The URGENCY OF FISCAL DISCIPLINE AND STRUCTURAL REFORMS

Debate on the 2019 Sierra Leone Government Budget

Statement by Hon. Dr. Kandeh Yumkella

Parliamentary Leader – National Grand Coalition (NGC)

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INTRODUCTION

Mr. Speaker, Honorable Members,

On behalf of the National Grand Coalition (NGC), I stand here, under SO-63 to contribute to the debate on the Government Budget for the Financial Year 2019.

Permit me to start our contribution by repeating the key rhetorical question asked by Hon. Timbo before me in his intervention on the first day and that is…." are we a rich or poor nation"?

The question is indeed appropriate because the ultimate purpose of an economic blue print is to put the country on a trajectory of growth, wealth creation and prosperity of its people.

Several indicators presented in this year's budget suggest that in spite of three Poverty Reduction Strategies programmes during the past two decades (one from the SLPP government, followed by the Agenda for Change, and the Agenda for Prosperity by the APC Government, this nation has either stayed stagnant or retrogressed in terms of human development and economic transformation. The evidence of lack of progress is seen in key indicators cited in the Budget document itself and I will just cite a few:

- *Paragraph 4, page 2, "the recently introduced World Bank Human Capital Index (HCI) ranked Sierra Leone 151 out of 157 countries, while the 2018 UNDP Human Development Index (HDI) rated Sierra Leone 184 out of 189 countries".*

- *Paragraph 134, page 30, “I out of every three girls age 15 -19 years are either mothers or pregnant”.*

When you combine these indicators with the fact that 68% of the total population are multidimensionally poor, and 70% of the rural pollution lives below the poverty line, the answer to Hon. Timbo’s question is that in spite of the country’s vast natural resources its people continue to remain poor.

It is as if we are running fast but always end up at the same point amongst the five poorest countries on this earth. **It is within this context that we argue that our budget and our system of governance cannot afford to be business as usual.**

For this reason, any attempt at policy or system changes including the system of financial allocations, whether gradual or paradigmatic, must go hand-in-hand with institutional reforms.

We cannot be implementing policies and processes and same old ways and expect outcomes that are different from what obtained under the previous government. Such an approach can best be described as **putting new wine in old bottles. It is right that we embark on a New Direction but it is vital that this New Direction deals with fundamentals and not just symptoms.**

Mr. Speaker, Honorable Members,

It is with this urgent need for institutional reforms that I now wish to seize this opportunity to thank the Honorable Minister of Finance and his team for presenting a detailed budget that reflects a good portion of the commitments made by his Excellency the President as presented in his campaign manifesto.

As I listened to the debate these past few days, there was no doubt that our colleagues on the government side supported every sentence in the budget because it reflects their aspirations and vision, while the Opposition has been able to raise issues with the budget.

In the spirit of constructive opposition, however, I hasten to say that the purpose of my comments on the budget that follow is not to diminish it in anyway, but rather to point out, where necessary, areas that need retrofitting and to ensure it is more pro-poor, private sector friendly, and more importantly, that the budget is fiscally conservative enough to achieve fiscal discipline.

We must avoid a business as usual approach were flagrant uncontrolled spending will create another financial collapse in the future.

I will now comment on some specifics of the budget by referring to the three documents presented to us namely, (1) **Government Budget and Statement of Economic and Financial Policies,** (2) **Government of Sierra Leone Fiscal Strategy Statement,** and (3) **The Development Estimates.**

FISCAL DISCIPLINE

We wish to commend the government for its effort in revenue mobilization and fiscal consolidation. We note that the challenge is huge given the depth of kleptocracy in our country.

Mr. Speaker, I wish to recall that in 2016, the previous government declared an economic emergency and imposed stringent austerity measures. It is a fact that the IMF suspended further disbursement of funds, and as stared in paragraph 3 of the budget "most development partners withheld budget support since 2017."

This current government has also repeatedly informed us that "they inherited the worst economy since independence." *In pages 42 to 46 paragraph 105 to 128 of his Fiscal Strategy Statement (FSS), the Minister of Finance has outlined a long list of risks to the budget projections.*

There are currently widespread fiscal, monetary and structural imbalances that have resulted in serious deterioration of the economy; double digit inflation, high interest rates, huge fiscal deficit and current account deficits. **Upon examination of those risks you are left with the impression that**

most of the projection of revenues and growth will be difficult to achieve in the absence of stringent fiscal discipline.

Moreover, we remain seriously concerned that with all the constraints and risks cited, expenditure continues to increase rather than decrease. There is evidence that for the past four years, all expenditures have been way above estimates.

For example, the Parliamentary Budget Office has shown that "between 2014 and 2017, the actual total government spending rose by 64.2%." Paragraph 21, page 5 of the Budget also notes that in 2017 "**There were overruns in all categories of expenditures including Wages, Salaries, Goods and Services, Interest Payment, and Domestic Capital Expenditure.**"

Given these facts, it is indeed proper as mentioned by previous speakers to request the Minister of Finance to clarify the projected expenditures for various budget lines under Annex 1, especially when we have no guarantee that the expenditure control measures outlined in paragraph 49-80 (pages 12-19) will be implemented.

As other colleagues have also pointed out, **Parliament should not only reinforce its oversight function to ensure the MDAs stay within their budgets, but that the Ministry of Finance itself should also implement the financial controls they have presented in the budget.**

Furthermore, we note that in paragraph 50 of the Budget, it is stated that "**over the years, the Public Service Wage Bill has increased dramatically to about 55 percent of domestic revenue, 45 percent of current expenditure…rendering it fiscally unsustainable.**" This "wage burden" is largely due to the increased in the number of subvented Agencies…".

We agree that this situation is untenable and unsustainable and therefore question the rational for the massive hiring of civil servants and maintaining for creating additional commission, agencies and directorates instead of rationalizing the institutions and their wage structure.

We posit that this is the typical case of new wine in old bottles we referred to in our opening statement and as such we are calling for a thorough evaluation of the value- added and usefulness of some of these vast hiring within old, unstructured and even dysfunctional entities with large allocations to cover emoluments and other operating costs. Again, we note that in paragraph 117, page 27 and Annex 6, page XXXViii of the Budget that there are also plans to hire more personnel.

We want to caution the government that the bane of previous governments has been the proclivity to "create jobs for the boys". We urge the government to eschew such dangerous practice which has the potential to institute discrimination, favoritism, nepotism and cronyism in the government service leading to inordinate and unreasonable expansion of the wage bill which in 2017 stood at Le1.89 trillion or 57 percent of domestic revenue and is already at Le2.067 trillion in 2018 (page 17, paragraph 64 of FSS) and projected to be Le2.40 trillion of the Budget in 2019 (Annex 6, page XXXVIII).

Mr. Speaker, Honorable Members,

In our view, it does not make horse sense to hire an additional 1000 civil servants when prudent fiscal management practices (as political expediency) would suggest at more prudent approach to first include, for instance, elimination of ghost workers, assessment of competencies of those in the service so that they can be trained where necessary and pay them better, determine critical needs and skills required over the next two years, prepare a hiring plan.

What we need is better remuneration for public servants to enhance productivity and professionalism so that they too can contribute their best to the socio-economic transformation of our country. Given the perennial challenge of "ghost workers" (e.g. the 3000 ghost works during the Ebola epidemic), we urge the government to expeditiously implement the measures outlined in paragraphs 50-59 of the Budget, especially the "regular cleaning of the payroll" (paragraph 58-59).

Mr. Speaker, Honorable Members,

One of the ways of ensuring fiscal discipline, is the protection of the independence and effectiveness of the Office of the Auditor General. This entity has been one of the most important organs in our fight against corruption and waste in government.

We note that in paragraph 74 of the Budget, the Government plans to set up audit committees in MDAs and establish a "special Government Audit Committee in the Ministry of Finance comprising professionals from outside the civil service."

We do not want to suspect that this is a subtle way to give short shrift to the Office of the Auditor General if these committees are not made to report to the Auditor General. We also entertain some misgivings that setting up of an Audit Committee in the Ministry of Finance could be recipe for gross interference in, duplication of and undermining of the responsibilities of the Auditor General's Office.

In ensuring the autonomy and independence of the Audit Service Sierra Leone, we note with concern the inherent conflict of interest between the ASSL's mandate to audit the Ministry of Finance while at the same time relying on that same entity for timely and adequate subventions in order to carry out its said mandate effectively.

To this end, as a boost to the fight against corruption and waste of public resources, we recommend special provisions of ringfenced funds for ASSL guaranteed and overseen by parliament.

SOCIAL SECTOR: EDUCATION AND HEALTH

Mr. Speaker, Honorable Members,

We note the theme of the Budget, "Fiscal Consolidation for Human Capital Development", and observe that significant resources have been allocated to both the flagship Free Quality Education Initiative and the Ministry of Health and Sanitation and that we commend the government's efforts to achieve the international bench marks of 20% and 10% of total allocations of government expenditure for education and health respectively.

We note that the government also plans to hire 5000 teachers and 3000 health workers. What will be the regional distribution? What are the competencies and grades?

I wish to recall that in our opening remarks, **we have expressed serious misgivings about the whole strategy of government hiring more personnel in the absence of clear indications that such huge additional hiring would be preceded by effective institutional reforms and skills audit to avoid the new wine in old bottles syndrome. This observation remains valid and reflects our position on these additional brings in the Education and Health sectors.**

Mr. Speaker, Honorable Members:

That observation and our position having been stated, please allow me to digress a little on the Free & Quality Education Initiative. **As a party, we in the NGC, will continue to support the initiative whilst at the same time drawing the government's attention to the need for an urgent reform of the country's entire educational system to reflect the realities of the 21st Century from Early Childhood to Tertiary Education.**

Mr. Speaker, Honorable Members,

With regards to the health sector, we join others in recognizing the effort of the government for the funds allocated to the rehabilitation of the 34-Military Medical facility. At the same time, I want to highlight the predicament of the white elephant sitting in Keritown.

The latter is supposed to be our first point of defense against any future medical epidemic. Ebola is a stubborn disease and it could come back if we do not remain vigilant. But Keritown is being neglected.

Last week, our Committee on Foreign Affairs and International Cooperation, was informed that though the blood bank facility has been completed, it has still not been commissioned and made operational. It is noteworthy that the major cause of high maternal mortality in our

country is hemorrhaging, so we urge the government to resuscitate Keritown.

We also wish to highlight the need for modern diagnostic center(s). To this end, in our recent visit to the International Atomic Energy Agency (IAEA) in Vienna, the delegation requested technical assistance for cancer diagnosis and radiotherapy facility. It is our hope that our request will materialize.

ECONOMIC DIVERSIFICATION AND PRIVATE SECTOR DEVELOPMENT

Mr. Speaker, Honorable Members,

Please allow me to first make two general observations about the role of the private sector in our national development and I make these points with my eye also on the National Development Plan this government is working assiduously to finalize.

First, there is a growing realization around the world that the financing required for the development of a country like Sierra Leone cannot come from government revenue (even if though ambitious, targets for increasing domestic revenue are met). Even adding Overseas Development Assistance (ODA) or Foreign Aid and Diaspora remittances, the sums will still not add up. Only private investment in virtually every sector of our economy, including health and education, can fill our development financing gap.

Second, notwithstanding our urgent need to achieve food security, all the evidence and experience from elsewhere tells us that <u>**a small, underdeveloped economy such as ours in Sierra Leone must trade our way out of poverty**</u>**.** Yes, we should aim for as many products and services made in Sierra Leone to satisfy the domestic market and thus displace imports, but we must also significantly improve our export performance across a range of goods and services and with as much value addition as possible. <u>**This means we must maintain a laser-like focus on the productivity of our workforce and investments and the competitiveness of our economy as a whole, particularly the tradeable sectors.**</u>

These observations form the backdrop, therefore, to our comments and recommendations on the vital twin challenges of economic diversification and private sector development.

In paragraphs 103 to 107 pages 24-25, the Budget outlines efforts to create an enabling environment for private sector growth. We take note of the proposals for tax reforms and private sector development. We fully agree with the government when it says, “the private sector has an instrumental role to play as the engine of economic growth and poverty reduction.”

We also agree with the broad thrust of the government’s reform agenda. However, as it is the private sector that knows best where the shoe really pinches, we recommend that the government pursues these reforms and other measures to strengthen the private sector within the context of public-private dialogue (PPD).

Through PPD, the government and private sector can work together to identify needed reforms, decide on prioritization and sequencing, and monitor progress. **To this end, we recommend that government makes adequate provision for a PPD Secretariat that can convene and facilitate meetings; undertake research; support thematic working groups; conduct outreach across Sierra Leone to engage diverse communities and sizes of enterprises; and monitor the performance and progress of PPD.** The Sierra Leone Business Forum (SLBF) has been woefully neglected in the recent past. We recommend the government undertakes a review of the SLBF to ensure it is fit for purpose and to give it the necessary political and financial support to sustain PPD.

We also hold the view that the private sector is over taxed in Sierra Leone. For example, in the Domestic Revenue Mobilisation (DRM) Finance Bill 2019 Para 40, the government’s proposed “Upward review of fees, licenses, rates, charges and levies imposed and collected by MDAs to reflect current economic trends” is understandable seen from the perspective of revenue generation for the government in difficult economic conditions.

However, the government’s tendency to see fees, licenses, rates, charges and levies imposed and collected by MDAs as sources of revenue has a distorting and devastating effect on the private sector. By seeking to maximize revenue through licenses, fees, etc. risks hampering the growth of the private sector, deterring investors, and in effect killing the goose that should lay the golden egg.

A preferred and recommended alternative approach is to see most licenses and fees as having a broader function of providing necessary regulation, protecting consumers, avoiding public danger, etc. Fees, licenses, rates, charges and levies imposed and collected by MDAs should be integral to the government's overall strategy to create an enabling environment for private sector-led growth in Sierra Leone.

We urge the government to take a longer-term view and limit increments to fees, licenses, rates, and levies imposed and collected by MDAs, and aim for domestic revenue to come from growth of the private sector and a larger number of businesses paying their taxes and associated license fees, etc.

We also wish to highlight paragraph 60 to 66, pages 14-15, Reforming Public Procurement. The government's commitment to improve transparency in procurement practices is wholly welcome.

As the largest purchaser of goods and services in the economy, government procurement, when done in accordance with best practices and on the basis of merit, has the potential to strengthen the finances and capabilities domestic companies, especially when combined with local content policies and procedures and efforts to diversify the economy.

However, there is a risk that new procurement procedures may disadvantage small businesses and even some larger ones. We therefore recommend that the government introduces these measures fully in partnership with private sector representative bodies, such as the Sierra Leone Chamber of Commerce, Industry, and Agriculture and similar business membership organizations.

We have also observed that delays in payments by government to SMEs has greatly affected their financial position and hence their relationship with their bankers. We therefore urge the government to make timely and prompt payment to contractors to obviate delays in project and programme implementation.

Moreover, if government paid on time, more SMEs would be able to use their contracts to deliver goods and services to government as security for loans and other forms of finance, which would further strengthen prospects for private sector-led growth in Sierra Leone.

To grow and reinvigorate the economy, we need to be proactive in supporting private-sector-led exports and imports. We commend the government for taking this into consideration. Paragraphs 153 to 154 page 34 of the Budget and paragraphs (vi) to XVIII) in pages 20 to 22 of the Fiscal Strategy Statement outline detailed efforts to improve on trade facilitation and customs clearance. We welcome these efforts and urge the government to implement them expeditiously.

A final point on private sector development is our concern over the directive that all government insurance coverage must be directed to the state-owned insurance company, the NIC. While we agree that there has been unfair political interference in the insurance sector in the past, we caution against creating a monopoly. This will stifle innovation in the industry and limit the value-added insurance services and new products that can be made available to state institutions.

AGRICULTURE AND FISHERIES

As a party, the NGC would have preferred the budget theme to be **Fiscal Consolidation and Growth for Human Capital Development.** While we agree with the government that investments in the social sector is very critical, it is also true that our economy needs an urgent stimulus to catalyze private sector investments, growth, and job creation.

It is private-sector led growth in the productive sectors that will generate the revenues we need to sustain the medium to long-term investments in education and health service delivery. With the decline in the mining sector, we would have expected a higher investment in agriculture and fisheries than we have seen to support the diversification drive.

We do not believe that the allocation of Le226 billion for agriculture – (roughly USD 30 Million) and Le35 billion for fisheries (about 4.4 million) will achieve the government's diversification ambitions.

Agricultural and Fisheries investments will attack poverty at its source in the rural areas, generate more tradable goods and services, and badly needed foreign exchange. So I agree with some of my colleagues who made a case for increasing the agriculture and fisheries budget allocations. For example, instead of hiring 1000 more civil servants, those resources should be invested in the agriculture sector to hire more extension workers to support our farmers.

Therefore, we recommend that agriculture and fisheries should receive 10 percent and five percent of the budget respectively in the future.

TOURISM

We do not doubt that investments to improve our monuments and relics will increase our attractiveness as a tourist destination but we are surprised not to hear of efforts to reduce the cost of visitors getting to Sierra Leone. Sierra Leone does not compare favorably with competing destinations, such as Senegal or Gambia, on account of the high taxes, which are estimated to account for a significant portion of the cost of a ticket.

Moreover, securing a visa to come to Sierra Leone is cumbersome, costly, and time-consuming. Many African countries, Ethiopia being the most recent, are now offering visa-on-arrivals for all African nationals and it is difficult to see why Sierra Leone couldn't also take this first step. A second step would be online visa applications, which would reduce barriers and costs for visitors.

We commend the government for the creation of the Ministry of Planning and Economic Development. This Ministry will hopefully closely monitor coordination and development, prepare sectoral policies and programmes that will contribute to the growth and economy transformation. This ministry will also submit all projects to rigorous evaluation before inclusion in the final budget.

PRO-POOR INTERVENTIONS: SOCIAL WELFARE, GENDER AND ENVIRONMENTAL ISSUES

Mr. Speaker, Honorable Members,

We equally agree with some of my Honorable colleagues that we should make suggestion to make this budget more pro-poor. Paragraphs 171 and 172 page 37 deal with the most vulnerable groups and the environment.

Successive governments always under-fund the Ministry of Social Welfare and Gender. A good analysis done by the Parliamentary Budget Office has observed that the real shares of the state budget allocated to this ministry, including transfers to local councils for the development of social welfare activities has been very low. Between 2014 and 2017 the average budgeted expenditures stood at a minimal 0.37 percent of the budget but only 0.25 percent was actually disbursed. For example, in 2016, Le 20.7 billion was budgeted but Le16.3 billion disbursed, in 2017 Le19.1 budgeted but Le6 billion was disbursed (less than one million dollars).

In 2019, the government has budgeted only Le16.2 billion. Taking inflation into consideration, this is less than they received in the past years. As the Parliamentary Budget Office states, key social protection issues and challenges in Sierra Leone include malnutrition, teenage pregnancy and early marriage, abuse of children, high levels of school dropout levels, limited participation in social welfare insurance programmes, marginalization of the physically challenged and weak family protection. Given the scale of these problems, we urge government to consider more resources for this ministry.

We recognize the effort the government has made in raising the incomes of pensioners to Le250,000 per month (a little over the cost of a bag rice of Le220,000). **We recommend that this amount be increased to at least Le500,000 and make their travel on government buses free or concessional.**

Sierra Leone is the third most vulnerable country to climate change. The most vulnerable groups to extreme weather events and other climate change impacts are the poor.

The Island of Yeliboya in my constituency in Samu Chiefdom is already sinking. Yet we allow our forests to be plundered, and our coastal areas to be continuously denuded. We are therefore concerned that the Sierra Leone Environmental Protection Agency (EPA) (paragraph 174 of the Budget document) is allocated only Le15.2 billion. We urge the government to strengthen the EPA and maintain its independence.

In conclusion, we hope our recommendations will help the Committee on Supplies to make some adjustments to the Budget to enhance support for growth sectors, private sector development and support to vulnerable groups.

We wish to emphasize that greater fiscal discipline will enable government to plug the leakages, prioritize better and ensure more equitable allocation of resources. In general terms, I wish to state that in the NGC we believe that there can be no development without peace, and peace cannot be sustained without development.

Both peace and development cannot be achieved in the absence of social cohesion, inclusive governance and respect for human rights. Therefore, the economy will not thrive if half of our society feels left out.

Thus, we call on the **'New Direction**' government to right the mistakes of the past. We must see real efforts to lower tensions across the country, and real actions to reach out to those who feel left out as the party slogan says, **"One Country, One People."** The rest of the country needs to feel part and parcel of the New Direction. The latter will happen when we put **Salon FƆS.**