GOVERNMENT OF SIERRA LEONE

SUPPLEMENTARY GOVERNMENT BUDGET

and

STATEMENT OF ECONOMIC AND FINANCIAL POLICIES

For the Financial Year, 2018

Theme: "Road to Efficient Economic Management"

DELIVERED BY

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in the Chamber of Parliament

TOWER HILL, FREETOWN ON

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1. Introduction

1. Mr. Speaker, Honourable Members, the previous Government presented the 2018 Government Budget and Statement of Economic and Financial Policies to the House of Parliament on the 27th October 2017. This Noble House approved the Budget on the 6th December 2017 and the implementation of the Budget commenced in January 2018.

2. Mr. Speaker, Honourable Members, the victory of the Sierra Leone People's Party (SLPP) following the General Elections of March 2018 and after examining the assumptions which underpinned the 2018 Budget in the context of the ***New Direction***, it became imperative that we prepare a Supplementary Budget to revise the 2018 Budget framework for the following reasons:

3. First, the most important reason for recasting the budget is that, the priorities of Government have changed as articulated in the Presidential Address delivered by His Excellency, the President, Dr. Julius Maada Bio on the ***Occasion of the State Opening of the First Session of the Fifth Parliament of the Second Republic of Sierra Leone.*** The provision of free quality basic and secondary education is a key priority under the ***New Direction***. Accordingly, these priorities have to be reflected in the budgetary allocation to the education sector. In addition, there are new and compelling expenditure requirements such as the provision of subsidy to the energy sector to ensure reliable power supply to households and businesses as well as realigning budgetary allocations to the diversified economic sectors of fisheries, tourism and agriculture.

4. Second, the macroeconomic framework and the underlying assumptions, which underpinned the 2018 Government Budget have been revised to reflect recent developments in the economy. In particular, economic growth for 2018 has been revised downwards to 3.7 percent compared to 6.1 percent projected at the time the 2018 budget was presented to Parliament in October 2017. The revised projection of economic growth reflects the closure of Shandong Steel and Iron Group mining in

November 2017 largely due to low international prices for the quality of iron ore produced. Accordingly, revenues from iron ore mining, including royalties and personnel income tax and other taxes collected from their sub-contractors would be lower than earlier projected.

5. Third, the original 2018 revenue projections were also based on the implementation of some of the provisions of the Finance Acts 2017 relating to the imposition of specific excise duty on imported beer, spirits and other alcoholic beverages. While the application of the Finance Act was only limited to beer and spirits, there was no thorough analysis of the potential impact of the Finance Act on the official level of imports vis-a-vis smuggling of these products and by extension the implications for domestic revenue. Some of the provisions in the 2017 Finance Act relating to excise duty on beer and other alcoholic beverages have now been reviewed and presented to this noble House for enactment. The earlier projections also assumed the passage and subsequent implementation of the 2018 Finance Act at the beginning of the year. The Act was passed in March 2018 and implementation started in May 2018. The delayed approval had adverse implications for domestic revenue collection in 2018.

6. Fourth, a key assumption underlying the 2018 revenue projections was the reform of fuel pricing. The previous Government and the IMF had already reached an agreement for Government to liberalise fuel price even before the Presidential and General Elections were held. However, the Government failed to honor its commitment to Development Partners, resulting to denting the credibility of Sierra Leone on the implementation of economic reforms agreed with it partners. Furthermore, the 2018 revenue the projections did not anticipate the ban on timber exports, which had been a significant source of revenue.

7. Fifth, the implementation of the Treasury Single Account (TSA) has resulted in the transfer of revenues hitherto collected and retained by extra-budgetary agencies into the Consolidated Revenue Fund. At the same time, the personnel and operating

expenditures of these agencies are now being paid from the Consolidated Revenue Fund.

8. Sixth, there have been significant changes to the architecture of public administration. Some of the Ministries have been unbundled into two separate Ministries. New executive positions such as Chairman, Presidential Infrastructure Initiative and Office of the Chief Innovator have been established. These have budgetary implications, which require the approval of this Noble House.

9. Seventh, at the time of presenting the 2018 Budget in November 2017, the full picture of arrears owed to suppliers and outstanding commitments on contracts for Goods and services and infrastructure projects entered into by Ministries, Departments and Agencies was not available. A stock taking exercise carried out by the Ministry of Finance showed that the stock of outstanding arrears and commitments stood at **Le10.7 trillion (US$1.4 billion)** as at end March 2018. The payment of some of the arrears in 2018 will constrain the fiscal space for the allocation of resources to priority sectors and programmes.

10.Eighth, Government inherited a difficult economic situation with severe macroeconomic and fiscal imbalances including a burgeoning domestic debt of **Le5.0 trillion (or US$655.3 million)**, unpaid cheques held at both Bank of Sierra Leone and Accountant General's Department worth over **Le1.3 trillion** as well as an external debt of **US$1.5 billion.** There is therefore an urgent need for fiscal consolidation to ensure fiscal and debt sustainability with the overarching objective of restoring budget credibility and macroeconomic stability. Without restoring macroeconomic discipline and consolidating public finances, it would be a daunting task to implement Government programmes and projects as articulated in the ***New Direction.*** This revised budget is therefore a step in that ***Right Direction.***

11.Mr. Speaker, Honourable Members, taking the forgoing justifications into consideration and in line with Section 42, Sub-section 1 of the Public Financial

Management Act, 2016, I hereby present the Supplementary Budget proposals for the 2018 Financial Year for consideration and approval by this Noble House.

12.Mr. Speaker, Honourable Members, before presenting the details of the revised Budget, I would like to provide you with an update on the macroeconomic and budgetary performance for the first half of the year (January to June) 2018.

Macroeconomic and Budgetary Performance During January to June 2018

(i) Macroeconomic Performance

14. Mr. Speaker, Honourable members, the economy is estimated to have grown by 3.7 percent in 2017. In 2018, the economy, excluding iron ore was projected to grow strongly by 5.7 percent driven by increased activities in agriculture, recovery in kimberlite diamond mining and expansion in the services including tourism. However, the revised projection, including iron ore, indicate that the economic growth rate will be at the same level of 2017 due mainly to the temporary closure of Tonkolili Mines by Shandong Iron and Steel Group. As mentioned earlier, the closure of the mines is due to weak market conditions and operational difficulties.

15. Inflation has been declining gradually from the peak of 20.2 percent in March 2017 to 15.3 percent in December 2017 and further down to 14.4 percent in March 2018, reflecting the relative stability of the exchange rate, tight monetary policy by the Bank of Sierra Leone as well as increased domestic food supplies. However, inflationary pressures started to emerge in April 2018 when inflation rose to 15.1 percent in April and further to 16.1 percent in May, attributed to increased demand for goods in the period leading up to and during the month of Ramadan.

16. Total value of export in Quarter 1 2018 amounted to **US$110.5 million** and were 25 percent lower when compared to the same period in 2017 due mainly to low level of iron ore exports. Mineral exports amounted to **US$ 87.2 million,** representing 78.9 percent of total exports, and of which, iron ore is **US$ 8.3 million**; diamond **(US$ 28.2 million)**; rutile **(US$ 21.5 million)**; and bauxite **(US$ 18 million).**

17. Total import value amounted to **US$355 million** during Quarter 1 of 2018 and was 11 percent lower relative to the same period in 2017. Of this, the value of food imports was **(US$134.8 million)** accounting for 39 percent of total imports; machinery and transport equipment, **(US$ 64.1 million);** mineral fuel and lubricant, **(US$58.5 million)**; and manufactured goods, (**US$ 31 million).** The trade deficit for Quarter 1, 2018 is estimated at **US$244.5 million.**

18. Gross foreign exchange reserves of the Bank of Sierra Leone amounted to **US$507.79 million** (about three months of import cover) by end June 2018. Major inflows during the period include royalties on minerals and fisheries while outflows include external debt service payments and disbursements to our embassies overseas.

19. Relative to the end of December 2017, the exchange rate was relatively stable, depreciating by 1.7 percent during the first five months of 2018. However, reflecting the weak performance in the export sector in the midst of increasing demand for imports especially petroleum products, the exchange rate came under severe pressure in late June. The official exchange rate depreciated from **Le7, 541.16** in December 2017 to **Le 7,695.47** in June 2018. The spill over effect was substantially high in foreign exchange transactions in the parallel market.

20. The stock of total public debt is estimated at **Le16. 96 trillion (US$2.2 billion)** as at end June 2018. Of the total debt, external debt amounted to **US$1.5 billion** while domestic debt amounted to **Le5.04 trillion (US$655.3 million).**

(ii) Budgetary Performance - January to June 2018

21. Mr. Speaker, Honourable Members, since assumption of the mantle of leadership on 4th April 2018, Government has been pursuing fiscal consolidation focusing on enhancing domestic revenue mobilization and expenditure rationalization in order to correct the fiscal slippages that occurred in the past, particularly in the last 5 years. The efforts to consolidate public finances were underpinned by the

implementation of Executive Orders 1 and 2 on revenue mobilization and expenditure rationalization, respectively.

22. Mr. Speaker, Honourable Members, I am pleased to report that domestic revenue collected during Quarter 2 (April to June 2018) increased dramatically to **Le1.07 trillion** from **Le 895 billion** in Quarter 1, 2018. The improvement is accounted for by the curtailment of excessive duty waivers, consolidation of all revenues hitherto collected and retained by several agencies into the Consolidated Revenue Fund (CRF) through the implementation of the Treasury Single Account, collection of tax arrears and strict enforcement of tax compliance by the National Revenue Authority.

23. Hence, total revenue collected during the first half of 2018 amounted to **Le1.99 trillion** compared to **Le 1.611 trillion** during the corresponding period in 2017, representing 22 percent increase **(Le357 billion)**, sufficient to pay two months of the salaries and wages of Government workers.

24. Tax revenues amounted to **Le1.53 trillion**. Of this amount, Income Taxes amounted to **Le738.4 billion**; of which corporate taxes yielded **Le 136.0 billion** while personal income taxes including Government PAYE was **Le 589.2 billion.**

25. Goods and Services Tax (GST) collected during the period amounted to **Le 405 billion.** Of the total GST collection, Import GST amounted to **Le 220.4 billion** and Domestic GST, **Le184.8 billion.**

26. Revenue from Customs and Excise Duties was **Le 383.0 billion** including import duties of **Le276.1 billion** and excise duties on petroleum products, **Le 104.9 billion.**

27. Non-tax revenues including royalties on minerals amounted to **Le442.2 billion,** of which, mining royalties and licenses amounted to **Le 126.4 billion.**

28. Revenue collected by TSA agencies amounted to **Le 104.9 billion** as at end June 2018, including balances transferred of **Le60.4 billion** in April 2018 and subsequent collections to end June 2018 of **Le44.4 billion**. Revenue collected by other Government Departments amounted to **Le 315 billion**, including royalty on fisheries of **Le52.6 billion.** Road User Charges and Vehicles Licenses amounted to **Le 20.2 billion** during the period as revenue from this source was used to subsidise retail fuel price.

Grants

29. Mr. Speaker, Honourable Members, there was no disbursement of budget support during the first half of the year due mainly to the derailment of the economic programme with the IMF in 2017. Accordingly, the new administration has not benefitted from any external budget support since it assumed power in April 2018. Notwithstanding, Government has been able to pay wages and salaries without recourse to the overdraft facility at the Bank of Sierra Leone.

30. The grants received during the first half of the year estimated at **Le193 billion** were disbursed by partners for the implementation of capital projects. External Budget support partners will only disburse later in the year after successful negotiations on a new economic programme with the IMF in September 2018. Discussions between Government and the IMF on the new programme are at an advanced stage and concerted effort is being made by all stakeholders to deliver on our reform commitments and put the programme with IMF on track.

Expenditures

31. Mr. Speaker, Honourable Members, total Government expenditure for January to June, 2018 amounted to **Le 3.16 trillion**, of which, recurrent expenditure was **Le 2.06 trillion**, less than the budgeted amount of **Le 2.46 billion**. Wages and Salaries amounted to **Le 1.06 trillion** by end June 2018.

32. **Non-salary, non-interest recurrent expenditure** was **Le 495.2 billion** by end June. Of this, **Le372.2 billion** was spent on **Goods and Services**; including **Le14.5 billion** was spent on Education to support the Girl Child programme, Govrnment Boarding Schools and Handicapped Schools; **Le 45.2 billion** to the National Revenue Authority; **Le61.2 billion** to Defence; **Le49.7 billion** to the Police; and **Le 11.2 billion** to the Correctional Services.

33. **Subsidies and Transfers** amounted to **Le123 billion**, including **Le 2.1 billion** for Pre-Primary, Primary and Junior Secondary Schools; **Le77.2 billion** as Grants to Tertiary Educational Institutions of the University of Sierra Leone, Njala University, Milton Margai College of Education and Polytechnics; **Le 20.2 billion** as Transfers to the Road Maintenance Fund Administration; and **Le 22.7 billion** on Elections and Democratization.

34. Subsidies to the energy sector for the purchase of fuel and payment to Independent Power Providers (IPPs) is estimated at **Le20.2 billion** for the period January to June 2018. To ensure reliable power supply at reduced subsidy, Government renegotiated the Karpower Contract for a reduced cost by shortening the commitment period from five years to two years with the option to renew for one additional year, resulting to savings of about **US$20 million** for the two years. The renegotiated agreement received the support of the World Bank consistent with the energy sector policy between Government and the development partners.

35. Total interest payments for the first half of the year amounted to **Le467.1 billion**, of which domestic interest payment was **Le415.3 billion** and foreign interest payment, **Le51.8 billion.**

36. Total Capital Expenditures amounted to **Le 1.11 billion** during the first half of the year. Domestic Capital expenditures was **Le 400.9 billion** at the end of June 2018, most of which was spent during Quarter 1.

37. Mr. Speaker, Honourable members would recall Executive Order number 2 on immediate expenditure control measures in a bid to curtail wasteful expenditures to create fiscal space for financing key programmes under the New Direction including the flagship programme on **free quality basic and secondary education**. The Ministry of Finance is implementing these measures. For example, payment of per diem was limited only to the number of days spent in the country of visit. Per Diems were not paid for travel time for all official overseas trips. In addition, the provision of internet services at private homes of public officials was suspended. Based on the analysis of budget execution for the Quarter 2, 2018, expenditure savings amounted to **Le11.5**

billion across Ministries, Departments and Agencies, of which savings on overseas travelling alone amounted **Le760 million.**

Budget Deficit and Financing

38. Mr. Speaker, Honourable Members, the budget deficit including grants is estimated at **Le670.1 billion** for the first half of 2018. Excluding grants, the deficit amounted to **Le863.1 billion**, below the original ceiling of **Le1.4 trillion** for the period.

39. Domestic borrowing from the commercial banks and the non-bank public tofinance the deficit was estimated at **Le515.5 billion** far below the planned domestic borrowing of **Le865.1billion**. Most of the borrowing took place in Quarter 1 of 2018. Net domestic borrowing in Quarter 2 (April to June) amounted to **Le 73.9 billion** only compared to Le **Le441.9 billion** during Quarter1 (January to March 2018). The new borrowing of **Le73.9 billion** in Quarter 2 was utilized to redeem some of the maturing Treasury Bills. Net Foreign financing in the form of project and programme loans disbursed less external debt repayments is estimated at **Le374.6 billion** as at end June.

40. Due to Government's strong commitment to support the National Revenue Authority (NRA) in it revenue drive as part of the ongoing fiscal consolidation efforts,

Government promptly paid the wages and salaries of public sector workers in the months of April through June, amounting to **Le542.6 billion**, without borrowing from both the Bank of Sierra Leone and commercial banks. In addition, Government is current on the payment of NASSIT contributions of **Le60 billion**; cleared arrears owed to tertiary educational institutions, security forces, as well as provide funds for the monthly National Cleaning Exercise of **Le2.9 billion** to the Freetown City Council; all without resorting to overdraft facility at the Bank of Sierra Leone.

Medium-Term Economic Outlook

41. Mr. Speaker, Honourable Members, the medium-term prospects of the economy are bright, reflecting the commitment of Government to implement prudent and efficient economic policies that will stabilise the economy, improve governance and the business environment to attract private investment. In addition, the implementation of sectoral reforms to improve the productivity of growth generating sectors in the context of economic diversification as well as improving the efficiency of public investment in infrastructure is expected to contribute positively to economic growth in the medium-term.

42. Mr. Speaker, Honourable Members, during 2019 and 2020 economic growth is projected at 5.0 percent underpinned by increased investments and productivity in agriculture, resumption of iron ore mining; expansion in other mining activities, especially rutile; and reactivation of construction activities. Inflation is projected to fall to 14 percent by end December 2018 and to return to single digit in 2019 and beyond. The tight stance of monetary policy by the Bank of Sierra Leone and increase food production will contain inflationary pressures. The current account deficit, including grants, is projected to narrow from 24.6 percent of GDP in 2018 to 20.3 percent of GDP in 2019 and to narrow further as exports increase in the medium term. Gross foreign reserves are programmed to average 3 months of imports in 2018 and will increase to at least 5 months of import cover over the medium-term as exports increase and measures to build foreign reserves are implemented.

43. The sustenance of fiscal consolidation measures is expected to improve domestic revenue collection to at least 20 percent of GDP while maintaining Government expenditures at sustainable limits. This will reduce the budget deficit, including grants, from 11.7 percent of GDP in 2017 to 12.8 percent of GDP in 2018. The deficit, including grants, is projected to narrow down to 3.0 percent of GDP in the medium in line with the ECOWAS macroeconomic convergence criteria. This will also ensure that the public debt, in nominal terms, is limited to no more than 70 percent of GDP.

III. Revisions to the Original 2018 Budget

Revisions to the Original Revenue Projections and underlying assumptions

44. Mr. Speaker, Honourable Members, the temporary closure of iron ore mining, delay in the implementation of the Finance Acts 2017 and 2018, the accrual of direct and indirect subsidy on retail fuel sales, low import values and the general weak tax compliance in Quarter 1 of the year has warranted a downward revision of certain revenue streams relative to their original projections. The affected revenue streams include Goods and Services Tax (GST), Import and Excise duty on petroleum products and royalty on iron ore and excise duty on alcoholic beverages.

45. However, the strengthened enforcement of tax compliance, suspension of duty and tax exemptions and the implementation of the Treasury Single Account (TSA) in recent months are expected to improve the collection of some revenue streams. Accordingly, the targets for corporate tax, personal income tax, foreign travel tax, and revenues collected by the TSA agencies and royalty on fisheries and timber have been revised upwards.

46. Mr. Speaker, Honourable Members, I will start with the revenue streams that have been revised downwards as follows:

47. Revenue **collections from the Goods and Services Tax** is revised downwards by **Le187.5 billion** to **Le 899.8 billion** in the revised 2018 Budget compared to the original budget of **Le1.10 trillion** on account of weak performance during the first half of the year. Import GST is projected downwards by **Le98.9 billion** relative to the original projection of **Le598.7 billion** due to the low level of imports of dutiable goods. Similarly, domestic GST is revised downwards by **Le88.6 billion**. These downward revisions are on account of what happened in the first three months of 2018 and the low tax compliance by businesses that adopted a 'wait and see attitude' before and during the Presidential and General elections.

48. **Customs and excise taxes** are revised downwards by **Le337.5 billion** to **Le980.1 billion** compared to the original target of **Le1.32 trillion.**

49. Of these, import duties are revised downwards by **Le190.3 billion** compared to original projection on account of slower import activities for the same reasons explained earlier. The revised amount would have been lower but for the curtailment of duty and tax waivers during the Quarter 2, 2018.

50. **Excise duty on petroleum products** is revised downwards by **Le139 billion** to **Le361 billion** compared to the original target of **Le500 billion**. This is largely on account of direct and indirect subsidy on retail fuel sales. The retail pump price of fuel has been kept fixed at Le6000 per liter in the midst of the continuous rise in international oil prices and depreciation in the exchange rate, resulting in the reduction in excise duty. By end May 2018, all revenues from the sale of petroleum products had been eroded leading to payment of direct subsidies to Oil Marketing Companies in June 2018. Direct subsidies owed to National Petroleum (NP), TOTAL and LEONE Oil for the month of June amounted to **Le5.2 billion.** Total petroleum revenues lost in the form of indirect subsidies amounted to **Le175.1 billion** during the first half of 2018. Thus, as at end June 2018, Government had lost **Le180.3 billion**. Total revenue that would be lost through direct and indirect fuel subsidy is projected to amount to **Le500 billion** by the end of the 2018, if retail pump price is kept at Le6, 000 per litre.

51. Mr. Speaker, Honourable Members, the huge amount of revenue lost through these subsidies represents a major fiscal risk to the implementation of Government's flagship programme on free quality basic and secondary education and other social programmes.

52. Other challenges related to the subsidy on retail fuel price include the difficulty of separating the retail and the commercial fuel markets as well as the smuggling of fuel across the border to neighboring countries, where fuel prices are higher than those prevailing in Sierra Leone. As at end June 2018, the retail price of fuel in neighboring Republic of Guinea and Liberia is 50 percent and 43 percent higher, respectively, than in Sierra Leone. In effect, Government is subsidizing fuel related activities beyond the borders of Sierra Leone.

53. Similarly, excise duty collected on imported alcoholic beverages has been abysmal in the first half of the year, recording only **Le1.9 billion**. This is because the existing higher excise duty imposed on imports of alcoholic beverages ($4 per liter for those with alcohol content less than 10% and $6 for those above 10 %) as provided for in the Finance Act 2016 and 2017 has substantially increased the cost of clearing alcoholic beverages at the Customs and Excise Department of the NRA. As a result, the importation of these goods has dropped significantly while smuggling increased. Though, the downward review of excise duty on alcoholic beverages as proposed in the revised 2018 Finance Act is expected to reverse this trend, only a small proportion of the revenue lost so far could be recovered during the second half of the year. As a result, excise tax on alcoholic beverages and other goods is revised downwards by **Le8.2 billion** from **Le23.3 billion** in the original budget to **Le15.1 billion.**

54. **Royalty on iron ore** is revised downwards by **Le47 billion** to **Le3 billion** only as there will be no iron ore production in 2018. Royalty on the other minerals (rutile, diamonds, bauxite) remain as originally budgeted. However, mining licenses are revised upwards by **Le12 billion** to **Le65 billion** due to the collection of outstanding arrears owed by Mining Companies.

55. Mr. Speaker, Honourable Members, I will now turn to the revenue streams that have been revised upwards:

56. **Corporate Tax** is revised upwards by **Le21.8 billion** to **Le397.2 billion** compared to the original projection of **Le375.4 billion**. The additional revenue would be realized on account of planned audit of the withholding tax for contracts awarded by self-accounting MDAs as well as third party data matching exercises.

57. **Personal Income tax collection** is also revised upwards by **Le99.4 billion** to **Le1.24 trillion** on account of the renewed focus on strengthening rental income tax administration, which is projected to bring in more revenues in the second half of the year.

58. Collection from other taxes mainly **Foreign Travel Tax** is revised upwards by **Le19 billion** to **Le27 billion** reflecting impressive collection during the first half of the year.

59. Mr. Speaker, **non-tax revenue from Other Government Departments** is revised upwards by **Le509.5 billion** to **Le767.6 billion** compared to **Le260.1 billion** originally projected. The increase is accounted for mainly by the consolidation of revenues collected by TSA Agencies into the Consolidated Revenue Fund through the implementation of the Treasury Single Account consistent with the Fiscal Management and Control Act, 2017.

60. Revenue from the **TSA agencies** is projected at **Le254.3 billion** for the year. This new revenue source will partly offset the projected decline in revenues from GST, Customs and royalty on iron ore. **Royalty on fisheries** is revised upwards by **Le2.1 billion** to **Le90.1 billion** and dividend from parastatals by **Le2.1 billion** to **Le45 billion**. Other non-tax revenues are also revised upwards by **Le247 billion** mainly due to lifting of ban on timber exports and the proposed increase in royalty rate. **Road User Charges** are maintained at the original projection at **Le128.9 billion**.

61. Overall, **total domestic revenue** for the 2018 financial year is projected to increase to **Le4.65 trillion (15.4 percent of GDP) indicating good progress towards achieving the domestic revenue target under the *New Direction* of 20 percent of GDP by 2021.**

Revised External Budget Support

62. Mr. Speaker, Honourable Members, I am pleased to report that the disbursement of external budget support, which was suspended by some of our development partners due to the derailment of the IMF programme is expected to resume in the second half of 2018 following successful discussions with the IMF as well as the implementation of key reforms including on revenue mobilization and expenditure management. Therefore, expected external budget support is revised upwards to **Le521 billion** compared to **Le264.3** in the original budget.

Revenue measures for the second half of 2018

63. Mr. Speaker, Honourable Members as mentioned earlier, a major fiscal risk to the implementation of Government's programmes and hence the Supplementary Budget is the indirect subsidy in the form of lost revenues and worse still, the direct subsidy in the form of direct payments to Oil Marketing companies for fuel sales in the retail market. This is due to the policy of keeping the retail price of fuel fixed in the midst of rising international oil prices, movements in the exchange rate and other exogenous factors.

64. Mr. Speaker, Honourable Members, to avoid the projected loss of revenue and other challenges of cross-border smuggling of fuel products as well as the difficulty of preventing commercial customers from buying fuel from the retail outlets, effective 13th July 2018, the price of petroleum products is fully liberalized. The details of the single and full-pass through pricing formula will be communicated to the public by the Ministry of Trade and Industry. This policy reform will significantly reduce the projected loss in revenue by **Le235 billion** during the second half of the year while

the full potential of revenue from petroleum excise duties would now be realized in subsequent years.

65. Mr. Speaker, Honourable Members, to further improve domestic revenue collection while at the same time protect our local industries for job creation and reduction in the cost of living, some of the provisions of the Finance Acts 2008, 2017 and 2018 have been reviewed. The revision is also in compliance with the ECOWAS Common External Tariff (CET) for which Sierra Leone is one of the two remaining countries that have not been implementing the regime. These revisions are as follows:

66. The excise duty on alcoholic beverages with less than 10 percent of alcohol has been reviewed downwards from **US$4 to US$1.5** per litre. For those with more than 10 percent of alcohol, the excise duty is reduced from **US$6** to **US$2** per litre. The objective is to reduce the local price of these products, minimise smuggling while protecting the local industries. The fiscal impact of this revision is a net gain in revenues of **Le54 billion.**

67. Import duty on wheat or meslin flour is reviewed downward from **20 percent to 10 percent** to reduce the cost of essential food items, especially bread. The impact of this revision will be revenue-neutral as the higher rate of 20 percent was never implemented by NRA.

68. Import duty on fruit juice is also reviewed downwards from **30 percent to 20 percent** in line with the ECOWAS Common External Tariff, whose implementation in Sierra Leone commenced effectively on the 18th of June 2018. The revision is expected to generate **Le591 million** in additional revenue. However, an excise duty of 10 percent is imposed on fruit juices to reduce the incidence of diseases related to the consumption of sugary drinks. This is expected to generate additional revenue of **Le2.0 billion.**

69. An excise duty of 20 percent is imposed on non-alcoholic beverages (energy drinks). This will generate additional revenue of **Le6.8 billion.**

70. Import duty on imported water is reviewed upwards to **35 percent from 30 percent** to support local water industry. The policy is projected to generate **Le4.4 billion** in additional revenues.

71. In line with the ECOWAS Common External Tariff, import duty on tobacco products is reviewed upwards from **25 percent to 35 percent** while excise duty on these products remained unchanged at **30 percent**. The increase in import duty rate is expected to generate **Le21.4 billion** in additional revenues.

72. Royalty on timber and timber products has been reviewed from **US$1,500** to **US$2,500** per 20 cubic meters. A special sub-treasury account of the Consolidated Revenue Fund into which Timber royalties should be paid has been established. Fisheries Licenses and other levies are reviewed as per the Revised Finance Act 2018 as a first step to harmonise our rates with those prevailing in West Africa.

73. Mr. Speaker, Honourable Members while we await a comprehensive review of the policy on duty and tax exemptions and in order to minimise revenue leakages through duty and tax waivers, all contracts for the procurement of goods, services and works by MDAs and donor- funded projects must be at market price, inclusive of all applicable taxes. Therefore, in the issuance of Expressions of Interest (EOI) or Requests for Bids, MDAs should ensure a requirement for all potential bidders to clearly include all applicable taxes in their bid prices. For donor funded projects, the component of duties and taxes should be clearly included in the contract, which will form part of Government's counterpart contribution to the project. Henceforth, no contract will be granted duty and tax waivers.

74. Mr. Speaker, Honourable Members, to reduce the cost of forwarding and clearing items and consignments at the Customs and Exercise Department, the demurrage grace period is increased from 3 to 5 working days excluding public holidays.

75. Mr. Speaker, Honourable Members, all registered Non-Governmental Organizations are eligible to duty and specific tax exemptions consistent with the Finance Act 2016, . However, to improve on the transparency in processing duty and tax waivers and to enhance the predictability and tax expenditures, NGOs are required to submit to the Ministry of Finance their annual import requirements stating the potential amount of duty exemptions.

76. To minimize delays in processing duty and tax waivers and avoid payments of demurrage, all requests for duty and tax waivers should be forwarded to the Ministry of Finance through the supervisory Ministry fourteen (14) days before the arrival of the consignment at the Ports.

77. Mr. Speaker, Honourable Members, on behalf of the executive, I would like to extend appreciation to this Noble House for enacting the Extractive Industry Revenue Act (EIRA) 2018 into law on Tuesday July 10, 2018. It is anticipated that this will support our revenue mobilisation drive through harmonization and consolidation of the fiscal regime into a single piece of legislation for the extractive sector. The EIRA will prevent the discretionary case by case negotiation of fiscal terms in extractive sector agreements.

78. Mr. Speaker, Honourable Members, while the EIRA 2018 recognises the fiscal terms in existing Agreements up to the time of passing this Act, it prevents the negotiation of fiscal terms in any new Agreement to deviate from the fiscal regime defined in the Act. Furthermore, the extension of any Agreement that expires after the passage of the EIRA should be governed by the fiscal regime prescribed in the EIR Act. In this respect, the National Revenue Authority is legally obligated to only apply the fiscal terms included in the EIRA to any new or renegotiated Agreement after the passage of the EIRA.

Payment of Privatization Receipts

79. Mr. Speaker, Honourable Members, although the Privatization Act requires payment of privatization receipt by state-owned enterprises into the Consolidated Revenue Fund, in the past, payments were made into special accounts held at commercial banks before funds are transferred into the Consolidated Revenue Fund. Therefore, consistent with the Privatization Act and Government's commitments to fiscal consolidation, all privatization receipts or concession fees, licenses and dividends must henceforth be paid into the Central Bank of Sierra Leone foreign reserves account held overseas in the case of payments in foreign currency or into a sub-account of the Consolidated Revenue Fund held at the Bank in the case of payments in local currency.

Revised Expenditure Projections

80. Mr. Speaker, Hon. Members, based on the changes in Government priorities, certain categories of expenditures of Ministries, Department and Agencies have been revised while others remained unchanged. **Overall**, total expenditure and net lending is now projected to amount to **Le7.4 trillion (24.5 percent of GDP) compared to Le7.3 trillion (21.2 percent of GDP)** in the original budget. The Appropriation Bill contains the revised allocations for all MDAs for the second half of the year. The annexes contain the monthly projections by MDAs.

Recurrent expenditure

81. Total recurrent expenditure is revised from **Le4.8 trillion in original budget** to **Le5.2 trillion** in the revised budget reflecting mainly the increase in Goods and services expenditure and subsidies and transfers as follows:

Wages and Salaries

82. The allocation for Wages and Salaries is maintained as originally budgeted at **Le2.07 trillion**. Savings derived from the current wage reforms is offset by the payment of severance benefits to retired public servants above 60 years of age as per Public Service Regulations as well as gratuities to outgoing Ministers, Parliamentarians, Ambassadors and Attachés.

83. **Total interest payments** remained unchanged as domestic and foreign interest payments remain as originally budgeted at **Le854 billion** and **Le 98 billion,** respectively.

Non-Salary, Non-Interest Recurrent Expenditure

84. Mr. Speaker, Honourable Members, Non-Salary, Non-Interest Recurrent Expenditure is increased to **Le2.1 trillion** in the supplementary Budget from **Le1.8 trillion** in the original Budget. Of this, the budgetary allocation for **Goods and Services is increased to Le1.3 trillion** from **Le1.2 trillion** while Subsidies and transfers is also revised upwards to **Le897.5 billion** from **Le609.4 billion**.

Budgetary Allocation to Education Sector

85. Mr. Speaker, Honourable Members, reflecting Government's commitment to improving access to free and high quality education at all levels under the ***New Direction***, a total of **Le 1.04 trillion** is allocated to the education sector.

86. The allocation to the education sector, which includes salaries of teachers, free basic and secondary education, support to tertiary education institutions, the teaching service commission and tertiary education commission accounts for **21 percent** of primary expenditures consistent with the commitment made under the People's Manifesto by His Excellency, Dr. Julius Maada Bio. Allocating this level of

expenditures to the education sector further demonstrates the seriousness of the SLPP led Government in improving access to quality education for all. The increased allocation will fund the free education programme for basic and secondary education, which include free tuition, provision of teaching, learning materials and text books; school feeding for primary schools, and examination fees for NPSE, BECE and WASSCE. In this respect, Government will utilize 5 percent of Goods and Service Tax and Mining revenues to finance part of the increase in education spending in this Supplementary Budget.

Free Education for Basic and Secondary Schools

87. The Government's flagship Free Education Programme will become effective in September 2018. The scope of this programme will cover pre-primary, primary, junior secondary and senior secondary education with an estimated total enrolment of 2,141,356 pupils. The total budgetary allocation to free education programme for the first term of the 2018/19 Academic Year is **Le190.9 billion,** of which, **Le119.7** is for Pre-primary and Junior Secondary Shool and **Le71.2 million** for Senior Secondary School. This will cover several key programmes under the first phase of implementation as follows:

(i) **Payment of Tuition Fees:** Following consultative meetings between the Ministry of Basic and Secondary Education and the Associations of Head Teachers and Principals of Schools nationwide, the following are the approved revised school fees per term in all Government and Government Assisted Schools payable under the Free education programme:

Pre-primary and Primary - Le10, 000 per term each
Junior Secondary - Le50, 000 per term and
Senior Secondary - Le60, 000 per term

88. To meet the full payment of school fees for the estimated total enrollment, the total sum of **Le43.1 billion** is provided under the Goods and Services budget. This

amount will be processed and released into the approved designated bank accounts of all schools days before the opening of schools. Therefore, no school should levy admission fees in all Government and Government Assisted Schools.

ii. **Provision of teaching and learning materials**: An amount of **Le5.3 billion** is provided for the procurement and distribution of teaching and learning materials **to all Government and Government-assisted schools.**

ii. **School Feeding:** Government will also support school feeding for schools in remote communities. An amount of **Le69.6 billion** is provided in the revised budget for this activity

iv. **Provision of Text Books:** Every child in Government and Government Assisted Schools would be entitled to 5 textbooks each for the five core subjects. An amount of **Le 19.9 billion** is allocated as 10 percent advance payment to procure text books for the five core subjects to improve the text book to pupil ratio from 3:1 to of 1:1.

v. **The oustanding Examination fees for NPSE, BECE and WASSCE** for all the just concluded examinations estimated at **Le26.5 billion**, would now be paid to the West African Examination Council (WAEC).

vi **Transitioning to 6-3-3-4**

In addition to the above, to facilitate the elimination of SS4 with effect from the 2018/19 academic year as promised in the ***New Direction***, Government will pay an additional one-month salary in the month of August to all teachers teaching SS3 pupils to provide additional classes over the summer holidays to pupils promoting to SS3 to catch up with those already in SS3 that were to proceed to SS4. Also, Government will grant dispensation for the payment of outstanding bills owed to suppliers providing diets to all Government Boarding schools to enable them provide regular diet supplies to pupils over

the holidays up to the end of the first term. Institutional support for the free education programme is allocated **Le6.0 billion.**

Mitigating Measures

89. Mr. Speaker, Honourable Members, the components of the free education programme described above also serve as measures to mitigate the impact of the fuel price liberalization on our people. Mindful of the social impact of this policy on the poor and vulnerable in our society, Government is proposing additional mitigating measures. These include provision of school buses, conditional cash transfers for education, tuition fee subsidy for university students, payment for university application forms, introduction of a student loan scheme and an Adult Literacy Programme.

(i) **Provision of School Buses:** An amount of **Le12.0 billion** has been provided as advance payment for the procurement of **fifty (50)** school buses to be managed by the City Councils on a cost recovery basis. The objective is to reduce the cost of transportation for school children while ensuring that they are regular and punctual in schools.

(ii) **Conditional Cash Transfers for education:** Government is also introducing a conditional cash transfer programme for the education sector to encourage very poor parents to allow their children to go to school instead of sending them out to engage in street trading and hawking. An amount of **Le5.0 billion** has been allocated to this programme.

(iii) **Tuition Fee Subsidy for University Students:** with regards to tertiary education, Government will continue to subsidize University tuition fees.

Additionally, Government is also eliminating the payment for Application Forms for Admission to the Universities. The cost of University Application Forms will no longer be borne by applicants. An allocation of **Le5.6 billion** is provided in this budget to cover the cost of University Application Forms for

the 2018/19 academic year. All potential students who have paid for application forms for admission to the University of Sierra Leone, Njala University, MMCET, EBK University Makeni and Port Loko Campuses, Bonthe Technical College, Eastern Polytechnic and others would be reimbursed by their respective institutions after payment is made by Government.

(iv) **Student Loan Scheme:** The continuing payment of subventions as well as College and university fee subsidies by Government has serious negative implications on public finances. The estimated payment to these institutions for 2017 financial year was **Le193.4 billion**. In most part of the world today, including sub-Saharan Africa, Students Loan Scheme has become the norm for providing sustainable means of financing tertiary education.

As declared by His Excellency, Government will commence a National Student Loan Scheme in the second half of the 2018/2019 Academic Year. An InterMinisterial Committee comprising Ministries of Higher and Technical Education and Finance, University of Sierra Leone and NASSIT has been established to formulate policies and implement the scheme within a transparent legislative framework. While the current grant-in-aid has inherent governance challenges, the proposed Student Loan Scheme will provide access to higher education for all students, irrespective of income level. An effective Student Loan scheme will also ensure mutual accountability between the students and college authorities. To this end, Government has allocated the sum of **Le2.0 billion** to support start-up institutional arrangements and operations.

(v) **Adult Literacy Scheme:** In line with H.E, the President's statement on the official opening of Parliament to support adult literacy, the sum of **Le2.4 billion** is provided in the domestic capital budget to support adult functional education in all 14 provincial and the Western Area districts.

(vi) Salary Increase for Civil Servants in Grades 1- 6

As part of the mitigating measures, Government is providing 10 percent of the basic salary of all civil servants, teachers, police, military, correctional services and National fire Authority in grades 1 to 6 as transport allowance. This will cost Government **Le24.6 billion** for the second half of the year and benefit 49,181 Government workers, which account for 71 percent of the public sector work force.

Capital Expenditure

90. **Domestic expenditure** is revised downwards as payments to contractors would be delayed until the audit of the domestic arrears is complete. **Domestic capital expenditure** is now projected at **Le800.7 billion** compared to the original budget of **Le1.05 billion**. Foreign financed capital expenditure will remain as originally budgeted. **Budget Deficit Financing**

91. The overall deficit, excluding grants, is projected at **Le1.98 trillion** compared to the original deficit of **Le2.3 trillion**. Including grants, the overall deficit is projected at **Le1.82 trillion** (6.0 percent of GDP) compared **Le2.1 trillion** (also 6 percent of GDP) in the original budget.

92. The domestic primary balance improved from a deficit of **Le1.36 trillion** in the original budget to **Le1.33** in the revised budget on account of enhanced domestic revenue projections.

93. External financing of the deficit in the form of disbursed project and programme loans is projected at **Le1.4 trillion**. Amortisation of external debt (principal repayments) is projected to increase to **Le293.8 billion** from **Le286 billion** in the original budget.

94. Domestic borrowing to finance the deficit is projected to decrease to **Le1.29 trillion (4.3 percent of GDP)** in the revised budget from **Le1.73 trillion (5.0 percent of GDP)** in the original budget.

95. Mr. Speaker, Honourable Members, the total stock of crystalized arrears comprising unpaid cheques at the Bank of Sierra Leone and the Accountant-General's Department has decreased from **Le1.3 trillion** as at end March 2018 to **Le1.05 trillion** as at end June 2018. The stock of arrears is projected to decrease further to **Le682 billion** by the end of 2018.

Expenditure Control and Management Measures

96. Mr. Speaker, Honourable Members, in furtherance of Government's fiscal consolidation efforts to ensure the sustainability of Government spending, the following expenditure rationalisation measures will also be implemented during the second half of the year.

97. To ensure transparency in public procurement and achieve value for money, no sole sourcing method of procurement would be allowed. All public procurement transactions, above the threshold, should be done through open competitive bidding except for arms and ammunition and in cases of emergency such as epidemics and natural disasters consistent with the National Public Procurement Act, 2017. All procurement activities by MDAs must be consistent with the procurement plans approved by the Ministry of Finance.

98. In addition, the National Public procurement Authority (NPPA) has published Price Norms to guide the procurement of goods and services. All MDAs are hereby advised to strictly adhere to the prices indicated on the Price Norms. The Ministry of Finance reserves the right to reject requests for payment of contracts and Local Purchase Orders (LPOs) whose prices differ from those indicated on the Price Norms.

99. Overseas travelling is observed as a major expenditure of Government, which must be curtailed. Going forward overseas travels and training should be limited within the budgetary allocation of the MDA. In requesting approval from the Ministry of Finance, the MDA should clearly state the approved budgetary allocation and the purpose and benefits to Government of the trip before funds are released. Off-budget agencies including State Owned Enterprises should also request clearance within the context of controlling expenditures.

100. Mr. Speaker, Honourable Members, the current practice for the payment of end of service gratuity to contract workers as stipulated in the public service code is that contract workers are paid 15 percent of their annual gross salary as gratuity. At the same time, Civil Servants are paid one month of gross salary for every year of service rendered. This practice disadvantages Civil Servants and other low-income public sector workers whose income are already low. As part of the commitment to harmonize the wage bill and rationalize expenditures, payment of gratuity to contract workers, civil servants, and personnel of other Government Departments and Agencies including state-owned enterprises and NASSIT is now one month of the last gross salary of the Officer for year it relates except those whose current employment terms and conditions are statutorily stated or stipulated by His Excellency the President. Similarly, payment of Leave allowance to all public sector workers including state-owned enterprises, state-owned banks, NASSIT and all extra-budgetary agencies including TSA agencies is now one month of gross salary.

101. Government has also discontinued the payment for internet services at the residences of public sector workers. Also, Government would no longer pay for top-up cards for public sector workers.

102. To reduce the huge bill on vehicle purchase and maintenance as well as fuel consumption, Government is developing a Fleet Management Policy that will eventually lead to a Pooled Vehicle Tracking System for the use of Government and donor-funded project vehicles. Despite efforts to contain these expenditures, Government has already spent **Le4.4 billion** for vehicle maintenance for the first half

of 2018. In 2017, expenditure on fuel and lubricants and vehicle maintenance amounted to **Le10.4 billion** and **Le25.9 billion**, respectively.

103. In the interim, and until the policy is adopted by Government, fuel supplies to eligible officers remain at 45 litres per week. However, fuel supplies to residences of public sector workers, excluding the heads of the three arms of Government and their deputies are terminated forthwith. This policy covers Ministries, Departments, Sub-vented agencies, State Owned Enterprises and NASSIT. To control expenditure on vechicle maintenance, average expenditure per Government vehicle will not exceed six million Leones (Le6 million) for the period July- December 2018.

Audit of Arrears to Suppliers and Contractors

104. Mr. Speaker, Honourable Members, total stock of domestic arrears including outstanding payments on contracts entered into by MDAs for goods and services and infrastructure projects amounted to **Le10.7 trillion** (US$1.4 billion) as at 31st May 2018. The Auditor-General is subjecting these arrears to financial and technical audit. It is anticipated that the verified stock of arrears would be lower after the audit. Upon completion, Government will develop a strategy for clearing the arrears. Going forward, efforts would be made to avoid the accumulation of new arrears through commitment controls, approval of MDAs procurement plans by the Ministry of Finance as well as adherence to open and competitive bidding process for the procurement of goods, services and works.

Conclusion

105. Mr. Speaker, Honourable Members, this Supplementary Budget addresses only some of the priorities articulated in the Presidential Address delivered by His Excellency at the State Opening of Parliament. On-going donor-funded programmes are already implementing some of the commitments in the Presidential Address. The 2019 Budget, which will be presented to this House in October 2018 will address most of these commitments.

106. Mr. Speaker, Honourable Members, our approach to public financial management under the ***New Direction*** will not be business as usual. Moving forward, we will continue to aggressively pursue strict fiscal discipline and ensure compliance with public procurement and public financial management laws at all levels of Government. The legal instruments at our disposal including the revised 2018 Finance Acts, the Public Financial Act, 2016 and Public Financial Management Regulations, 2018 and the Extractive Revenue Industry Act, 2018 are helping us guide this process.

107. Mr. Speaker, Honourable Members, I would like to emphasize that the continuous loss in revenue due to the subsidy on retail fuel price will undermine Government's ability to finance the Free Education programme and other social programme, if remain unaddressed.

108. However, Government recognised the social impact of this policy measure on our people especially the vulnerable including school children, students and lowincome workers. In this respect, Mr. Speaker, Honourable Members, I wish to reiterate the programmes to mitigate the impact of the fuel subsidy reform on the vulnerable population that have been proposed for immediate implementation. These include free tuition for basic and secondary education, provision of teaching, learning materials and text books for primary and secondary schools; payment of examination fees for NPSE, BECE and WASSCE; school feeding for primary schools; introduction of school bus system at the regional head quarter towns; introduction of conditional cash transfer programme for education; university tuition fee subsidy; elimination of payment for university application forms; the introduction of a Student Loan Scheme for tertiary education and salary increase for Government workers in Grades 1 to 6.

109. Mr. Speaker, Honourable Members, we are confident that the policies and programmes contained in this Supplementary Budget are fully aligned with the underlying principles of ***Integrity, Efficiency, Professionalism and Delivery*** under the ***New Direction*** aimed at improving the livelihoods of all Sierra Leoneans. In his People's Manifesto, His Excellency, Dr. Julius Maada Bio committed to providing

efficient management of the economy by restoring fiscal discipline. Hence, the theme for this Supplementary Budget is ***"Road to Efficient Economic Management"***

110. I therefore commend this Supplementary Budget to the House