

## Mohamed S Fofana: Managing Sierra Leone's post-conflict economy

Keynote address by Mr Mohamed S Fofana, Deputy Governor of the Bank of Sierra Leone, at the opening ceremony of the Regional Forum on Economic and Financial Management for Legislators, Freetown, Sierra Leone, 12 July 2004.

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Mr Chairman,  
Hon. Minister of Justice,  
Your Excellency, the High Commissioner of The Gambia,  
Hon. Members of National Parliaments of WAIFEM Countries,  
Director General of WAIFEM,  
Directors of the Bank of Sierra Leone,  
Distinguished Guests,  
Facilitators and Participants,  
Ladies and Gentlemen,

### Introduction

It is my honour and privilege to extend a hearty welcome to all of you on behalf of the Government and people of Sierra Leone, Governor JD Rogers who is unavoidably absent today, the Board, Management and staff of the Bank of Sierra Leone and on my own behalf, on the occasion of the opening of the **Regional Forum on Economic and Financial Management for Legislators** organized by WAIFEM. As host, I would like to urge you to take time out of your crowded programme to visit Freetown and behold the many attractions of this rejuvenated city.

Ladies and Gentlemen, permit me to briefly dwell on the state of the West African Economy.

The sub-region came into the new millennium with a combined gross domestic product (GDP) of US\$ 80 billion, representing about 10 percent of the GDP of Spain and against a backdrop of high unemployment, it is not surprising that income per capita averages 386 US dollars for our sub-region - one of the lowest in the world. In addition, virtually all the countries are burdened by a huge debt overhang. Indeed, only two of the 15 countries of ECOWAS are not classified among the highly indebted poor countries (HIPC).

Ladies and Gentlemen,

I do not intend to spoil your day with depressing statistics about the economic performance of the sub-region as this would be tantamount to showing you only one side of the coin. The more pleasant face of this coin shows a sub-region parading some of the world's leading exporters of crude oil, diamonds and gold, as well as abundant maritime resources. Many of our countries also perform well in the global market for other commodities, including cocoa, cotton and groundnuts. However, when the abundant resource-endowment of the sub-region is set against its pandemic poverty, we see a development paradox that challenges scholars and policy makers alike.

Several reasons have been advanced for this state of affairs. They include inappropriate macroeconomic policies, weak institutions, weak executive capacity, weak legal institutions, and severe exogenous and endogenous factors. Time will not permit me to dwell on the relative contribution of each of these factors to the overall poor economic performance. Suffice it to say that efforts to address the resultant problems underpin the current far-reaching reforms undertaken by governments in the sub-region. These include financial sector reforms, public sector reforms and the privatization of public enterprises.

Following several years of persistent reforms, some modest improvement has been registered in recent times. Real GDP growth rates of most countries in the sub-region averaged 4.3 percent in 2003, compared with 3.7 and 1.9 percent in 2001 and 2002 respectively. The average fiscal deficit to GDP ratio improved significantly, from 4.2 percent in 2002 to 0.7 percent in 2003, although most of the economies remained fiscally fragile. Inflation rate accelerated marginally to 6.0 percent from

5.5 percent in 2002. Overall, the external sector of the sub-region improved somewhat as the current account position recovered from a deficit to GDP ratio of 4.3 percent in 2002 to 1.7 percent in 2003, driven by the significant turnaround in the export growth of 4.5 percent in contrast to the decline of 3.0 percent in the preceding year.

### **Managing a post-conflict economy**

Here in Sierra Leone, the government has stayed the course in its reform programme with an accent on reconstruction and rehabilitation. Helped by the quick repossession of the agricultural and mining belts by government, real GDP grew steadily from 5.4 to 6.6 and to 7.0 percent in 2001, 2002 and 2003 respectively. The marked recovery in the export of cocoa and diamonds contributed significantly to GDP growth. For instance, the volume of cocoa exports more than doubled from 1,178 metric tons in 2002 to 2,752 metric tons in 2003, while diamond exports as valued by the Government Gold and Diamond Office (GGDO) increased by 155 thousand carats or by over 44 per cent in 2003.

Not surprisingly, the problems associated with fiscal management in a post-conflict environment have exerted enormous pressures on government finances. In an effort to strengthen its revenue base, government has established the National Revenue Authority to unify the Income Tax and Customs and Excise departments into a single unit. As a result, there was a significant increase of 20.52 percent in domestic revenue collection in 2003.

Nevertheless, the fiscal out-turn, excluding grants, resulted in an overall deficit of 16.7 percent of GDP. This represents a 3 percentage point reduction over the level recorded in the preceding year. As a result of the high credit expansion to both Government and the Private Sector, there was a large injection of liquidity into the economy as broad money growth accelerated to 21.9 percent against the planned target of 14 percent. Consequently, inflation reared its ugly face in 2003, crossing the double-digit threshold for the first time in five years.

### **The case for a legislature/executive partnership**

Distinguished Ladies and Gentlemen,

I am informed that this is the third in the series of special Forums for Legislators and senior officials of the executive arm of government organized by WAIFEM. I want to commend WAIFEM for this initiative which has become an important platform for policy dialogue between the two arms of government and more importantly, strengthening the capacity of the parliaments in the vital areas of economic and financial management. It is in the realization of the useful role of such platforms in forging greater understanding among key stakeholders in the policy process that the Committee of Governors of Central Banks of ECOWAS member countries called for the reactivation of the periodic Consultative Forum of Ministers of Finance and Central Bank Governors of ECOWAS countries at its meeting in Dakar, Senegal on June 16, 2004.

Looking at the pertinent issues to be dealt with in the course of your deliberations and the calibre of resource persons to facilitate the process, I have no reason to doubt that you are in for a round of stimulating and fruitful deliberations. Permit me therefore, to anticipate that you will come up with concrete and implementable proposals to facilitate a harmonious working relationship between the legislature and the executive in pursuance of their shared economic management objective.

### **Towards regional monetary integration**

This has become particularly urgent in the light of the need to ensure that West African countries stay the course in their commitment to achieve economic convergence. But as you are aware, virtually all the countries have found it difficult to achieve and sustain, over time, the required level of economic performance under the convergence criteria. The persistent slippages do not augur well for the July 2005 deadline for the launch of the Second Monetary Zone. In this regard, it is imperative that all hands be put on deck in pursuing the monetary integration project. As legislators, your involvement in enacting the enabling legislation that would form the legal underpinning for the policies, programmes and institutional framework for the monetary union will be critical. In this connection, the national parliaments should set up as a matter of urgency, research units comprising economists and financial experts to provide the requisite professional back-stopping for them.

## **Conclusion**

Ladies and Gentlemen,

Once more, I welcome you all to Freetown and wish you a pleasant stay. It is my singular honour and privilege to declare open the third **Regional Forum on Economic and Financial Management for Legislators**.