cost of doing business, and facilitates the effective delivery of public services. At 7 percent, road adequacy in Sierra Leone in terms of the percentage of paved classified roads is one of the lowest among developing countries. This is worsened by the poor conditions of rural/feeder roads. As part of Government's comprehensive infrastructure plan and His Excellency's objective of uniting the country through a network of high quality roads, several road projects are slated for ongoing and new construction in 2010. Additionally, 2000 kilometres of feeder roads, 25 kilometers of roads and streets in Freetown and several Kilometres of streets in each provincial headquarter towns will be rehabilitated and/or reconstructed in 2010.

122. In support of these activities, Government is allocating Le57.3 billion to the Sierra Leone Roads Authority from the Road Fund under the recurrent budget and Le73.3 billion from the domestic capital budget. Our development partners will be providing an estimated Le182.2 billion under the foreign funded capital budget for several road projects. This brings the total budgetary allocation for roads to Le312.9 billion in 2010, accounting for 26.5 percent of the total expenditure.

Energy and Water

123. Mr. Speaker, reliable and affordable supply of electricity will make real improvements in the quality of life of the people; allow businesses to flourish; and encourage private sector investment. With the completion of Phase I of the Bumbuna Hydro Electric Project, Government is also overhauling and upgrading the

transmission and distribution network in Freetown to increase capacity from 15 Megawatts to around 100 Megawatts. Plans are underway to install new transmission and distribution lines to and within Bumbuna, Magburaka, Makeni and Lunsar, to facilitate the delivery of Bumbuna hydro-electric power to these towns.

124. In addition to these efforts, we are also taking great strides to provide electricity to other parts of the country. In this regard, Government is funding feasibility studies for the construction of mini-hydro dams in various parts of the country, including Moyamba, Port Loko and Makali. Furthermore, Government will install new power generating plants in Freetown and some provincial towns, including upgrading the supply of electricity to the Bo-Kenema Power Services.

125. In this regard, Government is allocating an estimated Le29.9 billion under the foreign funded capital budget and Le46.4 billion under the domestic capital budget to the Ministry of Energy and Water Resources to support various electricity projects, including Le14.6 billion for rural electrification. In addition, Le5.9 billion is allocated to the Ministry from the recurrent budget, bringing its total allocation to Le82.2 billion or 7.0 percent of the total expenditure.

126. Mr. Speaker, the provision of safe water services is an imperative for the attainment of the Millennium Development Goals. Pipe-borne and other clean water supply systems reduce both morbidity and mortality and improve the quality of life. In this regard, a total of Le33.1 billion is allocated for water services in 2010. This includes an amount of Le4.4 billion from the recurrent budget and Le17.2 billion and Le11.5 billion from the domestic and foreign capital budgets respectively. These budgetary allocations will be integrated into the revised water policy framework and action plan to be completed and launched in 2010.

Agriculture and Fisheries

127. Mr. Speaker, to ensure pro-poor sustainable growth, there is compelling need to raise value-added productivity in agriculture and fisheries as the majority of Sierra Leoneans are engaged in

these sectors. As we have seen in the recent past, reliance on imported foods, which are subject to the vagaries of international markets and price volatility, poses serious threats to our economic and social stability. In 2010, which marks the commencement of the new National Sustainable Agricultural Development Plan (NSADP) and the Comprehensive African Agricultural Development Programme (CAADP), the focus, therefore, will be on enhancing agricultural productivity, promoting commercial agriculture, and improving research and extension service delivery.

128. In support of the above objectives, a total of Le118.3 billion is allocated to the Agriculture sector, accounting for 10 percent of total expenditure, consistent with the Maputo declaration under the CAADP. This includes Le23.2 billion from the recurrent budget; Le7.8 billion from the domestic capital budget as counterpart funds; Le26.2 billion for the rehabilitation of key trunk roads connecting agricultural producing areas to market centres; Le8.4 billion for feeder roads; and Le3.4 billion for agriculture research. In addition, Le36.6 billion is allocated from the capital budget to support various donor funded agricultural projects; and Le13 billion as transfers to Local Councils for various agricultural activities.

129. In the fisheries sub-sector, Government will focus on improving surveillance capabilities, facilitating the lifting of the ban on fish exports to the European Union, improving related infrastructures including construction of jetties, fish barns, cooling and storage facilities, and providing other extension support services to support artisanal fishing. In support of these activities, a total of Le3.2 billion has been allocated to the Ministry of Marine Resources. Of this, Le2.5 billion is allocated from the recurrent budget and about Le788 million from the capital budget.

Human Development – Education and Health

130. Mr. Speaker, to accelerate progress towards achieving the MDGs, Government will continue to invest substantially in education and healthcare to ensure sustainable human development.

131. Mr. Speaker, progress in improving education in Sierra Leone has been slow. We therefore need to increase the pace of activities aimed at improving access to education and raising the completion rate, especially for primary and junior secondary schools; and improving the quality of education through extensive training programmes for teachers. Emphasis will also be placed on improving access to technical and vocational education and training to mitigate the general shortage of skilled manpower in the lower and middle levels in the country. In addition, Government will continue to provide teaching and learning materials, pay examination fees for BECE and WASSCE, and provide special incentives to encourage the girl child to attend and complete schooling. Overall, the 2010 Budget will significantly focus on improving Sierra Leone's consistently low human capital index (HCI) of adult literacy rate and the combined primary, secondary, tertiary and vocational gross enrolment ratio.

132. In support of these objectives, Government is allocating an amount of Le91.5 billion to the Ministry of Education, Youth and Sports in 2010. This amount includes an allocation of Le74.5 billion from the recurrent budget, and Le17.0 billion from the capital budget. In addition, Le35.4 billion will be transferred to local councils to support various educational programmes and projects, bringing the total allocation for educational services to Le126.9 billion, accounting for 10.8 percent of total expenditure.

133. Mr. Speaker, as in education, our healthcare delivery system requires a major overhaul to facilitate the efficient delivery of modern healthcare services. In 2010 and beyond, the major focus will be on reducing the appalling levels of maternal and under-five mortality rates. Government will therefore substantially finance a range of interventions that are known to improve the populations' health, with particular emphasis to maternal and child health. Government will scale up the package of essential services, including immunization, family planning, utilization of treated bed nets and promotion of hygiene practices as well as making available minimum maternal and neonatal health care systems. In this regard, in line with the Health Sector Strategic Plan, (2010-2015) and through the

Integrated Reproductive and Child Health Care Project, a joint initiative of the Governments of Sierra Leone and the United Kingdom to be launched on 27th April 2010, Government will provide free health care to pregnant and lactating women and children under 5 years by abolishing all charges or fees at hospitals and health centres.

134. In support of the above activities, an amount of Le43.5 billion is allocated under the recurrent budget to the Ministry of Health and Sanitation. Our development partners have also committed an estimated Le31 billion under various health projects. This is complemented by allocations under the domestic capital budget of Le6.9 billion. In addition, transfers to local councils for health care delivery services will amount to Le15.7 billion. Thus, the total budgetary allocation for health services amounts to Le97.1 billion or 8.2 percent of total expenditure.

Good Governance, Peace and Security

135. Mr. Speaker, as already indicated, Government places strong emphasis on good governance, peace and security as preconditions for achieving the strategic priorities of the Agenda for Change. To sustain current efforts aimed at deepening and broadening the good governance agenda, Government is significantly increasing budgetary allocations to related institutions in 2010: Le9.5 billion to the House of Parliament including Le5.4 billion for constituency facilitation; Le8.4 billion to the Anti-Corruption Commission; Le9.4 billion to the Audit Services; Le5.8 billion to Statistics Sierra Leone; and Le1.2 billion to the Law Officers Department.

136. For the maintenance of law and order and the protection of life and property, Government is allocating Le41.0 billion to the Ministry of Defence; Le25.8 billion to the Police; Le9.9 billion to the Prisons Department; Le4.5 billion to the Office of National Security; Le1.6 billion to the Immigration Department; and Le2.6 billion to the Fire Force Department.

Environmental Protection

137. Mr. Speaker, Government will continue the fight against environmental degradation and climate change. Already, we have extended our capabilities in managing the environment by establishing the Sierra Leone Environmental Protection Agency. We will ensure that this agency is effective in tackling environmental issues. In this regard, an amount of Le1.3 billion is provided to make the agency operational in 2010.

Overall Budget Deficit and Sources of Financing

138. Mr. Speaker, given the huge expenditure outlays required to move the Agenda for Change forward, in the midst of limited internally generated revenues, the overall budget deficit, on a commitment basis, excluding foreign grants, is projected to increase from Le758.6 billion (11.8 percent of GDP) in 2009 to Le926.7 billion (12.8 percent of GDP) in 2010. However, when foreign grants are added to domestic revenues, the overall budget deficit is estimated at Le359.2 billion (5 percent of GDP).

139. The budget deficit will be financed largely by foreign grants and highly concessional loans from our development partners. Foreign borrowing, in the form of project and programme loans, is projected at Le213.6 billion (2.9 percent of GDP). Payment of principal on external loans will amount to Le49.3 billion in 2010.

140. Domestic financing of the budget deficit in 2010 will take the form of draw down on debt relief resources, amounting to Le123.6 billion, deposited at the Bank of Sierra Leone by the IMF under the Multilateral Debt Relief Initiative. In addition, Government may borrow about Le33.0 billion from the commercial banks and Le11.0 billion from the non-bank sector to finance the budget deficit.

XV Fiscal Decentralisation

141. Mr. Speaker, one of the main objectives of Government's fiscal decentralisation programme, as articulated in the Agenda for Change, is to support and ensure full and effective devolution of central government functions. In this respect, grant allocations to

local councils have increased significantly from Le42 billion in 2008 to Le60.1 billion in 2009, and are projected at Le70.4 billion in 2010. This reflects Government's commitment to improve the delivery of basic services at the local level.

142. To complement transfers to local councils, Government has secured funding from the World Bank, amounting to US\$20 million or Le58 billion through the Decentralised Service Delivery Programme (DSDP). The programme will commence in 2010 and run through to 2015. The programme has been designed as a sector wide approach to accommodate other donors. Funding will be used to finance education, health, water and sanitation, and solid waste management services in local communities.

143. Mr. Speaker, Government is fully aware that own revenue generation by the local councils is critical for the sustainability of the Decentralisation programme, and the efficient and effective delivery of the basic services at the local level. In this regard, the support provided to the Bo City Council and the Freetown City Council in 2009 to develop their tax bases will be rolled out to more local Councils during 2010. Also, the Ministry of Finance and Economic Development will work closely with the Ministry of Internal Affairs, Local Government and Rural Development to review legal impediments to own revenue generation by local councils. This will be done by reviewing the Local Government Act of 2004, while developing a new Chieftaincy Act that will support the decentralisation objectives of Government.

XVI Monitoring and Evaluation of Capital Projects

144. Mr. Speaker, in recent months, Government has intensified efforts to unlock the implementation of capital projects financed by our development partners. The portfolio of projects has been undermined by the unsatisfactory performance of Project Implementation Units (PIU), which has significantly delayed project execution. In this regard, we are instituting an effective monitoring and evaluation system in the Ministry of Finance and Economic Development to effectively monitor the progress of implementation of all government projects. We will also undertake a critical assessment of the operations of PIUs in this regard.

145. The first such monitoring and evaluation activity was undertaken during October 2009. The outcome of this exercise will be made public following Cabinet consideration of the report. To facilitate monitoring by all, including District Budget Oversight Committees, the list of projects under consideration is attached as an annexure to this budget statement. Quarterly monitoring of these and other projects will continue during 2010.

XVII Potential Risks to the Implementation of the 2010 Budget

146. Mr. Speaker, Honourable Members, despite the laudable programme of activities planned in 2010, it is worthwhile to note that several risks may undermine the effective and efficient implementation of the 2010 budget. These risks include exchange rate volatility, non-critical extra-budgetary expenditures, and huge petroleum subsidies to cushion the effects of the rise in international oil prices.

147. As the country maintains a flexible exchange rate system, the exchange rate of the Leone *vis-à-vis* international currencies is determined by the forces of demand and supply. Thus, in the event the exchange rate depreciates beyond the programme exchange rate, the expenditure requirements of MDAs will increase. The cost of non-discretionary expenditures such as salaries of diplomatic staff, commitments to international organizations, and external debt service payments will also increase. In such cases, unless additional resources are available, the budget may not be able to fund the increases in spending and, hence, the planned level of services may not be delivered.

148. Mr. Speaker, another risk to the implementation of the budget is the excessive request for extra budgetary expenditures. The provision of funds for expenditures, which were not originally budgeted for, crowds out priority expenditures. This undermines the implementation of planned programmes and projects. To ensure the credibility of the Budget, Government will continue to improve expenditure controls, while rationalising extra-budgetary expenditures.

149. Mr. Speaker, Honourable Members, the provision of subsidies to keep petroleum pump prices below what the market dictates is also undermining the credibility of the budget. It is, therefore, important to clarify that the factors which trigger changes in the pump price of petroleum products, that is, exchange rate movements and changes in the international prices of petroleum products, are not under the control of Government. Trying to keep the pump prices from adjusting to changes in these factors involves providing huge subsidies to consumers in the form of reduced taxes and the elimination of other fees and revenues accruing to Government, including the provision for strategic stocks. These subsidies are then passed on to the oil marketers to allow them to maintain lower pump prices. For instance, over the last few months, the pump price of petrol, diesel and kerosene has been held at Le14,800 per gallon while the indicative market pump price continued to increase progressively. In October, this price reached Le17,228 per gallon. As a result, total subsidies paid to the oil marketers for keeping the pump prices at the subsidized levels have increased from Le19 billion in 2008 to Le38 billion in 2009. This undermines domestic revenue collection and the financing of poverty-related expenditures.

150. Thus, the practice of subsidizing petroleum pump prices is proving to be fiscally unsustainable and cannot be continued. Hence, beginning 2010, Government is re-establishing the transparent and automatic application of the pricing formula for petroleum products. Petroleum prices will therefore be determined on the basis of a full pass-through of international oil prices and movements in the exchange rate.

151. Finally, there is also the risk of the generally weak implementation capacity in MDAs, including the Project Implementation Units. This weak capacity has, in particular, considerably slowed the execution of externally financed projects with dire consequences for our portfolio rating and the ability to access additional resources. We are currently actively engaging all MDAs and PIUs to improve budget execution in general, and the pace of project implementation in particular.

XVIII Conclusion

152. Mr. Speaker, Honourable Members, in concluding this statement, let me take this opportunity to, first, express, on behalf of His Excellency the President, Dr Ernest Bai Koroma, the Government and People of Sierra Leone, our profound gratitude to all our development partners and investors for the highly successful Conference held in London on 18–19 November this year. The 2010 Budget is presented on the back of a huge reservoir of international goodwill for Sierra Leone that was clearly demonstrated by all participants at the Conference in support of the Agenda for Change. Participants, both at the Trade and Investment Forum and the Consultative Group Meeting, endorsed the priorities and principles of the Agenda for Change. They appreciated Government's commitment to further improving good governance including the fight against corruption. Together, donors at the CG Meeting committed to not only maintain current levels of aid flows, averaging US\$300 million per annum, but to also scale up aid flows consistent with the financing requirements of the Agenda for Change.

153. I would also like to thank all those who have contributed to the budget formulation process, including the preparation of the estimates and this Statement. In particular, I would like to mention the Chairman and Members of the Parliamentary Finance Committee, my colleagues in Cabinet, members of the District Budget Oversight Committees, and the staff of my Ministry and all other MDAs. I am grateful to the staff of the Law Officers Department for ensuring that the 2010 Finance Bill was prepared on time. As usual, the Government Printer and Staff rose to the occasion and printed the Finance Bill and this Statement on time. All these have ensured that, for the first time, the Finance Bill is laid before this Noble House on the same day as the Statement on Economic and Financial Policies is read.

154. Furthermore, contributions received from private sector institutions including the Sierra Leone Chamber of Commerce, Industry and Agriculture, and the Sierra Leone Association of Manufacturers were invaluable. I thank the Governor, Management and Staff of the Bank of Sierra Leone for being dependable partners in economic management and, indeed, in preparing the 2010 Budget. Certainly, I would be remiss in my duties not to make specific mention of our development partners for their unflinching support, which ensures that we have a Budget for 2010. There is no doubt, Sierra Leone has proven itself to be a credible and trusted partner in development.

155 Finally, Mr. Speaker, Honourable Members, we have set ourselves notable objectives to begin the journey of confronting the future. The future presents hope for the prosperity of all of us by implementing the tough choices I have announced in this budget. It is our national duty to assist Government in ensuring that monies allocated to sectors and agencies are utilized for their intended purposes. Thus, Government is calling on all citizens to be watchdogs in their respective locations to monitor budget implementation. In this way, all of us can benefit from the resources of the State and ensure improvements in the quality of our lives. This way, we are sure of a better future for all.

156. Mr. Speaker, Honourable members, I now move that the “Appropriation Act, 2010” be read for the first time, and I, therefore, commend it to the House.



GOVERNMENT OF SIERRA LEONE

GOVERNMENT BUDGET

and

Statement of Economic and Financial Policies

For the Financial Year, 2010

(Confronting the Future)

DELIVERED BY

DR. SAMURA M. W. KAMARA

Minister of Finance and Economic Development

in the Chamber of Parliament

TOWER HILL, FREETOWN

ON

Friday, 4th December, 2009