

Economic and Financial Review July - December 2006

Highlights

The level of donor participation in the drive for sustained economic development of the Sierra Leonean economy remained strong during the period July–December 2006. Related developments during the period included the following events:

- On the 21st July 2006 the United Kingdom/ Department for International Development (UK/DFID) and the European Union (EU) signed an agreement for the provision of an additional grant of US\$25mn over a five-year period, for the Institutional Reform and Capacity Building Project (IRCBP), with the aim of strengthening the ongoing decentralization process throughout the country.
- On the 24th August 2006, the United States Government, through the United States Agency for International Development (USAID), signed a Special Objective Agreement Grant of US\$4.06mn with the Government of Sierra Leone as part of a new three-year strategy plan for an estimated contribution of US\$16.70mn to enhance democratic governance in Sierra Leone.
- On the 15th of September 2006, the African Development Bank (ADB) approved a grant of US\$4.3mn under the Institutional Support Unit Project (ISUP) towards strengthening of the public financial management and energy sectors in the country.
- The Government of Libya, on the 17th September 2006, donated a total of 69 vehicles including 40 (forty) forty-seven-seater buses, 10 water bowsers, 6 skip tractors and 13 garbage collectors/ compactors worth US\$11.1mn to the Government of Sierra Leone.
- On the 27th October 2006, the European Commission (EC) pledged the sum of 400 million Euros to the Government of Sierra

Leone, as Development Assistance aid.

- Parliament, in October 2006, ratified a loan agreement of US\$1.66mn signed between the Government of Sierra Leone and the Islamic Development Bank for the establishment of a diversified food production project.
- On 3rd November 2006, the Chinese Government made a commitment to assist the Sierra Leone Government with US\$2.5mn as grant to finance various development projects.

Sierra Leone attained Completion Point status under the enhanced Heavily Indebted Poor Countries (HIPC) initiative on 18th December 2006, following the decision by the World Bank's International Development Association (IDA) and the International Monetary Fund (IMF) that the country had made enough progress towards achieving macroeconomic stability as well as implementing its Poverty Reduction Strategy Paper and maintaining a good governance record for it to reach Completion status. Consequently, the country became eligible for debt relief of approximately US\$994 million in nominal terms, from its multilateral, bilateral and commercial creditors and also qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). The additional funds made available under this arrangement is expected to enhance efforts towards achieving the Millennium Development Goals by 2015,

Also, following the successful completion of the First Review of the country's performance under an SDR31.1 million (about US\$46.7mn) Poverty Reduction and Growth Facility (PRGF) Arrangement, the Executive Board of the International Monetary Fund (IMF), on the 18th December 2006 approved the disbursement of SDR4.4 million (about US\$6.6mn) to Sierra Leone, bringing the total amount disbursed under the Arrangement to the equivalent of SDR9.1 million (about US\$13.7mn).

In general, overall economic activities during the second half of 2006 slowed down from the

produced more than doubled. Shipment of diamond was however down by 7.08 percent over the period. The domestic pump prices of crude oil products (petrol, diesel and kerosene) were revised twice in the review period - upwards in July 2006 and downwards in October - to reflect the changes in the world market prices. To obviate structural problems in the supply of crude oil products, the petroleum companies in collaboration with government, set up a strategic stock management scheme as contingency arrangement for fuel shortages. The rehabilitation of the National Psychiatric Medical Hospital (Kissy Mental Home) was completed in the review period. The British Mediterranean Airlines (BMed) commenced flights to and from Freetown in November 2006, further boosting the transport sector.

During the period July-December 2006 the country also received assistance from the international community in aid of enhancing various development projects. The European Union donated drugs and medical equipments worth EU1.2mn to the Government health sector, to be distributed to the Kambia (northern region), Kailahun (eastern region) and Pujehun (southern region), as part of the Commission's assistance to the Health Sector Support Programme (HSSP). Also during the period, the European Union pledged assistance of EU3.00mn to the fishing industry over a three-year period, with a further commitment to provide support in the development of fisheries management based on scientific information. Sierra Leone's contribution within the three-year implementation period of the project will be EU0.7mn. The Islamic Development Bank (IDB) provided a total of US\$1.44mn towards the construction and reconstruction of primary school projects. The Chinese Government also promised to assist the Government of Sierra Leone with US\$2.5mn, as grant to finance various development projects. Under a bilateral arrangement, a team of engineers from Morocco arrived in Freetown in November 2006 to assist in the area of electricity generation in the Western Area. The Libyan Government provided the Sierra Leonean government with 40 (forty seven-seater) buses, 10 water browsers, 6 skip

trucks and 13 garbage collectors. The Malaysian government also donated US\$9.6mn towards improvement of the palm oil industry in Sierra Leone. In the services sub-sector, the telecommunications industry continued to expand its coverage with new products being introduced, thus further reducing the cost of communication in the country. The average inflation in the review period as measured by the consumer price index increased in all the urban towns, with Freetown recording 5.11 per cent, Bo 4.04 per cent, Kenema 4.30 per cent and Makeni 2.71 per cent.

Agriculture

Output data on major crops for the review period are not available, but estimates from Ministry of Agriculture and Food Security (MAFS) for the year 2006 showed increased production of most of the major crops with rice production increasing from 738.00 metric tons to 1,062.00 metric tons, cassava from 2,287.00 thousand metric tons to 2,973.00 thousand metric tons, maize from 39.05 thousand metric tons to 48.81 thousand metric tons, sweet potatoes from 160.12 thousand metric tons to 168.13 thousand metric tons and groundnuts from 104.73 thousand metric tons to 115.20 thousand metric tons. The reason for this development was the increase in Government subvention to the sector and assistance in the supply of rice seeds and other seedlings, tractors, fertilizers and other inputs.

Cocoa shipment increased significantly by 9,556.70 metric ton (436.08%) to 11,748.20 metric tons in the period. The surge in output was partly the result of increased productivity which followed rehabilitation of the cocoa farms as well as the incentive created by the increase in the average world price for cocoa to US\$1,621.27 per metric tons during the period from US\$1,569.75 per metric tons in the first half of 2006. On a quarterly basis, output recorded 1,913.10 metric tons in the third quarter (July-October 2006) but rose markedly to 7,566.80 metric tons in the fourth quarter, which was harvest season for the crop. The volume of shipment in the reporting period also indicated a surge relative to the volume of 2,257.76 metric tons recorded for the

and 5.31 thousand cartons (6.87%) to 82.68 thousand cartons, respectively. When compared with the corresponding period in 2005, production levels for "beer & stout" and maltina showed increases of 2.83 per cent and 17.89 per cent, respectively. Output of beer & stout" was 185.39 thousand cartons in the third quarter and increased by 48.32 thousand "cartons (26.07%) to 233.71 thousand cartons in the fourth quarter, while output of maltina recorded 44.79 thousand cartons in the third quarter but dropped to 37.88 thousand cartons (84.58%) in the fourth quarter. The increase in the production levels for both products in the reporting half-year relative to the preceding half was in anticipation of an expected rise in demand during the Christmas and Ramadan seasons. The margin of increase was however minimal due to the proliferation of imported varieties.

Production of soft drinks dropped by 8.90 percent to 995.75 thousand crates in the second half of 2006 from 1,093.00 crates in the preceding half year. The drop was due to an upsurge in the importation of other brands of soft drinks particularly from other ECOWAS countries like Guinea and Liberia, which had the effect of dampening demand for local brands in the market. Output was 454.50 thousand crates in the third quarter, increasing to 541.25 thousand crates in the fourth quarter. Total output for the reporting period was however 56.91 thousand crates or 6 percent higher than output in the corresponding period in 2005.

The volume of acetylene and oxygen produced in the review period dropped by 16.06 thousand cubic feet (10.45%) to 137.63 thousand cubic feet and by 278.69 thousand cubic feet (52.08%) to 256.47 thousand cubic feet, respectively. The drop in the production of these gases, notwithstanding the usual increase in demand during the festive season was a result of cessation of production activities by the Sierra Leone Oxygen Factory (SLOF) in the month of December 2006, due to problems with the production plants. The total output of acetylene dropped from 94.23 thousand cubic feet in the third quarter to 43.40 thousand cubic feet in the fourth quarter while oxygen output more than doubled from 83.93 thousand cubic feet in

the third quarter to 172.54 thousand cubic feet in the fourth quarter of 2006. Production of acetylene increased by 8.02 percent when compared with 127.43 thousand cubic feet recorded for the corresponding period in 2005, while output of oxygen dropped by 61 percent over the same period.

Output levels for confectionery and common soap dropped in the six months period by 37.27 thousand pounds (3.15%) to 1146.29 thousand pounds and 25.87 61 thousand metric tons (10.49%) to 220.74 thousand metric tons, respectively. The decline in the output level of both commodities resulted from a lull in customer demand due to strong competition from imported brands.

Output of paint and cement dropped by 24.18 per cent and 20.74 per cent to 59.28 thousand gallons and 106.85 thousand metric tons respectively, in the second half of 2006. The substantial decline in the output of both commodities over the half-year was partly accounted for by the usual heavy rains in the third quarter (July to September 2006), which slowed down construction and renovation activities in spite of an increase in the total number of building permits issued during the period. In the case of cement production there was the additional factor of shortage of raw materials. Output of paint recorded 16.04 thousand gallons in the third quarter but rose to 43.24 thousand gallons in the fourth quarter, while production of cement was 51.18 thousand metric tons in the third quarter and 55.67 thousand metric tons in the fourth quarter.

Production of jumbo cubes food condiment and flour decreased by 0.07 thousand cartons (0.44%) to 16.60 thousand cartons and 2.53 thousand metric tons (31.39%) to 5.53 thousand metric tons in the reporting period relative to the preceding half-year. The marked decline in flour production was attributed to shortage of wheat during the period due to delays in shipment of imports. Total output of flour decreased from 2.79 thousand metric tons in the third quarter to 2.74 thousand metric tons in the fourth quarter. In the case of jumbo cubes the decrease was associated with

Electricity Generation

Total electricity generated in the reporting period was 12.54 Gw/hr, down by 35.49 percent and 47.58 percent when compared with the generated levels recorded for January-June (19.44 Gw/hr) 2006 and July-December 2005 (23.92 Gw/hr). Total electricity generated in the third quarter was 6.39 Gw/hr but decreased marginally to 6.16 Gw/hr in the fourth quarter. The drop in electricity generation was due to maintenance of the generating plants and distribution system by a team of engineers from Morocco. There has been continued effort by the Government and its development partners to improve power generation in the country, particularly in the Western Area. During the period the Government and SALCOST signed an agreement for the completion of the Bumbuna Hydro Power Project. Under a bilateral arrangement, a team of engineers from Morocco arrived in Freetown in November 2006 to address the transmission and network problems in the power sector.

Water Supply Services

Inadequate water supply continued in the review period as the capacity of the Guma Dam to meet

the demand in the city and its environs was substantially limited. To complement the effort of Guma Water Company, a new water borehole drilling company (FORAMAT Ltd) with more than 5,000 boreholes in its credit in the sub-region was established in Freetown during the period. The company specializes in rural and urban water supply, rehabilitation of boreholes and wells, and also provides solar power technology and other services.

Tourism

With the active participation of the private sector and the enabling environment being provided by Government, the year 2006 experienced sustained development in this sector as evidenced in the increase in registered tourism establishments like hotels and guesthouses as well as other related tourist facilities nation-wide. There was standard and quality service delivery as hotels, guesthouses and other tourist facilities were constructed, refurbished and rehabilitated nation-wide. Visitor's arrival increased in review period from 16,352 in the first half to 17,352 in the second half of 2006. Of the total 5,466 were from Africa (comprising 4,123 from ECOWAS and 1,343 from

Chart 1
Total Electricity Generation (GW/hr)

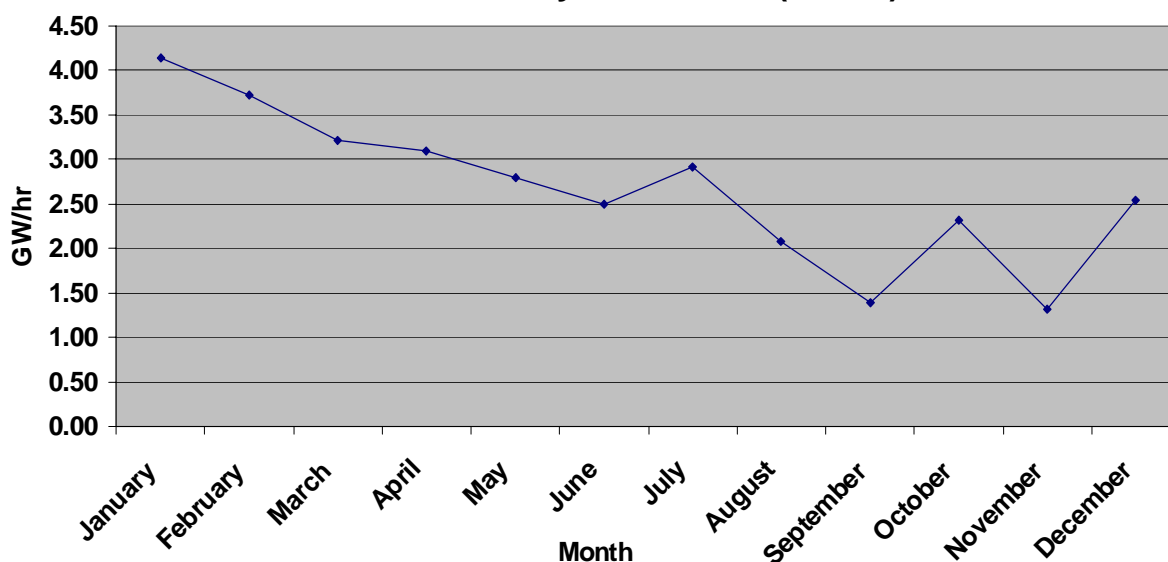
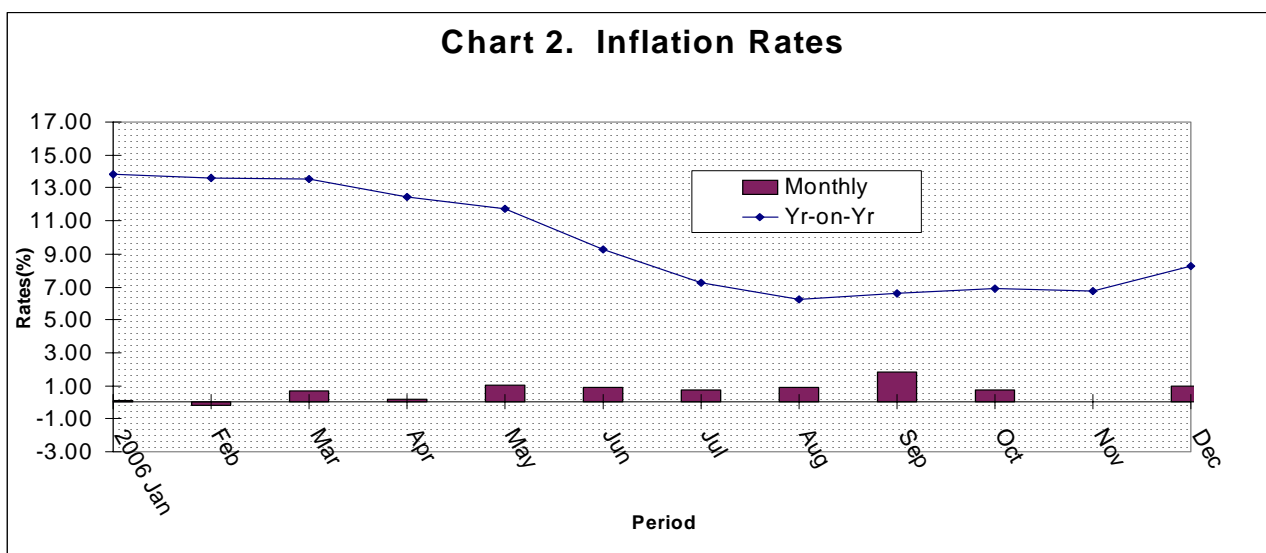


Chart 2. Inflation Rates



Monthly Inflation Rate

In Freetown, the monthly inflation rate increased slightly to 0.99 per cent in December 2006 from 0.92 percent recorded in June 2006. The rate fluctuated in the review period with the lowest rate of 0.06 percent recorded in November while the highest rate of 1.82 percent was recorded in September 2006. In Bo, The monthly inflation rate was 0.36 percent in June 2006 but increased to 1.02 percent in December 2006. The lowest rate of -0.48 percent was recorded in November with the highest (1.81 %) in July. In Kenema, the monthly rate dropped from 1.94 per cent in June 2006 to 0.80 percent in July 2006 and 0.77 percent in August 2006. It however increased to 1.41 per cent in September 2006 and remained below 1.00 percent in the remaining months. In Makeni the monthly rate fluctuated through the months from 1.35 percent in June 2006 to 0.80 percent in July and 1.62 percent in August and reached 1.84 percent in September 2006. It however dropped to a negative figure in October and November and then increased slightly to 0.80 percent at the end of the period.

During the reporting period, the domestic pump prices of crude oil products (petrol, diesel and kerosene) were revised twice. In July the prices for all the products were increased to Le13,500.00. The price unification for the three products was to remove the price differentials

in the products across the country as well as to obviate the contamination of one product with another by unscrupulous traders. In October, the prices were however revised downwards to Le12,950.00 for the three products. The adjustment of the prices was in response to changes in the world market prices of the products. To protect the economy against the volatility in the prices of petroleum products, the Government established the Strategic Stocks Program in collaboration with the petroleum companies. The program is designed essentially to remove the threat of fuel stocks out, through the creation of a six to eight weeks buffer stock for all grades of petroleum products.

3. Fiscal Operations

Government fiscal operations in the second half of the year resulted in a marked increase of the budget deficit due to lower revenue collections against a backdrop of higher expenditure outlays, particularly in the third quarter, to meet targets on poverty-related expenditure. Aggregate revenue including grants was Le415.02bn for the reporting period, comprising Le236.56bn in domestic receipts and Le178.46bn in grants. Total receipt for the review period was Le78.71bn (15.94%) and Le20.98bn (4.81%) below the corresponding position in July - December 2005 and the programme target of Le493.73bn and Le436.01bn respectively. Domestic revenue (5.51 % of GDP) accounted

Table 4
Government Fiscal Operations
(In Millions of Leones)

	Jul - Dec 2005	Jan - Jun 2006	Jul - Sep 2006	Oct - Dec 2006	Jul - Dec 2006	Prog. Target Jul - Dec 2006
1	2	3	4	5	6	7
TOTAL REVENUE (PLUS GRANTS)	493,731	423,196	161,157	253,867	415,024	436,005
DOMESTIC REVENUE	215,341	260,584	122,454	114,110	236,564	283,601
Of which:						
Customs & Excise	124,933	143,958	67,864	65,745	133,609	162,860
Import Taxes	94,157	101,054	50,162	46,100	96,262	
Excise on Petroleum	20,470	29,181	14,009	15,091	29,100	
Other Excise Duties	3,572	7,765	2,019	2,855	4,874	
Domestic Sales Tax	6,734	5,958	1,674	1,699	3,373	
Income Tax Department	61,397	68,810	35,906	33,389	69,295	83,886
Company Tax	33,800	31,423	18,841	14,810	33,291	
Personal Income Tax	25,306	29,723	13,554	14,188	27,742	
Other Taxes	2,291	7,664	3,871	4,391	8,262	
Miscellaneous	18,065	29,109	8,590	4,121	12,711	21,877
Mines Dept.	4,297	9,035	3,206	2,502	5,708	8,739
Royalty on Rutile	318	786	155	190	345	
Royalty on Bauxite	1,683	0	514	536	1,050	
Licences	2,296	8,249	2,537	1,776	4,313	
Other Departments	13,768	20,074	5,384	1,619	7,003	13,138
Royalty on Fisheries	2,160	1,910	1,183	932	2,115	
Parastatals	321	7,870	484	-	484	
Other Revenues	11,287	10,294	3,717	687	4,404	
Road User Charges	10,946	18,707	10,094	10,855	20,949	14,978
GRANTS	278,390	162,612	38,703	139,757	178,460	152,404
Programme	216,209	134,639	10,450	73,411	83,861	96,816
HIPC Debt Relief Assistance	37,343	21,421	10,450	5,826	16,276	27,520
UK (DFID)*	76,451	53,693	-	13,775	13,775	28,000
EU	60,290	37,032	-	-	-	-
WB	42,125	22,493	-	30,132	30,132	-
Project	-	-	-	-	-	-
DDR	-	-	-	-	-	-
Development Projects	62,181	27,973	28,253	66,346	94,599	55,588
TOTAL EXPENDITURE & NET LENDING	458,445	388,079	265,164	260,561	525,725	504,243
Of which:						
Current Expenditure	336,946	311,805	204,482	181,260	385,742	389,553
Of which:						
Wages & Salaries	123,911	136,497	70,088	64,946	135,034	135,339
Domestic Interest	41,163	44,911	21,618	22,569	44,187	38,047
Foreign Interest	14,019	13,596	8,031	7,894	15,925	35,744
Goods & Services	128,659	74,437	69,105	61,551	130,656	129,738
Transfers to Local Councils	7,360	6,199	9,368	11,455	20,823	16,509
DDR	-	-	-	-	-	-
Social Outlays	-	-	-	-	-	150
Grants to Education Institution	10,194	14,678	14,888	-	14,888	13,888
Transfer to Road fund	10,946	18,707	10,094	10,855	20,949	14,978
Elections & Democratisation	693	2,780	1,290	1,990	3,280	5,160
Development Exp. & Net Lending	121,498	76,274	60,682	79,301	139,983	114,690
Foreign Loans & Grants	107,105	56,631	47,481	66,346	113,827	95,780
Loans	44,924	28,657	19,228	-	19,228	40,192
Grants	62,181	27,974	28,253	66,346	94,599	55,588
Domestic	10,811	19,643	13,201	11,256	24,457	18,910
Subsidies	-	-	-	-	-	-
Lending Minus Repayment	3,582	-	-	1,699	1,699	-
CURRENT BALANCE+/- (Including grants)	156,785	111,391	(43,325)	72,607	29,282	46,452
ADD DEVELOPMENT EXPENDITURE	(121,499)	(76,274)	(60,682)	(79,301)	(139,983)	(114,690)
OVERALL DEFICIT/SURPLUS +/- (Incl. grants)	35,286	35,117	(104,007)	(6,694)	(110,701)	(68,238)

period totaled Le44.19bn, 16.14 per cent and 7.35 per cent above the half-year programme target (Le38.05bn) and the corresponding payments in 2005. Foreign interest payments amounting to Le15.93bn were 55.45 percent short of the programme target but 13.60 percent above similar payments in July-December 2005. Total transfer of funds to local councils in the review period amounted to Le20.82bn, exceeding the programme target and transfers in 2005 by 26.13 percent due to delays in payments to local councils in the first half of the year, which was, effected during the second half of the year. Transfers to Road Fund (Le20.95bn) were 39.87 percent higher than the target as a result of the increase in road user charges per pump price of fuel from Le1,000.00 to Le1,341.00 during the review period.

Total development expenditure and net lending was recorded at Le139.98bn for July-December 2006, 22.05 percent and 15.21 percent more than the programme benchmark of Le114.69bn and the corresponding July-December 2005 spending. Financing for development spending was from foreign loans (Le19.23bn), grants (Le94.60bn) and domestic contribution (Le24.46bn). Development grants were Le39.01bn (70.18 per cent) above the budgeted amounts, while foreign loans for development were 52.16 percent below the programme estimate due to conversion of World Bank loans to grants. Domestically financed expenditure for the period was Le24.46bn, 29.33 percent and 24.51 percent more than the programme target and the corresponding July-December 2005 positions, respectively.

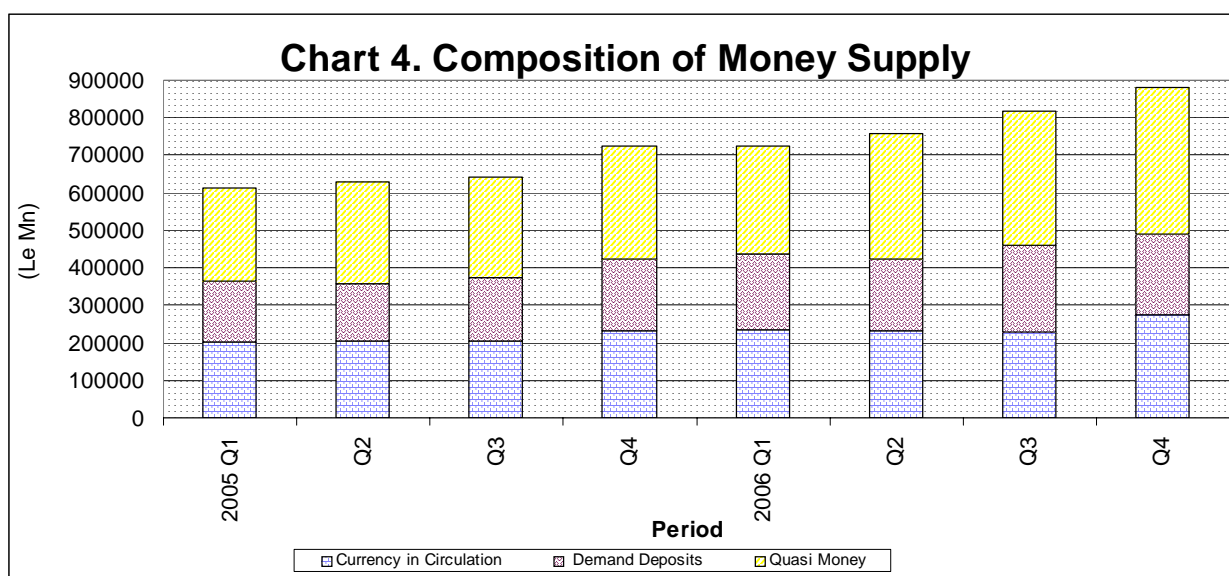
The overall fiscal balance (including grants) was a deficit of Le110.70bn, significantly higher than the programme estimate of Le68.24bn for the review period. Financing of the deficit was from both external and domestic sources. External financing reflected a net payment on amortisation amounting to Le27.68bn, which was Le42.79bn below the programme target of Le15.10bn. This constituted Le19.23bn in project loans and Le46.91bn in respect of amortisation. Domestic financing totaled Le13.36bn, mostly from the commercial banks. The Bank of Sierra Leone reduced its holding of securities by

Le6.01bn in the reporting period, while financing from other sources comprised privatization receipts and floats.

4. Monetary Developments

Monetary policy during the reporting period (July-December 2006) focused mainly on consolidating the single digit inflation rate realized in the first half of the year. The Central Bank (BSL) continued to use Open Market Operations (OMO) as the main monetary policy instrument, complemented by the sale of foreign currency in the foreign exchange auction. The main thrust of OMO was the rolling over of existing Government securities (bills and bonds) in the absence of new securities for most part of the second half of the year until November 2006 when new bills were introduced. In a bid to meet the targets set for poverty related expenditure (not met in the first half of the year) there was a boost in expenditure in the second half year, which translated to an increase in Net Claims on government by BSL and subsequently an increase in overall domestic credit and expansion in money supply. To curb the inflationary tendencies associated with increase in money supply, the Bank and the Ministry of Finance signed a Memorandum of Understanding to convert Le50bn worth of non-interest bearing, non-negotiable securities from the outstanding stock of Le530bn to tradable securities for monetary policy purposes. The memorandum was implemented in November 2 2006, but was too late to effect any reversal of trends in monetary movements as the aggregates expanded over the review period.

Monetary developments during the period were characterized by expansionary trends in monetary aggregates. Narrow Money (M1), Broad Money (M2) and Reserve Money (RM) increased by Le64.98bn (15.31%), Le120.79bn (15.92%) and Le50.56bn (17.69%), respectively. Growth in M1 was a result of increase in currency in circulation (Le42.99bn) and demand deposits (Le21.99bn). This rise in M1 arose from the increase in demand for currency during the festive season and the acceleration of economic activity. The rate of growth of M1 in the review period was 15.31 percent compared with 0.03 percent



in preceding half of 2006. Broad Money (M2) increased by 15.92 percent between end June 2006 and end December 2006 and was also higher than the increase of 4.77 per cent in the first half. M1 and Quasi Money (which comprise M2) increased by Le64.98 (15.31%) and Le55.81bn (16.69%), respectively. The increase in Quasi Money mainly resulted from the Le31.10bn and Le16.73bn increases in commercial banks' Foreign Currency and Savings Deposits,

respectively. Net Foreign Assets (NFA) of the Bank of Sierra Leone deteriorated over the review period (88.17%) as external support was not as strong as the first half. This was moderated by the improvement in commercial banks' Net Foreign Assets and resulted in an overall increase of Le10.73bn (8.82%) in NFA of the banking sector. The combined increase in Net Foreign Assets and Net Domestic Assets (NDA) of Le110.05bn accounted for the expansion in M2.

Table 6
Average Interest Rates
(Percent)

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
1	2	3	4	5	6
Treasury Bills (3-months)	20.41	19.12	20.41	16.44	14.19
Treasury Bearer Bonds(1-year)	19.00	15.50	19.00	13.50	17.00
Savings Deposits	7.63	7.63	7.63	7.63	7.63
Time Deposits					
1 Month	10.38	10.38	10.38	10.38	10.38
3 Months	10.43	10.43	10.43	10.43	10.43
6 Months	11.14	11.14	11.14	11.14	11.14
9 Months	11.40	11.40	11.40	11.40	11.40
12 Months	12.83	12.83	12.83	12.83	12.83
Lending Overdraft Rate	24-30	24-30	24-30	24-30	24-30

Table 8a
International Trade and Reserves
(Million Leones)

	Jul - Dec 2005	Jan - Jun 2006	
1	2	3	
Merchandise Imports	496,332.2	614,144.5	
<i>of which</i>			
Food <i>of which</i>	86,617.3	78,288.7	
Rice	30,047.0	36,458.5	
Beverages and Tobacco	14,449.1	15,613.5	
Crude Materials	13,171.6	52,977.2	
Mineral Fuels and Lubricants <i>of which</i>	164,536.2	220,530.9	
Fuel	131,670.7	196,073.6	
Animal and Vegetable Oils	2,853.5	7,602.5	
Chemicals	23,418.6	33,765.0	
Manufactured Goods	52,904.5	64,957.8	
Machinery and Transport Equipment	113,858.7	116,772.0	
Other Imports	24,522.7	23,636.9	
Merchandise Exports	215,298.6	344,835.9	
¹ <i>of which</i>			
Mineral Exports	194,373.5	243,812.4	
Diamonds	194,109.0	197,242.0	
Bauxite	-	25,036.8	
Rutile	-	20,114.3	
Gold	264.5	1,419.3	
Ilmenite	-	-	
Agricultural Exports	4,610.3	8,206.9	
Coffee	402.6	2,918.7	
Cocoa	4,079.6	5,192.2	

year. The value of diamond shipments however showed a decline in the review period relative to both the preceding six months and the corresponding period in 2005. The decline in the value followed a similar decline in volume, mainly due to reduced mining activities. Receipts from diamond exports amounted to US\$58.25mn, indicating decreases of 12.8 percent and 12.9 percent on the preceding half-year and the corresponding 2005 positions, respectively. The total value of diamond exports comprised US\$50.29mn of gemstones and US\$7.96mn of industrial stones. The value of gemstones exported decreased by 15.8 percent and 7.8 percent compared to their respective values for January-June 2006 and July-December 2005, while the value of industrial stones increased by 12.9 percent over the half-year period but decreased 35.4 percent as compared with the corresponding value in 2005. Total earnings from gold exports increased to US\$0.58mn in the reporting period, from US\$0.48mn in the preceding half-year due to increased production arising from expanded mining operations. It also registered a marked increase on similar earnings in the corresponding period in 2005.

Receipts from agricultural exports during July-December 2006 amounted to US\$9.97mn, indicating increases of US\$7.18mn (257.7%) and US\$8.40mn (532.6%) on the totals for January-June 2006 and July-December 2005, respectively. Earnings from coffee exports were US\$104.8 thousand for the reporting period, reflecting decreases of 89.4 percent and 24.2 percent over the half-year and the year respectively, due to a lower shipment volume in the reviewing period. In contrast, the value of cocoa exports surged by US\$8,04mn (454.7%) over the six months period and was also US\$8,41mn (603.1%) higher than receipts for the corresponding half in 2005. Export of fish and shrimps rose by 98.2 percent and 46.8 percent when compared with the first half of 2006 (US\$32.6 thousand) and the second half of 2005 (US\$44.0 thousand), respectively. Earnings from the "Other Exports" category, constituting sliced ginger, sawn timber, assorted plastic wares, audio cassettes and compact discs, declined marginally by 4.2 percent to US\$5.20mn in the period under review, but

increased more than twofold when compared with US\$1.66mn recorded in the same period a year ago. The value of re-exports dropped significantly (90.7%) to US\$2.41mn in the reporting period and also declined by 39.1 as compared with US\$3.95mn in the corresponding period in 2005.

Total import payments for merchandise goods amounted to US\$186.59mn in the second half of 2006, down by 10.4 percent when compared with similar payments recorded for the first half of the year; but up by 9.4 percent compared with payments for the corresponding six months in 2005. The reduction in total payments was reflected in payments for all import categories, except the "manufactured goods" category.

The value of import of consumer goods was US\$34.34mn for the period July- December 2006, 0.2 percent below the import bill for the first half of 2006. The decline followed decreases in payments for "beverages and tobacco" and "animal and vegetable oils" which together offset the increase in payments for "food" (11.4%). Payments for rice imports dropped by 9.3 percent compared to the preceding period, but increased by 8.7 percent in comparison with the corresponding 2005 payments. Import payments for intermediary goods was down by 44.4 percent to US\$16.32mn in the second half year, reflecting the 78.9 percent drop in the total cost for crude materials which outweighed the 9.5 percent increase in the import bill for chemicals. The total cost of imported manufactured goods for the period stood at US\$34.13mn, indicating increases of 13.6 percent and 28.3 percent on their total import values for the preceding six months and the corresponding half year in 2005, respectively. The value of mineral fuels and lubricants (including fuel) amounted to US\$72.30mn, showing a decrease of 3.3 percent on payments in the preceding period, but was 27.8 percent higher than payments in the corresponding period in 2005. The cost of fuel imports amounted to US\$56.78mn, 14.6 percent below similar payments for the January-June 2006. It however indicated an increase of US\$9.72mn (25.4%) on fuel import payments for the corresponding period in 2005. Payments for import of

US\$1, followed by the commercial banks (0.47%) to Le2,985.70/US\$1, the official rate (0.46%) to Le2,982.40/US\$1, the bureaux rate (0.15%) to Le2,976.68/US\$1 and auction rate (0.10%) to Le2,974.68/US\$1.

The premium between the parallel market rate and the official rate widened to Le60.35/1 US\$ in the reporting period from Le57.24/1 US\$ in the first half of 2006. It however recorded a significant reduction compared with Le99.92/1 US\$ indicated for the corresponding half in 2005, due mainly to the marked depreciation in the parallel market rate over the year.

(7) Sectoral Utilisation of Foreign Exchange

Total foreign exchange sold by the Bank of Sierra Leone under its weekly foreign exchange auction during the last six months of 2006 was US\$34.24mn. The amount was 27.89 percent and 88.07 percent more than the amount utilised in the first half of 2006 and the second half of 2005, respectively. The significant increase was in response to the constant demand pressure for foreign exchange during the period. All the sectors recorded increases in their utilisation during the six months reporting period, except the oil companies. An all-round increase was also recorded over the corresponding positions in 2005. The manufacturing industries sector claimed the highest utilisation for the reviewing period at US\$11.89mn or 34.72% of total utilization. This was US\$3.11mn or 35.37 percent higher than in the preceding half-year as well as US\$8.69mn or over three times above the level in July-December 2005. The general imports category recorded the next highest at

US\$10.81mn or 31.72% of total utilization, reflecting increases of US\$1.94mn (21.74%) and US\$3.87mn (55.44%) on the amounts indicated for the preceding half year (January-June 2006) and the corresponding July-December 2005 period, respectively. This was followed by the commercial banks' aggregate of US\$8.45mn (24.68% of total), which also showed respective increases of US\$2.69mn (46.82%) and US\$2.79mn (49.31%) over the half-year and the year, respectively. The oil companies accounted for the least at US\$3.04mn or 8.88 percent of total utilization, translating to a decrease of US\$0.27mn (8.24%) on the preceding half-year's (January-June 2006) position but US\$0.69mn or 28.87 percent higher than for July-December 2005.

(8) Gross External Reserves

Gross external reserves of the Central Bank decreased by US\$14.71mn (7.85%) to US\$172.68mn at end-December 2006 from US\$187.39mn at end-June 2006. The reduction was due to total payments of US\$58.93mn outweighing total receipts of US\$50.22mn during the review period. Significant inflows during the second half of 2006 comprised World Bank disbursements of US\$10.23mn, in respect of the Economic Recovery and Rehabilitation Grant, the African Development Bank disbursement of US\$8.04mn, in respect of the second tranche under the Third Economic Recovery and Rehabilitation Programme (ERRPIII), US\$6.62mn from the International Monetary Fund in respect of Poverty Reduction Growth Facility Loan, US\$4.68mn, under the United Kingdom/ Department for International Development Poverty Reduction Budgetary Support

Table 9

Sectoral allocation of Foreign Exchange under the Auction System (US\$ '000)					
Sectors	Jul-Dec'05	Jan-Jun'06	Jul-Sep'06	Oct-Dec'06	Jul-Dec'06
1	2	3	4	5	6
Banks	5,658.73	5,754.90	4,397.55	4,051.55	8,449.10
Oil Companies	2,360.00	8,920.00	1,601.48	1,439.87	3,041.35
Manufacturing Industries	3,199.77	3,314.51	6,028.14	5,860.75	11,888.89
General Imports	6,986.30	8,782.62	6,500.00	4,359.27	10,859.27
Total Allocation	18,204.80	26,772.03	18,527.17	15,711.44	34,238.61

**Table 10. Outstanding External Public Debt as at December 31, 2006
(In million US dollars)**

1	Disbursed		Arrears		Total Incl. Interest	Percentage of Total
	Outstanding Debt /1	Principal	Interest			
	2	3	4	5	6	
Total External Debt	1,610.9	265.6	8.0	1,618.9	100.0	
Total Commercial Obligations and Short-Term Debt	219.8	219.8	-	219.8	13.6	
Total Long-Term Debt	1,391.1	45.8	8.0	1,399.1	86.4	
of which:						
Multilateral	946.2	0.5	-	946.2	58.4	
<i>World Bank Group</i>	591.9	-	-	591.9	36.6	
<i>IMF</i>	34.7	-	-	34.7	2.1	
<i>ADB/F</i>	215.7	-	-	215.7	13.3	
<i>EEC</i>	15.4	-	-	15.4	1.0	
<i>EIB</i>	10.3	-	-	10.3	0.6	
<i>IFAD</i>	22.6	-	-	22.6	1.4	
<i>BADEA</i>	14.3	0.5	-	14.3	0.9	
<i>IDB</i>	31.8	-	-	31.8	2.0	
<i>OPEC</i>	9.5	-	-	9.5	0.6	
Official Bilateral	427.1	27.5	4.5	431.6	26.7	
<i>Paris Club /2</i>	371.3	-	4.5	375.8	23.2	
<i>Other Bilateral</i>	55.8	27.5	-	55.8	3.4	
of which:						
<i>China</i>	32.8	27.5	-	32.8	2.0	
<i>Morocco</i>	-	-	-	-	-	
<i>Kuwait Fund</i>	22.1	-	-	22.1	1.4	
<i>Saudi Fund</i>	0.9	-	-	0.9	0.1	
<i>CDC</i>	-	-	-	-	-	
Other Creditors/Military Debt	17.8	17.8	3.5	21.3	1.3	

/1 Disbursed Outstanding Debt, including Principal Arrears

/2 Assuming itrim debt relief from all Paris Club creditors

Source: International Finance Dept, BSL

he met with the Authorities and the various stakeholders and apprised them of the plans and strategies the new WAMI would be implementing to ensure the ultimate objective by the new deadline. During the period July-December 2006 two meetings (September and December 2006) of the Convergence Council of WAMZ were held in Accra, Ghana. At the December Meetings it was noted that macroeconomic performance by Member States during the reporting period was generally satisfactory. There was much improvement in terms of compliance with the stipulated WAMZ Convergence Benchmarks, especially in the areas

of inflation tackling and the accumulation of reserves. The fiscal deficit criterion however was unattained by all countries except Nigeria. Progress was also recorded in the qualitative aspects of the convergence process, as well as in the implementation of the Action Plan and Work Programme, which was a product of the Bangul Declaration of May 2005 by the Authority of Heads of State and Government, at their Meeting in The Gambia. In addition, the Meeting emphasized on the following areas, to ensure that progress was sustained:

financing of the deficit/Previous year's criterion of 10.00 percent or less, for which it had recorded a satisfactory position since the first half of 2005. On the secondary criteria, performance remained weak, though indicating improvements in most benchmarks. The nominal exchange rate relative to the WAMZ central parity exchange rate mechanism remained stable, though still outside the zone's requirement.

Primary criteria

As shown in the table, the single digit inflation rate criterion was not only met at 8.3 percent in December 2006, it was in addition an improved position compared with the single digit rate of 9.2 percent first attained in June 2006. It was also a significant improvement on 13.10 percent for December 2005.

The budget deficit/Gross Domestic Product ratio for the reporting period was recorded at 11.9 percent, thus exceeding the WAMZ benchmark of not more than 4.0 percent. The period's performance was also a significant deterioration on 5.3 percent recorded for the first half of the year and was mainly responsible for the non-compliance at 7.2% registered for the year. The budget deficit expanded in the period under review due to additional pressures from the need to meet the target on priority expenditures under the IMF Poverty Reduction Strategy, as expected foreign inflows failed to materialize on time.

Central Bank financing of the budget deficit as a percentage of the previous year's tax revenue was 18.6 per cent, indicating a reversal of the previous trend of zero Central Bank financing recorded at end June 2006 and end July 2005. A nil-financing position was achieved in these periods due to the draw down on government balances, which had previously been built up by increased inflows. Against the backdrop of low treasury balances and delays in the receipt of foreign inflows in the reporting period, the government resorted to Central Bank financing through increased securities at the end of the fourth quarter, thus breaching the 10 percent ceiling on Central Bank financing requirement.

At 3.8 months of import cover indicated for the second half of 2006, the country continued to meet the gross external reserves requirement by WAMZ of not less than three months of import cover. It was however a reduction on the 4.2 months of import cover achieved at end June 2006, due to a slowdown in disbursements from external donors during the period.

Secondary Criteria

The tax revenue/Gross Domestic Product benchmark was again breached at 8.4 per cent, well short of the WAMZ target of at least 20 percent. It was also a marginal deterioration on the January-June 2006 position, which measured 8.8 percent but however a significant improvement on the July-December 2005 position when the ratio stood at 5.3 percent. The continued inability of the country to meet this criterion is indicative of the need for more effort at enhancing tax revenues.

The wage bill/tax revenue ratio criterion of not more than 35 per cent was again breached at 66.6 per cent for the period under review. It was however a slight improvement on 66.5 percent for the second half of 2005 and 64.2 percent recorded for the first half of 2006. The achieved ratio was indicative of the need to cut down on the civil service labour force.

The country failed, albeit marginally, to achieve the positive interest rate criterion as required by WAMZ criterion. Real interest rate was a negative 0.6 percent at end December 2006 notwithstanding the attainment of single digit inflation rate. The performance was however a marked improvement on negative 5.4 percent and negative 1.5 percent recorded for July-December 2005 and January-June 2006, respectively. The negative interest rate in the face of declining inflation indicates a relatively low fixed savings rate.

The benchmark on nominal exchange rate was once again breached as the Leone depreciated by 16.1 percent from the central parity rate, exceeding the required +/-15 percent band under the WAMZ exchange rate mechanism. The Leone remained relatively stable through the

Documents

Press Release [No. 06/285]

IMF Executive Board Completes First Review Under PRGF Arrangement for Sierra Leone and Approves US\$6.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Sierra Leone's performance under an SDR 31.1 million (about US\$46.7 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release 06/94). With the completion of this review, Sierra Leone would be able to draw the equivalent of SDR 4.4 million (about US\$6.6 million), bringing the amount disbursed under the arrangement to the equivalent of SDR 9.1 million (about US\$13.7 million).

The Board agreed to waive the nonobservance of the end-June 2006 structural performance criterion on the updating and auditing of the civil service database, as this measure has been implemented as a prior action for completion of the first review.

Following the Executive Board's discussion on Sierra Leone, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, said:

"The Sierra Leonean authorities are to be commended for their progress in consolidating peace and macroeconomic stability, which has supported continued robust and broad-based growth and a recent moderation in inflation. This progress places Sierra Leone, with the assistance of the international community, including the United Nations Peacebuilding Commission, in a favorable position to surmount its daunting post-conflict challenges.

"The realization of the Millennium Development Goals (MDGs) will depend on strengthened program performance, including progress towards fiscal sustainability, the avoidance of excessive debt accumulation, and strong private-sector led growth, supported by significant external financial assistance. In order to create fiscal space for poverty reduction, the Sierra Leonean authorities will need to increase the domestic revenue-to-GDP ratio, and rationalize public

expenditure. A key policy measure will be civil service reforms, which should improve the quality of public services while also helping to bring the wage bill under control.

"Financial sector reforms will be important for fostering domestic savings and spurring investment and growth. Implementation of a comprehensive strategy to strengthen the financial system according to a firm timetable will be a crucial element of the reforms. A further important element will be sustained implementation of the Anti-Money Laundering Act.

"Vigilance will be needed to ensure the containment of inflation. In this regard, the decision to provide government securities to the Bank of Sierra Leone (BSL), which will help strengthen the monetary framework, is welcome. The authorities appropriately aim to pursue a flexible exchange rate policy which will facilitate economic adjustment to exogenous shocks.

"The acceleration of governance and other structural reforms will enhance transparency and accountability, and improve the regulatory framework. The authorities' commitment to critical reforms in the context of the Improved Governance and Accountability Pact, and to the full implementation of the Extractive Industries Transparency Initiative is welcome.

"The provision of debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) will lead to a significant decline in Sierra Leone's debt ratio, lowering the risk of debt distress. The authorities' commitment to using freed up resources for poverty-reducing spending and their intention to borrow only on highly concessional terms are commendable. Non-Paris Club creditors are encouraged to grant debt relief in line with the HIPC framework," Mr. Portugal said.

Director for Sierra Leone. "US\$1.6 billion in nominal terms translates to significant new fiscal space, initially about US\$90million a year. The task now is to have high value-for-money public expenditure. Sierra Leone needs effective decentralization and full implementation of the Improved Governance and Accountability Pact. Can Government do it?"

"Sierra Leone has made good progress toward securing macroeconomic stability and established a good track record of policy implementation in 2005 and the first half of 2006," said Norbert Toé, IMF Mission Chief for Sierra Leone. "Looking forward, a key challenge is to sustain high economic growth rates in order to further reduce poverty while maintaining macroeconomic stability and debt sustainability. Meeting this challenge will require maintaining the momentum for structural and governance reforms, including an increased domestic revenue mobilization effort and continued reforms in public expenditure management. Debt relief at completion point under the enhanced HIPC Initiative and MDRI is an important milestone for Sierra Leone toward debt sustainability while providing more resources for poverty reduction and the attainment of the Millennium Development Goals."

Next Steps

The World Bank will continue to deepen its support for growth and poverty reduction in Sierra Leone through its investment projects, technical assistance, budget support and engagement in the policy dialog. Key areas of emphasis include the quality of governance; the level and quality of public service delivery, notably through decentralization; investments in infrastructure; private sector development, both urban and rural; health services; and educational services. For its part, the government is committed to ensure that resources released through debt relief will be applied to programs that promote growth and poverty reduction. This will be achieved in 2007 through the preparation of a supplemental budget and the implementation of new budget procedures that will provide deeper protection for poverty reducing expenditures in the event

of any unforeseen resource shortfalls in the future. The government is also committed to the elimination of waste and corruption through a comprehensive program of governance reforms including the Anti-Corruption Commission; implementation of the Government Budgeting and Accountability Act (2005); deepened procurement reforms; and implementation of the principles and criteria set out under the Extractive Industries Transparency Initiative.

ANNEX

The HIPC Initiative

In 1996, the World Bank and IMF launched the HIPC Initiative to create a framework in which all creditors, including multilateral creditors, can provide debt relief to the world's poorest and most heavily indebted countries, and thereby reduce the constraints on economic growth and poverty reduction imposed by the debt-service burdens in these countries. The Initiative was modified in 1999 to provide three key enhancements:

Deeper and Broader Relief. External debt thresholds were lowered from the original framework. As a result, more countries have become eligible for debt relief and some countries have become eligible for greater relief;

Faster Relief. A number of creditors began to provide interim debt relief immediately at the "decision point." Also, the new framework permitted countries to reach the "completion point" faster; and Stronger Link Between Debt Relief and Poverty Reduction. Freed resources were to be used to support poverty reduction strategies developed by national governments through a broad consultative process.

To date, 30 HIPC countries have reached their decision points, of which 21 (including Sierra Leone) have reached completion point.

The MDRI

At the July 2005 G8 Summit in Gleneagles, Scotland, G8 leaders pledged to cancel the debt

Statement by Charlotte Ndaw, Anti-Money Laundering Advisor, at a Technical Workshop on AML/CFT Strategy Development in Sierra Leone held 10 - 13 July 2006 at Bank of Sierra Leone Recreational Complex

**Dear Excellency the Governor of the Bank of Sierra Leone,
The Administrative Secretary of GIABA,
The Executive Director of National Drugs Control Agency
Distinguished Guests,
Ladies and Gentlemen,**

I am extremely pleased to address you today on behalf of the United Nations Office on Drugs and Crime, UNODC, on the occasion of the technical workshop on anti money laundering and counter financing of terrorism strategy development in Sierra Leone.

In this context allow me to seize this opportunity for deeply thanking the Government of Sierra Leone and the authorities of the Bank of Sierra Leone, for not only hosting this meeting but also for giving to the anti money laundering effort, the priority it deserves.

The enactment of the anti money laundering legislation is the most evident indicator of the seriousness of the Government of Sierra Leone to tackle once for all the issue of money laundering.

In March 2006, UNODC conducted a Technical Assistance Needs Analysis (TANA) to assess existing AML/CFT framework in Sierra Leone, weaknesses and strengths.

This technical workshop is in line with the TANA and its recommendations; its main objective is to develop a national AML/CFT strategy with major stakeholders.

The national AML/CFT strategy is the national road map defining roles of stakeholders and actions to be taken for an efficient functioning of the national framework against money laundering (and financing of terrorism) including coordination among key actors.

The adoption and the implementation of a national AML/CFT strategy will allow, among other things, facilitating the delivery of technical assistance by the United Nations and the international community.

We at UNODC will continue to do our utmost to assist the government of Sierra Leone in the fight against money laundering (and financing of terrorism).

Thank you.

corrupt law enforcement and inept judiciary.

Last year, the UNODC issued a report on Crime and Development in Africa which shows inter alia that Africa is a target of criminal gangs that frequently exploit post conflict situations; creating an environment that is also prone to conventional crime and urban violence. Following the Report, a Round Table Meeting, which was attended by 147 African Ministers and Crime Prevention Experts, Development Partners and Civil Society organizations, was held in Abuja, Nigeria, to determine priorities for technical assistance and implementation modality. GIABA is closely working with the UNODC and will continue to do so with other integers to promote synergy based on comparative advantage to deal with these problems within this region in a coordinated fashion.

This, being my first official visit to Sierra Leone, and to any member state of GIABA, my mission is to issue a call for action_ a reminder that individuals, institutions and governments need to do more than just pronouncing political commitment. We need to take practical measures and adopt dissuasive sanctions against criminals. According to the UN "World Economic and Social Survey: Diverging Growth and Development (2006), inequality in incomes between rich and poor countries is growing and must be confronted to prevent global destabilization". This growing gap, contradicted conventional wisdom that income disparity would close as the world economy became more integrated. We need to protect our economies and attract direct foreign investment in our region.

Our goal in GIABA is to prevent and contain these scourges in West Africa. In this connection, GIABA is a leader, not only working to ameliorate these menaces, but also in promoting a regional alliance to achieve this goal. GIABA operates through the following four main organs:

- An Ad Hoc Ministerial Committee
- The Administrative Secretariat
- The Technical Commission; and
- A Network of National Correspondents.

Permit me therefore to call on the authorities of our member states to provide adequate support to our National Correspondents in their respective jurisdictions.

Before concluding this remark, let me turn to the all important issue of why a strategic action plan is necessary. Developing a strategic plan of action is a major requirement of an FIU because it provides clarity as to the fundamental objectives and direction of a national AML/CFT framework. Such a strategy/plan of action should therefore be predicated on certain objective criteria, which I like would refer to as SMART.

S = Simplicity { such plan should be as simple as possible]

M = Measurable (it should be gauged by certain objective benchmarks)

A = Achievable

R = Realistic

T = Timeliness.

The strategy/action plan should also be premised on an acute awareness of certain fundamental requirements for its success or otherwise. It must demonstrate clarity of strengths, weaknesses and opportunities that would make the stated goals realistic and achievable within a specific timeframe. It should also have a clear implementation mechanism, including how the various stakeholders will collaborate in a concerted manner, avoiding duplication and waste of scarce resources.

With these few remarks, distinguished ladies and gentlemen, I would like to end by thanking the UNODC for collaborating with us in GIABA to implement this project of technical assistance in the prevention of money laundering and terrorism financing in West Africa. I equally thank the Government of the Republic of Sierra Leone for demonstrating a strong political commitment by passing the Anti_money Laundering Act and initiating the process of establishing a functional FIU. I thank in particular, the supervisory Ministry (of Finance) for providing the necessary support to the Central Bank of Sierra Leone to establish a Money Laundering Surveillance Department, which I hope will serve as the FIU of Sierra

Statement by World Bank President Paul Wolfowitz on his arrival in Sierra Leone on 20th July, 2006

I'm going to just make a brief statement here, and tomorrow we'll have an opportunity for a press conference where I can answer questions, but since our schedule is tight, I'll just make this statement now.

I'm delighted to be visiting Sierra Leone. It's the first time for me, and I understand it may be the first time for a President of the World Bank to come here. The fact that the President of the World Bank can come here I think is a sign that this country is making progress after years of terrible tragedy and terrible conflict. I've come to see and hear for myself about the hard-won progress that Sierra Leone has made since 2002, and to get a better appreciation for the challenges that the people of this country face now, as they shift their attention from post-conflict reconstruction to genuine economic recovery. The World Bank will continue to work actively here with other partners – with the government and the people of Sierra Leone – to ensure that together we can identify and implement the most effective strategies for reducing poverty, for giving the people of this poor country a chance to enjoy the future that they deserve.

I strongly welcome the Improved Accountability and Governance Pact – or to use the abbreviation we use IGAP – that was announced this week, and is backed by Sierra Leone's key

development partners. While I'm here, I hope to hear more about and see some of the impressive gains that have been made in the area of post-conflict resettlement, reconstruction, and economic recovery. I also hope to hear about the efforts to empower local councils in communities that will help sustain those hard-won gains and prevent a relapse into conflict. And later today, I believe we'll be visiting some of the victims of the war, some of the amputees, who still suffer for the rest of their lives from what the war has done.

The perseverance of the government and its determination to strengthen the institutions that are charged with ensuring transparency and accountability, and the important work by the media and civil society in pushing for accountability are essential for preserving these gains and creating the kind of enabling environment that will generate jobs and growth. I noticed when coming here that next month will mark the first anniversary of the murder of an important journalist here. And I applaud the efforts of people to try to get to the bottom of that and the efforts to build a strong free press in this country because I think that's one of the keys to having institutions that are accountable to the people and institutions that will not open the door again to this kind of tragedy.

Thank you very much.

include a slowdown in the US economy and the potential increase in protectionist pressures in the face of the apparent deadlock of the Doha trade negotiations.

6. The outlook for Sub-Saharan Africa continues to be favourable, underpinned by improved macroeconomic policies, implementation of structural reforms as well as a supportive external environment. Regional growth is expected to moderate slightly to 5.2 percent in 2006 from 5.8 percent in 2005, before accelerating to 6.4 percent in 2007. While rising oil prices have contributed to economic growth in oil producing countries in the region, performance is also strong in oil-importing countries, supported by high commodity prices due to strong global demand as well as the reduction in the number of conflicts across the continent. Nevertheless, if the downside risks to the world economy materialize, it could have great repercussions for the African region. Therefore our countries need to be aware of external developments and remain strongly committed to implementing growth enhancing policies, and strengthening structural reforms.

II. Regional and Sub-Regional Integration

7. Mr. Speaker, Government considers regional integration especially among ECOWAS member states as a key factor in widening the economic space for accelerated growth, employment creation and poverty reduction. Therefore, despite the difficult economic environment, Government endorses the call of the new management of the West African Monetary Institute (WAMI) for member states to implement all the relevant protocols, while pursuing appropriate macroeconomic policies and reforms to facilitate the attainment of the convergence criteria for the introduction of the common currency on the new target date of December 1, 2009.

8. The Mano River Union between Sierra Leone, Guinea and Liberia continues to develop, and plays a vital role in sustaining peace in the sub-region. A new Secretary General was appointed in February 2006 and a Ministerial Council meeting was held on the 19th October, 2006 in Conakry,

Guinea. Government awaits the outcome of ongoing consultations with special reference to the provision of an emergency budget that the Secretariat will shortly submit to member countries for consideration.

III. Review of Economic and Budgetary Performance in 2006

9. Mr. Speaker, following the successful conclusion of the final review of the previous Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF in June 2005, the Executive Board of the Fund approved a successor three year PRGF arrangement for our country on May 10th 2006. The approval of this programme demonstrates both to our nation and to our donor partners that our commitment to a sound macroeconomic environment is genuine and sustained.

10. In September 2006, the IMF in collaboration with Government carried out a review of performance under this new arrangement for the first half of the year. I am pleased to report that financial performance through end June 2006 was considered broadly satisfactory. Government met all but two quantitative performance criteria relating to the overruns in the wage bill and under spending in poverty-related activities. Despite delays, Government also made progress in the implementation of structural performance criteria slated for end June 2006. We have since taken corrective measures to meet all structural benchmarks by the end of October this year. A successful conclusion of this first review will enhance prospects for reaching HIPC completion point this year.

11. Mr. Speaker, economic growth in Sierra Leone remained strong in 2005 and has continued to be robust in 2006, reflecting buoyant activities in the agriculture, mining, construction and services sectors. Economic growth in 2006 is estimated at 7.5 percent in real terms. In spite of the higher international oil prices, annual national inflation declined dramatically from 13.1 percent in December 2005 to 6.3 percent in September 2006, as both food and non food prices fell during the year. This in turn reflected the improved supply situation for basic

external and domestic debt are estimated at Le 112.1 billion or 2.6 percent of GDP, with domestic interest payments accounting for 74.0 percent of the total interest bill.

19. Total Development expenditure in 2006 is estimated at Le 218.9 billion or 5.1 percent of GDP, of which 81.5 percent represents foreign grants and loans.

20. The overall budget deficit, excluding grants, is estimated at Le 355.9 billion or 8.3 percent of GDP in 2006 compared to Le 412.3.0 billion or 11.7 percent of GDP in 2005. For the year as a whole, the deficit is expected to be largely funded from foreign sources.

IV. Progress in PRSP Implementation

21. Mr. Speaker, having reviewed economic performance in 2005 and 2006, I will now outline developments under the three pillars of the PRSP.

Pillar 1: Good Governance, Peace and Security

Security

22. Mr. Speaker, the first pillar of our PRSP is the promotion of good governance, peace and security. Since the end of the war, the Government has faced many challenges including the need to transform the Security Sector to ensure that it responds adequately to threats facing the State and its citizenry, and to provide an enabling environment for poverty reduction. The underlying tenet is that security is the umbrella under which peace and development can thrive: "Development needs security just as security needs development". A secure, peaceful and stable society provides the bedrock for investment, productive economic growth and the implementation of pro-poor programmes.

23. Mr. Speaker, in 2006, the capacity of the Office of National Security (ONS) effectively to coordinate and ensure a civilian-led security coordinating architecture has been significantly strengthened. The ONS is developing and equipping the intelligence services to support Sierra Leone's current security architecture.

24. With assistance from the International Military Advisory and Training Team, the restructuring of the Republic of Sierra Leone Armed Forces (RSLAF) into a smaller, more flexible and robust force continues. This has led to increasing confidence in the RSLAF as a professional and disciplined force.

25. Mr. Speaker, the capacity of the Sierra Leone Police to operate effectively throughout the country has been greatly strengthened. With the provision of equipment, rehabilitation of infrastructure and increased recruitment and training of new policemen and women, the degree of public confidence in the SLP has increased, and crime levels have not exploded following the end of the UN peacekeeping presence like many had envisaged.

26. Mr. Speaker, the Prisons Department is also being overhauled. A prison warden training school has been constructed in Waterloo; the Bo prison has been refurbished; and repairs have been undertaken to prisons nationwide. Under the Justice Sector Development Programme, Government has constructed water wells in Bo, Moyamba and Pujehun prisons. Quarters for officers have also been constructed in Moyamba and a pilot project launched in the classification, rehabilitation and reintegration of prisoners.

27. In addition and as part of the general reconstruction of public services, the National Fire Force has been significantly upgraded; five fire stations in Bo, Kenema, Makeni, Kissy and Aberdeen have been constructed, six fire engines and assorted fire fighting equipment have been commissioned, and seventyeight officers and men have been recruited and trained.

28. Mr. Speaker, we have now been a nation at peace for several years. Although the risk of a return to war is now remote, we see the need for continued reconciliation. The United Nations Integration Office in Sierra Leone (UNIOSIL) is assisting Government in the development of a Peace Consolidation Strategy to address the immediate threats to the consolidation of peace.

the prosecution of corruption cases, a three-person committee has been set up comprising two Special Prosecutors attached to the ACC and a State Counsel. The decision to prosecute cases is now being determined by this committee.

Public Financial Management

38. Mr. Speaker, one key component of efforts to shut down the space for corruption is sound public financial management (PFM). Financial controls represent a vital component of our drive to increase the amount of resources that reach those who need public services the most.

39. Mr. Speaker, following the installation of the Integrated Financial Management Information System (IFMIS) in 2005, the following additional modules of IFMIS were installed on the 1st of January 2006: revenue, fixed assets, procurement and performance budgeting. Furthermore, the services of IFMIS were extended to the Ministry of Finance and the Sierra Leone Police, and prospects for its successful uptake are good.

40. Mr. Speaker, the Accountant General's Department has been significantly strengthened, with the hiring of a professionally qualified Accountant-General and Deputy Accountant-General. Five qualified accountants have also been recruited with EC support. This has facilitated the completion of public accounts for 2002 and 2003. In accordance with the Government Budgeting and Accountability Act, a statement of receipts into and the payments out of the Consolidated Fund for the first half of 2006 has been published.

41. Mr. Speaker, progress has also been made in strengthening internal audit capacity in MDAs by establishing functional internal audit units in nine key MDAs, including the Ministries of Finance, Education, Health and Defence, as well as the SLP and SLRA. The target is to have a minimum of 10 and 13 MDAs in 2006 and 2007, respectively, with functional Internal Audit units.

Medium Term Expenditure Framework (MTEF)

42. Mr. Speaker, an integral component of good public financial management is effective budgeting and planning. Since the introduction of the Medium Term Expenditure Framework (MTEF) in 2001, significant efforts have been made in strengthening the process. This has led to better prioritisation and planning with the aim of improving financial discipline and efficient service delivery.

43. As part of PFM reform, Government has ensured that the MTEF approach to policy, planning and budgeting is also adopted at the local government level. To this end, all nineteen Local Councils have been rigorously trained on how to plan and execute their budgets using the MTEF system. During the year, extensive training was carried out for the District Budget Oversight Committees and Civil Society Organisations to promote transparency and participation in the budget process.

44. Mr. Speaker, in the year 2007, we hope to deepen the MTEF process by integrating the development and recurrent budgets in terms of their functionality, administration and economic classification. In conformity with the new Government Budgeting and Accountability Act and the recommendations of the functional reviews of the Ministry of Finance and the Ministry of Development and Economic Planning, the preparation and execution of the recurrent and development budgets will be the responsibility of the Budget Bureau under the supervision of the Financial Secretary. In addition, manpower planning and budgeting is now a major and integral part of the MTEF process.

Cost Recovery Programmes

45. Mr. Speaker, the efficient utilization of public funds is a key objective of the Ministry of Finance. The Ministry of Finance notes with grave concern that cost recovery funds are being poorly managed and not properly accounted for by the implementing Ministries. With effect from 2007, all MDAs implementing cost recovery programmes are required to

and the EU has been supporting the establishment of the Local Councils to ensure that they are fully functional.

54. Mr. Speaker, a cardinal element of decentralisation is the successful implementation of functional devolution involving the effective and efficient roll out of functions previously performed by selected MDAs.

55. The devolution process which started in earnest in 2005 with two Ministries continued in 2006 with an additional sixteen. Functional devolution has been accompanied by the transfer of assets and the transitional assignment of technical professional staff of MDAs to Local Councils to facilitate service delivery. Local Councils and local communities provide oversight and supervision. In 2007, more functions are slated for devolution, with the process scheduled to conclude in 2008.

56. Mr. Speaker, in line with political and administrative decentralization, this Government is pursuing an intensive fiscal decentralization programme with clearly mapped out revenue and expenditure allocations based on a formula-based equitable intergovernmental fiscal transfer scheme. This also addresses the inherent vertical and horizontal fiscal imbalances.

57. The Ministry of Finance and the Ministry of Local Government will continue to monitor the process to ensure that activities slated for the utilization of grants transfers are implemented. Local Councils are expected to support the process through effective reporting mechanisms.

Pillar 2: Economic Growth for Job Creation and Food Security

58. Mr. Speaker, the second pillar of our PRSP is the promotion of pro-poor sustainable growth. It is a fact that although the Millennium Development Goals are primarily concerned with individual rights to welfare and social protection, they cannot themselves be achieved without broad-based systemic economic growth. Against this background, let me briefly review the performance of the key productive sectors of our economy.

Agriculture

59 Mr. Speaker, agriculture is the largest sector in the economy, producing over 30 percent of official GDP and providing employment for around three-quarters of the population. Over the past five years, significant gains have been made in crop production and diversification.

60. Government has played a critical role in promoting increases in production. The tractor fleet has increased from 20 in 2002 to 135 in 2006, and as of July 2006, the target of 350 acres of cultivable land ploughed by tractor per year has been achieved for 62 percent of these tractors. Seed rice distribution to farmers by Government over the period increased from 62,000 bushels in 2002 to 100,000 bushels in 2006. All farmers are now considered self-sufficient in seed rice. In addition, high yielding potato, cowpea and groundnut varieties were also distributed and are contributing to and crop diversification.

61. Projections for the harvest in 2006 suggest further increases in rice, maize and cassava production, with the rice yield in particular continuing to increase due to better farming methods. The key perennial challenges in the drive to attain food security include high post harvest losses and the limited extension services provided to farmers.

Mining

62. Mr. Speaker, the mining sector is another key driver of economic growth and employment creation in our country. This year has been a good one for the industry, following the resumption of rutile and bauxite mining. As at August this year, the company had exported 30,000 metric tons of rutile. It is envisaged that by the end of next year the company will have achieved its pre-war production level of 100,000 metric tons per year. In the medium term, production is expected to increase to 220,000 metric tons per year. Present employment by the company stands at 1,000 workers and this is expected to increase as operations expand. Bauxite production commenced in March this year and as at August exports have reached close to 400,000 metric tons. The company plans to

72. From domestic resources, urban and rural roads and bridges are being rehabilitated in Freetown (including Circular Road and Kissy Mess Mess – Wellington), and in the areas surrounding Mile 91, Bo, Makeni, Port Loko and Kenema. Routine maintenance works – that is brushing, ditch cleaning, pothole patching and related activities – are ongoing in all the regions, as is the rehabilitation and construction of rural feeder roads.

Energy and Power

73. Mr. Speaker, the energy situation in the country is currently poor, but in 2007 will begin to improve as our medium to long-term plans for enhanced power generation begin to reach fruition. Currently, total power output in Freetown is below 10 megawatts against a demand of 40 megawatts, while most of the 12 administrative districts have no operational power stations.

74. Mr. Speaker, the Bumbuna hydroelectric project is almost 90 percent complete. What now remains is the completion of the transmission lines. When operational, the Bumbuna plant will have a peak capacity of 50 megawatts during the rainy season, falling to as low as 18 megawatts during the dry season. The outlook includes increased power generation from a number of donor funded projects including BADEA, Saudi Fund and JICA. In the meantime, Government is making arrangements to engage an independent power provider (IPP) for additional power supply in the Western Area as soon as possible.

75. At the provincial level, the Dodo mini hydroelectric dam is being expanded with assistance from the Government of China as the Bo-Kenema Power Station (BKPS) is also rehabilitated to extend electricity to towns and villages in and around Bo and Kenema. Furthermore, a 500 kilowatt generating plant with associated transmission and distribution network has been installed and commissioned in Pujehun district. Plans are underway to install and commission a 1 megawatt generating plant to provide electricity for residents in Makeni.

76. In the water sector, Government continues to receive assistance from donor partners, especially UNICEF and the Japanese Government, along with international NGOs, which are active in some of the poorest districts in the country. Devolution of rural water supply functions and personnel to Local Councils commenced in the current fiscal year and is slated to continue into the next fiscal year. The roles of the Water Supply Division of the Ministry of Energy and Power and SALWACO will now be restricted to supervision and technical backstopping.

Petroleum Strategic Stocks

77. Mr. Speaker, in previous years, vagaries in the world oil market have led to serious fuel shortages in Sierra Leone. To counter this situation, on the 3rd of July 2006, Government introduced a plan for the establishment of a National Petroleum Product Strategic Stocks programme. This will create a 6-8 week buffer stock for all grades of petroleum products, and is already being funded through the current pump price. In addition, the pump prices of petrol, diesel and kerosene have been harmonized to prevent product contamination. Pump prices have also been equalised across the country to prevent arbitrary pricing, particularly in the provinces. Pump prices continue to be set according to a transparent formula, depending principally on changes in the world price of oil and movements in the exchange rate. The recent changes in the pump price illustrate the flexibility of this pricing formula to accommodate upward and downward adjustments.

Youth Employment

78. Mr. Speaker, although these and other reforms will accelerate the rate of job creation in our economy, we are acutely aware of the high unemployment situation in the country, particularly among the youths. In the area of youth employment and job creation, Government has launched a youth employment project on the 9th of October this year. This project, now under implementation, has the objective of creating jobs for over 20,000 youths, both in the capital Freetown and in the Provinces.

testing services nationwide.

86. Mr. Speaker, in its effort to reduce maternal mortality in the country the Government has in the past few months developed a policy on reproductive health that will serve as the roadmap for improving the reproductive health of Sierra Leoneans. Government has also educated more than 60 district health sisters and maternal and child health aide coordinators and community health officers as trainers on emergency obstetric care, family planning and management of sexually transmitted infections.

Education

87. Mr. Speaker, Government's main priority in the education sector is to expand access and quality of basic education with focus on the girl child.

88. Government, with support from development partners, continues to make great efforts in the construction of new schools and the rehabilitation of those damaged during the war. In 2005, Government constructed 200 primary schools, 30 Junior Secondary Schools and 30 Technical Vocational institutes.

89. In addition, the Government provided over 100,000 sets of teaching and learning materials and trained 1000 unqualified and untrained teachers. Government continues to pay fees for students taking national examinations (NPSE, BECE and WASCE) and fees subsidy for those in primary schools as well as for all female pupils in the Eastern and Northern provinces.

90. Consequently, net primary enrolment has increased to 87 percent. The number of pupils passing the NPSE exams has also increased. Correspondingly, the number of girls passing NPSE has increased from 5,176 in 2004 to 24,135 in 2006. This shows the tremendous success of the girl child programme.

91. Government is currently preparing a 10-year Education Master Plan which will facilitate our access to additional resources under the global education-for-all Fast Track Initiative. An Education Management Information System is

being established to meet information needs in planning, monitoring and evaluation of the education system.

V. Financial Performance of Public Enterprises and Plans for 2007

92. Mr. Speaker, a review of the performance of Government would be incomplete without a report on the performance of public enterprises given their critical role in providing key public services. With sound financial management and sufficient incentives, there is no reason why the often poor performance of these enterprises cannot be reversed. As a new initiative, from this year onwards the financial performance of parastatals will be reported as part of the budget statement to ensure accountability and transparency in their operations.

Rokel Commercial Bank (Sierra Leone Limited)

93. Mr. Speaker, the Rokel Commercial Bank (Sierra Leone) Limited projects a gross profit of Le 10.1 billion for 2006. At the end of August this year, the bank had made a gross accumulated profit of Le 8.5 billion. Staff numbers have tripled since 1999. The Congo Cross branch was opened on the 1st of April 2006, and is having a significant positive impact on business in the west end of Freetown. On the advice of the Bank of Sierra Leone, the bank will be raising its minimum capital by Le 6 billion by the end of the year. This will be funded from accumulated reserves.

Sierra Leone Commercial Bank Limited

94. Mr. Speaker, the Sierra Leone Commercial Bank registered a gross profit of Le 12.0 billion for the 2005 financial year against a budgeted profit of Le 14.6 billion. For the first half of the 2006 financial year, the bank registered a gross profit of Le 5.1 billion against a budgeted profit of Le 8.2 billion. However, the projected gross profit for the second half of the year is higher at Le 11.8 billion. The bank is well placed to continue with branch and other operational developments in 2006 and beyond.

SLPA has paid dividends to Government while making significant progress in defraying all outstanding statutory tax and non tax obligations. This follows the recruitment of an expatriate General Manager under a technical assistance programme with the Government of Ghana.

Sierra Leone Airport Authority (SLAA)

104. Mr. Speaker, in 2005 the Sierra Leone Airport Authority (SLAA) generated income totaling Le 13.2 billion and expended a total of Le12.5 billion, making a net profit of Le 848 million. For 2006, receipts are estimated at Le19.8 billion and expenses are projected at Le17.3 billion with a net profit of Le 2.5 billion.

105. Mr. Speaker, having reviewed economic performance and progress towards our poverty reduction goals in 2006, I will now move on to outline our medium term macroeconomic policy framework and the outlook for 2007.

VI. Medium-Term Macroeconomic Framework

106. Mr. Speaker, our key macroeconomic objectives underlying the medium-term strategy include the maintenance of sustained high real growth and a stable macroeconomic environment. In this regard, two economic sectors, namely, agriculture and mining, are central to driving Sierra Leone's development. Agricultural expansion is a key medium-term objective, given its importance for food security and job creation. Similarly, our considerable mineral endowments will continue to support output growth and job creation.

107. The medium-term macroeconomic framework projects that output growth will stabilize in the range of 6–7 percent a year by 2009, underpinned by broad-based sectoral growth. Inflation is expected to converge to single digits by the end of the period, supported by prudent macroeconomic policies. The gross official reserves are expected to stabilize at 3 months of import cover.

108. Mr. Speaker, fiscal policy in the medium term will be geared towards containing the

primary fiscal deficit at around 2 percent of GDP. This will assist monetary policy in lowering inflation and ensuring that the domestic public debt would remain at a sustainable level. Lower public sector borrowing would also provide scope for expanding private sector credit and contribute to lower domestic interest rates.

VII. Macroeconomic Policies and Outlook for 2007

109. Mr. Speaker, the macroeconomic framework for 2007 projects further expansion in domestic output and lower inflation. Real GDP is expected to grow by 6.5 percent, underpinned by the continued expansion in agriculture, mining, manufacturing, construction and services sectors. Annual average inflation is projected to remain at the lower double digit level of 11 percent while end year inflation is projected to fall sharply to the upper single digit level of 8.5 percent on account of prudent monetary and fiscal policies, combined with the expected stabilization of fuel prices. The external current account deficit, excluding official transfers, is projected to increase slightly to 10.5 percent of GDP in 2007 from 10.3 percent in 2006, owing to the anticipated growth in imports as fuel prices stabilize at higher levels.

Monetary and Financial Sector Policies in 2007

110. Mr. Speaker, monetary policy in 2007 will aim at maintaining a single digit inflation rate. This will be achieved through the continued use of market-based indirect instruments, primarily open market operations. To support monetary policy, Government will enhance the Bank of Sierra Leone's operational capacity through recapitalization to the tune of Le 50 billion in 2007. Also, the Bank of Sierra Leone's capacity to conduct monetary operations will be strengthened by providing it with interest-bearing securities amounting to Le 50 billion in 2006 and another Le 50 billion worth of securities in 2007.

111. The government will continue to actively pursue reform of the financial sector, aimed at ensuring a competitive and vibrant financial environment. The central bank will intensify the supervision and regulation of the commercial

2006, reflecting the substantial increase in capital expenditures. This is consistent with government's policy of strengthening infrastructure to support private sector activities.

118. At Le 446.9 billion, Capital expenditures are projected to increase from 5.1 percent of GDP in 2006 to 8.9 percent of GDP in 2007. Up to Le 365.0 billion of capital expenditures will be financed through foreign project loans and grants, and Le 81.9 billion from domestic resources. Current expenditures, on the other hand, are expected to shrink slightly in terms of GDP, from 15.9 percent of GDP in 2006 to 15.4 percent of GDP in 2007. Wages and salaries and non-wage, non-interest current expenditures will be maintained at their current ratios to GDP. The total recurrent non-salary, non-interest allocation will amount to Le 357.8 billion, of which Le 225.2 is allocated for goods and services.

119. Interest payments are also projected to increase slightly to finance the interest cost associated with the conversion of the non-interest bearing securities held by the BSL into interest bearing securities to support monetary policy operations.

Transfers to Local Councils

120. Mr. Speaker, key functions in the areas of Agriculture, Health and Education have been devolved. The law provides for several sources of financing for local government service delivery. However, during the 2007-2009 MTEF period, all local government financing from central government will largely be in the form of conditional grants tied to specific expenditure assignments relating to devolved functions.

121. Following the devolution of functions, fiscal devolution in the 2007 fiscal year will build considerably on the previous years' budgets of Local Councils. Government will transfer to Local Councils in 2007 the total amount of Le 47.1 billion as non-salary recurrent grants for devolved functions, representing 13.2 percent of the national non-salary, non-interest recurrent expenditure. The local government development grant will increase to Le 11.2 billion in 2007 from

Le 9.0 billion last year, with a fivefold increase in the domestic contribution, from Le 1.0 billion in 2006 to Le 5.0 billion in 2007.

122. Mr. Speaker, to facilitate timely and effective planning and budgeting by the Local Councils, and adhere to the principles of transparency and accountability which underlie the intergovernmental transfer system, I hereby, for the first time, present to Parliament as Annex 5 to this budget the horizontal equitable allocation of the vertical transfers to each Local Council for the financial year 2007 as recommended by the Local Government Finance Committee (LGFC).

123. The objectives of each grant for each devolved function will be clearly spelled out with measurable output in the formulabased equitable grant distribution system. The conditions underpinning the grants focus specifically on principles of good governance, and will be published in the Sierra Leone Gazette prior to the transfer of any funds to the Local Councils.

Wages and Salaries

124. Mr. Speaker, the Government wage bill is budgeted to increase by Le 36 billion to Le 304.6 billion. The increase will cover the cost of a 10 percent cost of living adjustment to wages and salaries, 5.0 percent annual salary increment; and the cost of recruiting additional 2000 teachers and 374 police, recruitment of additional health personnel, provision for severance pay and administrative cost for implementing the Senior Executive Service (SES). It also covers pensions, gratuities and allowances, as well as contributions towards social security.

Security

125. Mr. Speaker, in light of the primary importance of security to providing a conducive environment for the implementation of Government's poverty reduction strategy, an amount of Le 43.7 billion is allocated to defence, Le 19.8 billion to police and Le 7.7 billion to prisons. An amount of Le 1.0 billion is also allocated to defence from the development budget for the rehabilitation of military barracks.

Education

133. Mr. Speaker, as I have indicated elsewhere in this statement, Government's main priority in the education sector is to continue to expand access to and improve the quality of basic education with a focus on the girl child, to facilitate the attainment of the education and gender equality MDGs. Government will also support the development of tertiary education including technical and vocational institutions. In order to achieve these goals, for 2007, Government is allocating Le 81.3 billion from the recurrent budget for education services. Of this, Le 20.9 billion is allocated to the Local Councils for primary education services and Le 4.4 billion for secondary education services devolved to the Local Councils. In addition, Le 32.1 billion is allocated as grants to tertiary education institutions including the Eastern Polytechnic. In addition, from the domestic development budget, Le 1.5 billion is allocated for the rehabilitation of Njala University, Le 400 million to Fourah Bay College, Le 400 million to College of Medicine and Allied Health Services and Le 200 million to Eastern Polytechnic. In addition, Le 200 million is allocated to support secondary education. This complements foreign funding from the World Bank, the ADB, the IDB and BADEA to the sector.

Health

134. Mr. Speaker, Government's primary objectives in the health sector remain the reduction of under five and maternal mortality rates by expanding access to and quality of health services. In this respect, Government will intensify the training of health workers including traditional birth attendants, expand immunization coverage and provide Insecticide Treated Bed Nets in order to achieve the health MDGs.

135. For these purposes, Government is allocating Le 46.3 billion to health, of which Le 10.7 billion is assigned to Local Councils for District Peripheral Health Care Services, Le 6.4 billion to tertiary health care services (national and referral hospitals) and Le 2.8 billion for the procurement of drugs and medical supplies. In addition, Le 1.4 billion is allocated from the domestic development budget to complement

foreign funding of the Health sector support project and for the strengthening of District Health Services.

Youth Employment

136. Mr. Speaker, Government is highly committed to youth development. An amount of Le 1.4 billion is allocated in support of youth activities nationwide, including Le 562 million for sports competitions and Le 382 million for youth development programmes. In addition, Le 500 million is allocated from the domestic development budget for the Youth Empowerment Programme.

Procedures for Protecting Poverty Expenditures

137. Mr. Speaker, having outlined the major expenditure categories, I would like to return to the subject of expenditures directly targeting poverty reduction. It is essential to protect expenditure lines that most closely target the reduction of poverty in our country. Government now has a fully operational fiscal priority framework, which specifies well-identified resources and ensures that these can cover priority expenditure in the event of shortfalls in domestic and foreign revenue.

138. This and other measures have reduced the variation between planned spending and actual expenditure outturn, particularly for health and education, where spending came very close to budget in 2005. In addition government revised the list of priority pro-poor expenditures for 2007 in line with the PRSP.

139. Consistent with the Government Budgeting and Accountability Act (2005) and the National Public Procurement Act (2004), revised procedures have been drawn up by the Ministry of Finance to help implement the framework for protecting poverty related expenditure. These procedures will be fully implemented in 2007.

140. The following expenditure categories are classified as priority spending:—

* wages and salaries of all government employees;

148. Mr. Speaker, one of the main reasons for the resource constraint in our budget is the proliferation of various revenue streams that are currently administered off-budget by several MDAs. In most cases, the quantum of resources involved is far in excess of the operational requirements of the MDAs concerned. Due to existing administrative inefficiencies in collection, the actual revenues collected from some of these off-budget revenue streams is far below what is collectible under existing legislation. There is therefore an urgent need to institute efficiency, transparency and accountability in the management of these resources. To achieve this objective, we need to consolidate all offbudget revenue streams into the Consolidated Revenue in order to enhance expenditure efficiency and optimize the allocation of resources to priority areas of public service delivery. With this in mind, my Ministry will be presenting appropriate proposals for legislative amendments to this House.

149. Mr. Speaker, there are also certain generous tax and duty concessions, embedded in bilateral agreements between Government and private sector entities, which continue to undermine revenue collection. Most of these agreements were negotiated and agreed by Government from a relatively weak position, especially immediately after the war when economic conditions in the country were still precarious and fraught with uncertainties. Both the conditions under which these agreements were entered into and the assumption on which certain concessions were granted have changed substantially over the past few years. In addition, it has become clear that some of the concessions have had a distorting effect on the investment environment, while some are being abused in various ways. In view of the above, therefore, my Ministry, in collaboration with the relevant line ministries, will in the coming months initiate action with a view to reviewing these agreements to ensure a level playing field in the investment environment, and to reflect best practice and existing realities.

150. Another area of serious concern over the years has to do with the behaviour of certain

tax-exempt organizations with respect to their privileges and obligations under our domestic tax laws. We have observed over time that some of the exemptions conferred on international organizations have been subjected to varying degrees of misapplication, leading to abuse of privileges and revenue leakages. To minimize these abuses, the NRA will be instituting mandatory tax audits of organizations that are statutorily exempt from taxation, starting January 2007. Even though these organizations may be exempt from import duties and other taxes, this does not in any way exempt them from certain responsibilities. These include the responsibility to withhold certain taxes, including PAYE, in accordance with the Income Tax Act. In this regard, Mr. Speaker, from now on, NRA will link the granting of privileges, including tax waivers, to compliance with the provisions of existing protocols and international agreements regarding the obligations of these institutions under our domestic laws.

151. Furthermore, the NRA will continue to ensure the granting of tax and duty waivers is limited within the bounds of statutory entitlements. Following the transfer of the administration of duty waivers to the NRA, duties waived fell significantly, from Le 27.4 billion in the first half of 2005 to Le 20.9 billion in the same period in 2006. This trend is set to continue.

152. Honourable Members would recall that Government had announced its intention to introduce a system of taxation of goods and services, which is called Value Added Tax or VAT in some countries, or the easier-to-understand Goods and Services Tax or GST in other countries, with the aim of further rationalizing the tax structure and expanding the tax base. I am pleased to announce that preparation for the introduction of the GST is well underway and on schedule. My Ministry and NRA, with support from DFID, has been working in close collaboration with the private sector to ensure that the process is participatory.

153. Mr. Speaker, it would be recalled that in the Budget Speech and Statement of Economic

revenues and expenditures, the overall fiscal deficit (excluding grants) is projected to rise to 10.9 percent of GDP in 2007 from 8.3 percent of GDP in 2006. Including grants, the deficit is expected to increase to 0.9 percent of GDP in 2007, from a surplus of 0.5 percent in 2006. The primary deficit will shrink slightly to 1.4 percent of GDP from 1.5 percent in 2006. The deficit will be largely financed from foreign sources. Thus, Government is expected to make a net repayment to the domestic banking system in 2007.

IX. Relations with Donors

162. Mr. Speaker, Honourable Members, as a developing country, Sierra Leone relies greatly on development assistance provided by the international community. Government and wider society continues to receive substantial assistance from development partners in a wide range of areas from rehabilitation to institutional support to direct budget support. I would like to take this opportunity to give a warm vote of thanks from the Government, this House and our nation for the support given to us in recent years and for the future help as we continue to move forwards.

163. It is a fact however that aid can have negative as well as positive effects, and how we deal with the contradictions and complexities involved will determine to a large extent our success in the coming years. In recent years, budget support from our development partners has been tied to different sets of benchmarks by the different donors with varying timeframes. This has led not only to increasing the transaction costs for the purpose of reporting and accommodating donor missions, but has also engendered unpredictability and volatility in donor inflows, resulting in difficulties in planning and budgeting.

164. However, as the donors have become aware of this problem themselves, since the beginning of 2006, a Multi Donor Budgetary Support (MDBS) Progress Assessment Framework (PAF) has been under test. This is a single set of benchmarks belonging to the World Bank, DFID, European Commission and the African Development Bank

agreed with Government. I have included the 2007 indicative benchmarks of the MDBS PAF as Annex 7 to this budget statement, which when approved by this Honourable House will become fully binding on all concerned.

165. Mr. Speaker, this specific initiative should be seen as part of a broader agenda within the aid industry and within Sierra Leone. It follows the Paris Declaration in 2005, where the international community pledged to work to emphasize country ownership and government leadership in development policy, to attach importance to capacity building, and to recognize diverse aid modalities. In Sierra Leone, this ongoing sequence of reforms includes ongoing harmonization of monitoring and evaluation systems in the country using the PRSP monitoring and evaluation framework. It also includes harmonizing procurement procedures through the recently enacted National Procurement Law, producing a consistent and mutually-reinforcing set of reporting practices for donor aid, and preparing a common agreement for governance reforms through the Improved Governance and Accountability Pact (IGAP) that has already been outlined.

X. Conclusion

166. Mr. Speaker, Honourable Members, this year marks the beginning of a major Government effort to shift the focus of expenditure towards investment in the productive infrastructure of our nation. I am convinced that this is the most sustainable way to promote economic growth and job creation, without which our poverty reduction targets will be difficult to achieve. The implementation of the programmes announced in this Budget will henceforth continue to make a significant impact on the living standards of all Sierra Leoneans.

167. Mr. Speaker, I would like to extend my gratitude to my colleague Ministers and the Management and Staff of the Ministry of Finance and especially to recognise the hard work, commitment and support the Ministry enjoyed from the outgoing Financial Secretary, Dr. Samura Kamara. I also wish to appreciate the contributions of other MDAs; Management and

Speech delivered at a Regional Course on Debt Reporting and the IMF/World Bank Debt compilers Guide, organized in Freetown by the West African Institute for Financial and Economic Management (WAIFEM)

by

**Dr. James D. Rogers, Governor of the Bank of Sierra Leone
on August 7 – 18 2006**

**Director General, West African Institute for Financial and Economic Management (WAIFEM),
Officials of the Commonwealth Secretariat &
The International Monetary Fund (IMF),
Distinguished Guests,
Course Participants,
Ladies and Gentlemen.**

On behalf of the President, His Excellency, Alhaji Dr. Ahmad Tejan Kabba, the Government and people of the Republic of Sierra Leone, I am pleased to bid you all a warm welcome to Freetown. Let me start by expressing our sincere thanks and appreciation to the West African Institute for Financial and Economic Management (WAIFEM), the Commonwealth Secretariat (COMSEC) and the International Monetary Fund (IMF) for choosing Sierra Leone as the venue for this Regional Course on Debt Reporting and the IMF/World Bank Debt Compilers Guide. The theme of the course is relevant and timely. Let me thank the organizers of the course for this initiative which would go a long way to strengthening overall debt management capacity in the sub-region.

Ladies and Gentlemen,

2.0 PRINCIPLES FOR COMPILATION OF GROSS EXTERNAL DEBT POSITION

The need for comprehensive, comparable, and reliable data on external debt for informed decisions by policymakers, financial markets and other users of economic statistics cannot be overstressed. In other words, quality data are invaluable for sound policy decisions. For

example, to enhance comparability across time and across countries, debt compilers must be guided by certain principles. I will proceed to highlight a few of them, mindful of the fact that the expert team of resource persons will provide deeper insights into these and other issues during the course. The major principles include residence criterion, ownership (i.e. time of recording), accrued interest liability, treatment of arrears and valuation.

Residence

Debt liabilities of residents must be owed to non-residents for such liabilities to be classified and included in an economy's gross external debt position. Debt liabilities of residents owed to residents are excluded. Hence the definition of residence is central to the definition of external debt. A resident of an economy is an entity such as a household, corporation, government agency, etc that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. Residence is defined as a country's "economic territory" which consists of a geographical territory administered by a government and includes, for maritime countries, any islands subject to the same fiscal and monetary authorities as the mainland. However, international (multilateral) organizations are not considered residents of any national economy in which the organizations are located, although employees of those bodies are residents of the national economy. In the same vein, the residence of offshore enterprises is attributed to the economies in which they are located.

including debt service obligations. This framework has contributed significantly to improving debt management in the country. We will strive to improve on it. Indeed, the framework enhances coordination of the debt management function by the appropriate authorities.

Ladies and Gentlemen,

Like most developing countries, Sierra Leone has been facing a number of problems, particularly those relating to maintenance of quality debt data. These include inadequate resourcing of statistics generating units; low priority attached to data collection; and inefficient institutional arrangements for data collection, processing and dissemination. Others include gaps in data recording; and gaps in debt recording systems.

I am glad to inform you that the present administration has moved consistently and decisively to up-scale general economic and financial data quality by strengthening data information flows both in BoSL and MoF and at the Central Office of Statistics. These efforts have also included working closely with WAIFEM and its technical partners to streamlining the back office functions of the MoF; and enhancing institutional capacity building efforts. Government will continue to keep these measures under constant review, because the process of achieving effective debt management is not like a sprint race, but rather, could be likened to a marathon involving medium to long-term policy thrusts and interventions.

Ladies and Gentlemen,

Over the past couple of minutes, I have attempted to sensitize you on some of the issues that would be dealt with in detail during this course. Even so, I make no pretensions to any exhaustive analysis. I am aware that the expert faculty assembled by the organizers will do just that. All that is left for me to do is to invite you to take maximum advantage of the opportunity presented by this course to strengthen your competencies in debt data compilation in line with best practices.

4.0 CONCLUSION

Ladies and Gentlemen,

I would be remiss in my duty if I ended this address without expressing the profound appreciation of the Board of Governors of WAIFEM to COMSEC, IMF, and World Bank for their support to WAIFEM in strengthening capacity of countries of its member central banks in the area of debt management capacity building. Before I take leave of you to commence the technical sessions, let me enjoin you to take some time off your crowded schedule to visit some of the tourist attractions in Freetown, and its environs. The Governors look forward toward greater collaboration between WAIFEM and these institutions in the years ahead.

On this note I have the honour to declare the course open.

I thank you for your attention.

We join their families to mourn for these illustrious colleagues, and pray that their souls rest in eternal peace.

Your Excellencies, Distinguished Guests, I will now proceed with analysis of developments in the global, regional, sub-regional and the domestic economies over the past year.

Global Economic Developments

The robust global economic expansion witnessed in 2005 has continued in 2006, in spite of higher oil prices and a more challenging macroeconomic environment. Global expansion remained buoyant in the first half of 2006, with economic activity in most regions, meeting or exceeding expectations, partly on account of the benign financial market conditions and continued accommodative macroeconomic policies. Growth was particularly strong in the United States in the first quarter of 2006, although it slowed down subsequently. The expansion gathered momentum in the euro zone, and continued in Japan. Emerging market economies have grown rapidly, especially China and Japan as well as other BRIC countries. Low-income countries have also maintained an impressive growth performance, helped by strong commodity prices.

The price of petroleum products continue to serve as a defining factor in shaping the global economic environment. Standard crude oil price which stood at below US\$25 per barrel in September 2003, has displayed an upward trend, attaining a record high of US\$78.40 per barrel in July this year. This was due largely to rising geopolitical tensions in the Middle East, risks to production in some other large producer countries, notably Nigeria, and the tight spare capacity in global markets – both in production and refining – against the backdrop of buoyant GDP growth. Market indicators suggest that oil prices will remain high in the foreseeable future.

Against this background, major central banks have responded by tightening monetary policy. The United States Federal Reserve continued to raise interest rates, through June this year, although pausing in August; The European Central Bank has raised interest rates further in

recent months; and the Bank of Japan ended its zero interest rate policy in July 2006.

Global growth is estimated at 5.1 per cent in 2006, and if this projection is sustained to the end of the year, it would be the strongest four-year period of global expansion, since the early 1970s. Recent IMF forecasts suggest that the world economy would grow at 4.9 per cent in 2007, as the growth in the US is expected to slow down from 3.4 percent in 2006 to 2.9 percent in 2007. Growth in Japan is expected to ease as the business cycle matures. However, in the euro area, the recovery is projected to sustain its momentum this year, and among emerging markets and developing countries, growth is expected to remain very strong, with the Chinese economy continuing its recent rapid expansion.

Your Excellencies, distinguished Guests,

International trade, which is believed to be the catalyst for growth and poverty reduction, continues to expand. However, the benefits to developing countries remain minimal, as little progress has been achieved, underlined significantly, by the breakdown of the Doha Round of negotiations. Meanwhile, we look forward to the development and actualization of the Aid for Trade initiative, which may open some window of opportunity for developing countries.

Some hope can also be derived from the fact that there are now increasing instances of economic co-operation among developing countries, working assiduously towards the achievement of the millennium development goals by 2015.

Regional Developments

Your Excellencies, Distinguished Guests,

The overall economic growth in the developing world has averaged 4.8 percent annually since 2000, more than double the rate of growth in high-income economies, which averaged 2.0 percent a year, according to World Bank estimates. Amidst this growth, sub-Saharan Africa is currently enjoying its strongest period of sustained economic expansion since the early

lasting impact on poverty reduction.

Sub-Regional Development

Your Excellencies, Distinguished Guests,

The outlook for the economies in the West African sub-region, remains positive over the remaining period of 2006, despite the downside risks posed by high crude oil prices. However, the windfall gains for some countries emanating from high oil and gold prices need to be managed carefully. A sizeable proportion of the gains must be set aside for investment in development projects, to ensure continued sustainable economic growth.

Over the past two years, the CFA countries faced a challenging policy environment, which slowed growth and regional integration. The main external sector developments included, the real appreciation of the CFA franc, and falling prices for the region's core commodity exports. Domestic problems ranged from a food crisis in several member countries like the locust invasion in the northern part of West Africa in 2004, that affected crop yields in 2005, to weak fiscal performance, socio-political crises as in the case of Ivory Coast, the once economic giant of the CFA zone, and financial sector problems. In the face of these macroeconomic and structural challenges, there has been little progress in the implementation of regional policies.

Overall, growth in the CFA countries was moderate in 2005. Export prices for key commodities, most notably cotton, fell, while oil import costs rose. Ivory Coast, the zone's leading economy, continued to suffer from political instability, and the adverse spillover effects continued to affect the rest of the region. Against this backdrop, region-wide growth was about 4 per cent in 2005. However, the economic outlook for these countries, reflects increased growth in 2006.

Your Excellencies, Distinguished Guests,

Let us now look at developments in the WAMZ area.

Measures to strengthen efforts of the five West African countries of the West African Monetary Zone (WAMZ), Nigeria, Ghana, Sierra Leone,

Guinea and Liberia, in putting the final touches to an ambitious plan, which will see them, adopt a common single currency, ECO, by December 2009, commenced a year ago. In 2005 WAMZ countries rescheduled the launching of the common Central Bank and currency for a further four years, to allow more time for member states to attain the necessary convergence criteria and policy harmonization.

The West African Monetary Institute (WAMI), the agency charged with the responsibility for monitoring and managing the process of creation of the single currency in the Second Monetary Zone, has been restructured with a view to ensuring efficient and effective implementation of the new Work Programme. The new WAMI started work on 1st July 2006. The Convergence Council of WAMZ, agreed that there was need for member countries to embrace monetary co-operation, under a framework of currency convertibility and macro-economic harmonization, in order to pave the way for the ultimate goal of a single economic space, with a single currency and a centralized monetary authority. For the realization of this it was decided that: -

- Member states should quote and trade in the local currencies within the WAMZ, under bilateral arrangement, as is currently prevailing in the East Africa Currency Area.
- National Central Banks should vigorously implement the IMF Article VIII, which has already been signed by them, to facilitate the convertibility of national currencies in the WAMZ area.

Developments on the Domestic Front:

Your Excellencies, Distinguished Guests,

On the domestic front, the Sierra Leone economy recorded an impressive performance during 2005, with further consolidation of the gains achieved in macroeconomic stability and real growth. The improved performance was propelled by strong growth in the agriculture, mining, and industry sectors, as well as a robust services sector.

fluctuations in the interest and exchange rates. Also in its effort to deepen the money market and enhance the efficacy of monetary policy, a series of institutional reforms were put in place. A new pricing mechanism, aimed at stimulating the development of inter-bank and secondary market transactions, has been put in place. This has brought about the commencement of inter-bank trading amongst the three top deposit banks. The inter-bank market rate observed during the first nine months of 2006 is 8% for maturities of between 1 – 15 days.

Reserve money was within target for September 2006 but money supply over the twelve-month period registered a growth of 27.68% up from 19.14% registered in September 2005. Interest rates on Government Treasury Bills and Treasury Bearer Bonds declined steadily reaching lows in October of 14.23% and 12% respectively. The average exchange rate on the other hand has remained stable with less than 1% depreciation from Le2,963.42 in October 2005 to Le2,986.91 in October 2006. The premium between the official and parallel market rates is barely 3%.

Your Excellencies, Distinguished Guests,

The banking system has remained very stable, largely on account of the critical evaluation of new entrants into the industry and the effective supervision and monitoring of existing institutions by the Banking Supervision Department of the central bank. The number of operational commercial banks is now seven (7), with arrangements far advanced for the opening of other commercial bank –The Ecobank (SL) Limited - hopefully before the end of the year, and Reunion Bank early next year. Five branches were added to the existing commercial banks' branch network, bringing the total to 32 branches nationwide.

Significant improvements have been recorded in the banking sector with impressive growth in total assets, investment, shareholder's fund and deposits.

There has also been improvement in resource mobilisation. The banking system increased its resource base by Le180.82 billion or 30.05% from

Le601.75 billion as at 30th September 2005 to Le782.59 billion as at 30th September 2006. Accounting for the increase were the following: deposits increased by Le144.63 billion or 79.99%, from Le440.96 billion to Le585.59 billion, Shareholders fund by Le15.25 billion or 8.43%, from Le115.89 billion to Le131.14 billion, and other liabilities, including short term borrowings, by Le20.94 billion or 11.58%, that is, from Le44.90 billion to Le65.84 billion.

A significant proportion of the gains made in resources were utilized for several purposes including, finance of government deficit through purchasing of government securities amounting to Le66.51 billion or 36.78% thereby increasing investment in government securities from Le179.44 billion; to Le245.95 billion; increase of foreign balances by Le55.36 billion or 30.62% to accommodate the needs of importers; and increase in loans to the private sector by Le7.29 billion or 4.0%. The net loans to the private sector stood at Le154.26 billion as at 30th September 2006 from Le146.97 billion as at 30th September 2005.

All the banks were above the minimum capital adequacy requirement with appreciable surpluses. This notwithstanding the Bank of Sierra Leone considers the banks' capital inadequate to support expansion in economic activities. As a result the minimum paid up capital requirement has been increased to US\$2 million (Le6.0 billion) for the period ending 31st December 2006 from US\$267,000 (Le800 million).

The operating results of the banks have been satisfactory with all the banks operating on profit basis. The banking system's profit before tax for the period ended 30th September 2006, was Le38.26 billion from Le22.51 billion for the period ended 30th September 2005. However, the cost of operation over this period was high, evidenced by the operating expenses to operating income ratio of 60.44%. Return on assets (ROA) and return on equity (ROE) were 5.37% and 16.94% respectively. The net interest spread reduced to 12.40% from 13.98%. The banks should endeavour to narrow this spread further to encourage the expansion of

of cash and goods upon conviction for money laundering.

The committee has approved Currency Reporting Forms for completion by people traveling to and from Sierra Leone who are in possession of currencies or negotiable instruments in excess of US\$10,000. The National Revenue Authority (NRA) will administer these forms at various entry points. The commercial banks, through the Know Your Customer (KYC) and Customer Due Diligence Principles will support efforts in this direction, ensuring compliance with its provisions by detecting and reporting suspicious transactions. The establishment of a Financial Intelligence Unit at the Central Bank is expected to be completed by 2007, to provide the necessary institutional support.

BANK OF SIERRA LEONE, THE PRIVATE SECTOR AND DEVELOPMENT

Your Excellencies, Distinguished Guests,

Evidence from the newly emerging economies has shown that high sustained growth requires a sound macroeconomic environment, a vibrant private sector and sound financial institutions. The Bank of Sierra Leone is aware of its major responsibility in this area. In this regard, it has signed a Memorandum of Understanding with the government, by which 50 billion Leones will be converted from its portfolio of non-interest bearing securities, to interest bearing securities for the BSL, to use for monetary operations in 2006. A further 50 billion Leones will be converted in 2007. In addition, the government will issue medium term bonds to the Central Bank in fulfilling its legal obligations for recapitalizing the Bank.

Your Excellencies, Distinguished Guests

Work is now at an advanced stage on the various pieces of legislation for the establishment of a capital market, including a full-fledged stock exchange. In this regard, the enactment of a Securities law and Collective investment schemes (CIS) will provide an appropriate legal framework for the effective operation of the Stock Exchange. Also, the existing Companies Act has been revised, and a Bankruptcy Bill drafted to be enacted in 2007.

However, recognizing that this process is time consuming and technically demanding, the Stock Exchange Technical Committee (SETC) has decided to establish an interim facility known as the Sierra Leone Interim Stock Trading Facility, as a stop-gap measure, to serve the needs of the market, while work progresses towards the establishment of the wider capital market. The rules and regulations to govern this interim facility has been finalized and forwarded for enactment by Parliament. It is expected that trading will commence before the end of the year, after the enactment of these Regulations. The trading floor will be operated by the Development Coordination Department of the Bank of Sierra Leone; while the Banking Supervision Department will perform the function of interim regulator. In the medium to long term, however, a Securities Exchange Commission will be established to serve as the principal regulatory agency for Stock Market transactions.

In April 2006, the Bank in collaboration with FIRST Initiative organized a training programme titled "Capital Market Operations and Regulations" for staff of various institutions that are likely to serve as players in the market. The successful staff will serve as Authorized Dealing Officers on the interim facility setting the stage for its operations.

To demonstrate the Bank's commitment to private sector development, the Bank during the past year, set up a new department – Development Coordination Department, with responsibility for community development, micro finance, capital market and the private sector. We would like to thank First Initiative, Financial Sector Reform and Strengthening and Commonwealth Secretariat for providing support, especially for the development of the stock exchange.

CORPORATE SOCIAL RESPONSIBILITY

Your Excellencies, Distinguished Guests,

Last year I informed you about the setting up of the Bank of Sierra Leone Charity Trust Fund for Education. On the same occasion, I introduced the Board of Trustees of the Charity

strong and prosperous Sierra Leone. We at the Bank of Sierra Leone once again renew our commitment to working with the Government, the private sector and all partners to achieve this goal.

I thank you for your attention.

sound financial system. To discharge the responsibilities of the Authority, the Bank of Sierra Leone must establish a FIU to analyse and process reports relating to suspicious transactions from Financial Institutions. A committee of stakeholders in the implementation of the Act was established and is chaired by the Governor of the Central Bank. This committee comprises, the Ministry of Finance, Attorney General and Minister of Justice, Ministry of Foreign Affairs and International Co-operation, Ministry of Mineral Resources, the Ombudsman, National Revenue Authority (NRA), Inspector General of Police (IGP), Criminal Intelligence and Security Unit (CISU), National Drug and Control Agency (NDCA), Anti-Corruption Commission, and The Association of Commercial Banks.

Since the establishment of this committee several positive measures have been taken in the implementation of the Act: currency declaration forms for passengers travelling to and from Sierra Leone will now be administered by the National Revenue Authority (NRA). Financial Institutions are also implementing Customer Due Diligence and Know Your Customer principles.

Technical assistance was sought from the UNODC by the Bank of Sierra Leone for the establishment of the FIU. A UNODC consultant, Mr. Simon Goddard, was here in Freetown recently to conduct a "needs assessment" and it is in line with this assessment that the UNODC/ GIABA and the Bank of Sierra Leone are now hosting this workshop.

We sincerely hope that at the end of this workshop, participants would benefit from the experience of the facilitators and will be able to put together a National Strategy on Money Laundering Prevention, and will also provide the basis for the effective operations of a FIU.

Monitoring cash transactions is a mammoth task because Sierra Leone primarily is a cash based economy where a significant number of transactions far exceed the statutory cash reporting requirements of the Central Bank.

The sale of diamonds is especially conducted in cash, mainly U.S. dollars. Policing of the porous borders and the long coastline for smugglers is another big challenge particularly with the inadequacy of manpower and other logistics. I believe however, that as a country, we will be up to the task and that is why the Bank of Sierra Leone is doing all within its powers to attract the necessary assistance from our development partners.

Ladies and Gentlemen, it is my singular honour to declare this workshop open. In doing so, let me once again use this opportunity to thank all our development partners, particularly the UNODC and GIABA. I wish all the participants fruitful deliberations and hope that at the end of this four-day training seminar, we will be more and better equipped in tackling this ugly problem – money laundering. I thank you all and wish our facilitators a pleasant stay in Freetown and a safe return journey.

in Sierra Leone to which GTB is an active member.

The Bank of Sierra Leone shall continue to maintain the open door policy and encourage dialogue in the process of ensuring a sound and stable financial system.

Mr Chairman, Distinguished Ladies and Gentlemen, allow me to close this brief remarks by once again congratulating the Board, Management and staff of the Guaranty Trust Bank (SL) Limited for another step taken to enhance the public image of the bank.

I thank you for your attention.

evidenced by the expansion in its resource base from Le 26 billion (December 1997) to Le 173 billion (December 2005).

The introduction of a new product that links us closer to the rest of the world, brings with it more challenges in the management of the Financial System. Prominent among these is the need to ensure that the Western Union Money Transfer Services are not used as conduit to launder proceeds of crime.

All Banks, in particular those offering good products such as global money transfers, will now be required to enforce the "KYC" (know your customer) principle to protect integrity of the Financial System as a whole.

In a bid to combat money laundering, the Bank of Sierra Leone, in collaboration with other stakeholders, is putting in place measures for the full implementation of the provisions of the Anti-Money Laundering Act 2005 in order to prevent money launderers from using our

financial system to legitimize their criminal activities.

Meanwhile, the Bank of Sierra Leone continues to maintain its open door policy and encourage dialogue with stakeholders in the process of ensuring a sound and stable financial system.

Hon. Minister, Distinguished Ladies and Gentlemen, allow me to once again congratulate the Board, Management and staff of Standard Chartered Bank (SL) Limited for introducing another product which does not only provide services locally but to almost every part of the globe, thus allowing Sierra Leone to more effectively participate in the global financial village.

Let me also take this opportunity to wish you every success in all your future enterprises.

I thank you for your attention.

billion from Le2.72 billion; while deposits rose to Le18.25 billion from Le12.95 billion over the same period.

Distinguished Ladies and Gentlemen, Banks as financial intermediaries, play a key role in mobilizing savings and extending credits. Bank credits make possible the financing of agriculture, fishing, mining and industrial activities; all of which are pre-requisites for growth and wealth creation. But this can only be fully realised if banks diversify their products along the needs of their clients. This will not only help deepen the financial sector, but will also strengthen economic growth generally. It is equally important to emphasise that borrowed resources from banks are credits and should be treated as such. This means that customers must repay such credits. This is because funds granted as loans are people's deposits and non-repayment will grossly hamper the ability of banks to engage in financial intermediation and hence economic activities.

Ladies and Gentlemen, the opening of the First International Bank Branch at Lumley will no doubt promote existing businesses, provide a conducive environment for investment opportunities, and

stimulate economic growth. This branch will certainly enable the people of Lumley and its environs to have access to more funds through credit extension for investment, which will lead to more job opportunities.

It is my hope that you will relate well with the bank and take great advantage of the opportunities, which the Bank will provide.

As a central bank, the Bank of Sierra Leone stands ready to work with all stakeholders to protect the credibility of the banking industry in Sierra Leone. For example, in a bid to combat money laundering, Bank of Sierra Leone in collaboration with other stakeholders is putting in place measures for the full implementation of the provisions of the Anti-Money Laundering Act 2005, in order to prevent money launderers from using our stable financial system to legitimise their criminal activities.

In closing my brief remarks, let me take this opportunity to congratulate the Board, Management and Staff of the First International Bank for the bold step taken to open this branch.

I thank you all for your attention.

towards the 2007 Presidential and Parliamentary elections.

August 24, 2006

The United States Government, through the United States Agency for International Development (USAID), signed a Special Objective Agreement Grant of US\$4.06mn with the Government of Sierra Leone. The grant is part of a new three-year strategy plan for an estimated contribution of US\$16.70mn to enhance democratic governance in Sierra Leone.

September 04, 2006

The Sierra Leone Ports Authority (SLPA) and the National Insurance Company (NIC) paid Le2.34bn and Le2.50bn respectively, as dividends to the Government for the year ended 31st December 2005.

September 12, 2006

The Sierra Leone Police, through the Office of National Security (ONS) received the sum of two hundred and fifty thousand United States Dollars (US\$250,000) under the Multi-Security Agency Fund for the construction of five (5) police quarters for 25 families at the King Tom Police Barracks in Freetown.

September 15, 2006

The African Development Bank (ADB) approved a grant of US\$4.3m under the Institutional Support Unit Project (ISUP) towards strengthening of the public financial management and energy sectors in the country. The main objectives of the project include: enhancing the capacity of institutions involved in public financial management; strengthening the capacity of the public sector to facilitate proper management of the nation's debt as well as establishing a country-wide tracking system to monitor data on all external loans and grants; rebuilding the destroyed management policy-making and implementation capacity of the Ministry of Energy and Power and; improving the performance of the ADB loan portfolio in the country through the enhancement of the project implementation units for on-going projects.

September 17, 2006

The Government of Libya donated a total of 69 vehicles including 40 forty-seven-seater buses, 10 water bowsers, 6 skip trucks and 13 garbage collectors/compactors worth US\$11.1m, to the Government of Sierra Leone.

September 19, 2006

The Government of Sierra Leone, the United Nations Resident Coordinator and Heads of United Nations Agencies, jointly signed a revised United Nations Development Assistance Framework (UNDAF) in Freetown, for the 2006 – 2007 Peace Consolidation and Transition to Development Programme.

September 22, 2006

The Office of the British Department for International Development (DFID) in Sierra Leone, in collaboration with the Ministry of Trade and Industry, officially launched five investment promotional documentaries on Sierra Leone, mainly covering the tourism, mining, fisheries and agricultural sectors, with the aim of promoting foreign investment in the country. The documentaries focus on key investment areas of the economy as a way of highlighting potential areas for would-be investors.

October 06, 2006

Standard Chartered Bank (SL) Limited launched its Western Union Money Transfer Service; to enhance its operations in money transfer worldwide.

October 13, 2006

Parliament ratified a loan agreement of US\$1.66m, signed between the Government of Sierra Leone and the Islamic Development Bank, for a diversified food production project. The project will be implemented for four years and caters for rural infrastructure, extension services, supply of tools, poultry and support projects in the Bo, Bombali and Tonkolili districts.

October 20, 2006

The domestic Pump prices per gallon of petroleum products were revised downwards as follows: petrol from Le13,500 to Le12,950, diesel