

MR. SPEAKER, HONOURABLE MEMBERS

I. INTRODUCTION

Mr. Speaker, I rise to move that the Bill entitled, "An Act to provide for the services for Sierra Leone for the Financial Year (FY) 2013" be read for the first time.

2. Mr. Speaker, Honourable Members, in his inaugural address on the occasion of the state opening of Parliament on Friday 14th December 2012, His Excellency the President Dr. Ernest Bai Koroma catalogued the achievements under the **Agenda for Change** (2008-2012) and outlined the broad objectives of the successor **Agenda for Prosperity** (2013-2017). The Agenda for Prosperity will build on the gains made under the Agenda for Change, address the remaining challenges and introduce new programmes and policies to bring prosperity to all Sierra Leoneans in the years to come. The 2013 budget will, therefore, describe indicative activities and programmes in the Agenda for Prosperity-the country's five-year plan and poverty reduction strategy paper, that charts the way forward to 2017.

3. The Agenda for Prosperity has eight core pillars, which are interrelated, complementary and mutually reinforcing. These pillars are economic diversification, managing natural resources, human development, international competitiveness, employment and labour, social protection, governance, and gender equality and women's empowerment.

4. Given the planned strategies and objectives, the success of the Agenda for Prosperity will ultimately be the responsibility of Government. However, without the support of civil society, the youths, the private sector, and the international community, success will be difficult to attain. Therefore, we are calling for commitment and collaboration from all stakeholders in our country's affairs and to work relentlessly towards the vision laid out in the Agenda for Prosperity.

5. Hence, this budget, marks the beginning of our journey towards becoming a middle-income country and the march to prosperity.

6. Mr. Speaker, Honourable Members, let me at this point review developments in the world and regional economies and their implications for our economy.

II. GLOBAL ECONOMIC OUTLOOK AND REGIONAL DEVELOPMENT

7. Mr. Speaker, Honourable Members, the global economy is yet to fully recover from the multiple crises that have been slowing worldwide economic activity since 2008. Unresolved structural issues in advanced economies, such as financial market hesitancy and high debt and unemployment levels, have led to sluggish output growth in those economies and also to weaker demand for imports from the rest of the world. In addition, major emerging economies, including China and India, are now affected by the consequences of reduced global demand, with knock-on effects for other developing economies facing structural issues such as small domestic markets and over-reliance on commodities whose prices are often volatile.

8. Despite expectations that global economic growth will reach between 2.5 and 3.5 percent in 2012, there are a number of downside risks which, if not tackled effectively, could derail any attempts at a rapid global economic recovery. Among these risks are the protracted Eurozone sovereign debt crisis, the possibility of prolonged financial market instability, the increasing probability that China's economy will slow further, and the persistent challenges of raising employment levels throughout advanced, emerging, and developing countries alike. Nevertheless, we remain optimistic that these risks will be adequately dealt with by policy-makers, and that global economic growth in 2013 will be higher than that of 2012, allowing Sierra Leone to capitalise on renewed economic optimism.

9. In Sub-Saharan Africa, the outlook is brighter. Economic growth of roughly 5 percent was projected for the region in 2012 and a slightly higher figure is forecasted for 2013. Expanding domestic markets, the gradual shifting of informal activity into the formal sector and manageable inflation levels, are just a few of the reasons for strong regional performance.

10. Mr. Speaker, for us, we will of course ensure that our domestic macroeconomic environment continues to be resilient in the face of any downside developments globally. Through pursuing economic diversification, encouraging foreign direct investment, and by continuing to expand social safety mechanisms, our country would not be adversely affected by any further global slowdown, and indeed, is primed to follow a strong growth trajectory.

11. Mr. Speaker, Honourable Members, I will now review the performance of our economy in 2012.

III. MACROECONOMIC AND BUDGETARY PERFORMANCE IN 2012

Macroeconomic Performance in FY 2012

12. Mr. Speaker, economic activities in the country continue to expand rapidly as foreign direct investment inflows increase and public investment in infrastructure is scaled up. Real GDP growth, which was 6 percent in 2011, is estimated to have accelerated to 21.3 percent in 2012, more than three times the average for Sub-Saharan Africa. Economic growth in 2012 is driven mainly by the expanding mining sector but also supported by increased activities in agriculture, construction, manufacturing and the services sector. Excluding iron ore, domestic output will increase by 6.3 percent in real terms.

13. Consumer prices, as measured by inflation, which were high at the beginning of the year, have been declining consistently. This is largely on account of the stability in the exchange rate, the moderation in the growth of money supply, increased availability of locally produced food items in the market as well as Government policy interventions to ensure domestic pump prices of petroleum products and our staple food, rice, remain unchanged. Inflation fell to 11.3 percent in October 2012 from 16.7 percent in December 2011.

14. The external sector of the economy also experienced a significant boost in 2012 following the commencement of iron ore mining and the improved market conditions for rutile. The total value of official exports for the first half of the year more than doubled to US\$ 405 million compared to US\$ 174 million for the corresponding period in 2011. Of this, total mineral exports accounted for US\$ 354 million, of which, iron ore exports amounted to US\$ 182 million; rutile, US\$ 87.5 million; and diamonds, US\$ 69.4 million. Agricultural exports grew by 12.3 percent to US\$ 16.2 million over the same period.

15. Import levels stabilised in 2012 following the huge increase in 2011 to support new mining activities. Data for the first half of the year show that total import value grew by 3.6 percent to US\$ 757 million. The value of machinery and transport equipment, accounting for 20 percent of total imports, declined from US\$ 282 million in the first half of 2011 to US\$ 200 million in the first half of 2012. The value of petroleum imports amounted to US\$ 153 million while rice import amounted to US\$ 57 million.

16. As a result of the significant increase in exports and the moderate increase in imports, the trade deficit narrowed to US\$ 352 million for the first half of 2012 compared to US\$ 556 million for the same period in 2011.

17. The exchange rate remained stable during the year. The higher foreign exchange inflows from export earnings and foreign direct investment, combined with a tight monetary policy stance, resulted in the appreciation of the exchange rate against international currencies. The official exchange rate to the US dollar

appreciated by almost 1 percent in October 2012 relative to December 2011. Gross international reserves increased to US\$ 417.7 million from US\$ 379.8 million at end December 2011.

18. The stock of disbursed and outstanding external debt stood at US\$ 911.9 million as at end June 2012 compared to US\$ 848.7 million as at end June 2011. The slight increase was due to new borrowings to fund capital projects in roads, energy, water and agriculture consistent with the Government's Agenda for Change. Despite this, Government is currently meeting its debt service obligations to all creditors.

Budgetary Performance in FY 2012

19. Mr. Speaker, Honourable Members, budgetary execution in 2012 was enhanced by improved performance in domestic revenues including income taxes from the mining sector and signature bonuses from petroleum exploration activities. Even though the difficult external environment weakened the performance of some revenue streams, including royalties on iron ore and road user charges, prudent expenditure management resulted in improved public finances.

Revenues

20. Total revenue and grants amounted to Le1.5 trillion for the first three quarters of the year and is projected to reach Le 2.5 trillion by end of the year. Domestic revenue collected for the first three quarters of 2012 amounted to Le 1.3 trillion and is estimated to reach Le 1.9 trillion (13 percent of GDP) by the end of the year compared to the original target of Le 1.6 trillion.

21. Income taxes amounted to Le 596.4 billion in the first three quarters of the year and is estimated to reach Le 780.9 billion (5.2 percent of GDP) by end 2012 compared to the original target of Le 451.6 billion. Total collections from Goods and Services Tax (GST) amounted to Le 314.4 billion for the first three quarters of the year and projected to yield Le 434.1 billion (2.9 percent of GDP) for the year as a whole. Customs and Excise collection amounted to Le 229.8 billion and is likely to reach Le 337.3 billion (2.3 percent of GDP) at end 2012.

22. Mining royalties and licenses amounted to Le 92.7 billion in the first three quarters of the year. Royalty on iron ore is estimated at Le 66 billion by end of 2012 compared to the original target of Le178.8 billion due to production difficulties and weak market conditions.

23. Fees, licenses and other charges collected by other Government Departments amounted to Le 44 billion during the first three quarters of 2012. These are expected to reach 67.6 billion by the close of year. Road user charges and Vehicle Licenses amounted to Le 9.1 billion during the first three quarters of 2012.

24. External grants from our development partners amounted to Le 248.6 billion in the first nine months of the year. Of this, our budget support partners disbursed Le 78.3 billion and the Global Fund, Le 12 billion to support salaries for health workers. External grants for the implementation of projects amounted to Le 112.3 billion as at September 2012.

Expenditures

25. Total expenditure and net lending for the first three quarters of 2012 amounted to Le 2.1 trillion and is estimated to reach Le 2.7 trillion by the end of the year compared to the budgeted amount of Le 2.8 trillion (24.2 percent of GDP). Of this, recurrent expenditures amounted to Le 1.5 trillion and is projected to reach Le 1.9 trillion by the end of the year compared to the original budget of Le 1.8 trillion.

26. For recurrent expenditure, the government wage bill amounted to Le 687.8 billion by end September 2012 and is projected to rise to Le 898.6 billion at the end of the year compared to Le 681.3 billion in 2011. The higher wage bill is explained by (i) the full year effect of the multi-year pay reform, which started in the fourth quarter of 2011, (ii) payment of benefits to ex- military officers wounded in action, and (iii) partial payment of gratuities to outgoing Members of Parliament.

27. Total interest payments on public debt for the first three quarters of the year amounted to Le 191.9 billion. Of this, domestic interest payments amounted to Le 172.9 billion. Interest payments are projected to reach Le 287.9 billion by year end.

28. Non-Salary, non-interest recurrent expenditure amounted to Le 619.7 billion as at end September 2012 and is estimated to reach Le 729.9 billion at year end. Transfers to Local Councils amounted to Le 43.4 billion as at end September 2012 and are estimated to reach Le 74 billion by year end.

29. Total capital expenditure amounted to Le 615.6 billion as at end September 2012. Capital expenditure funded by foreign loans and grants amounted to Le 232.3 billion while that funded from domestic sources amounted to Le 383.1 billion. Total capital expenditure is expected to reach Le 755.9 billion (5.1 percent of GDP) by end December 2012.

Sectoral Spending in 2012

30. Mr. Speaker, Honourable Members, total expenditure performance by key sectors during 2012 has been mixed. In the **Agriculture Sector**, total expenditure for the first three quarters was Le 25.9 billion compared to the yearly allocation of Le 22.9 billion in the original budget. Of this, expenditure on food security activities amounted to Le 22.8 billion and includes the procurement of about 35,000 bags of fertilisers, 15,000 bushels of seed rice, and 5,000 bushels of groundnut seeds.

31. Also, under food security activities, Government supported the training of over 1,000 Farmer Based Organisations and established and equipped over 500 Agriculture Business Centres (ABCs) nationwide. Agricultural extension services expended Le 3.1 billion. Key expenditures relating to this activity are: supporting the rehabilitation and development of 18,000 hectares of inland valley swamps for improved farming practices and multiple cropping for higher productivity, supporting the rehabilitation and spot improvement on 4,000 kilometres of feeder roads to link production areas to processing and market centres; and establishing and supporting 66 Financial Services Associations and 32 Community Banks to enhance the livelihood of rural people, especially farmers' access to financial resources and services. In addition, Le 1.8 billion was paid as government's counterpart contribution to various agricultural projects.

32. An amount of Le 234.4 billion was paid for **road construction** activities nationwide compared to Le 158.8 billion in the original budget. The project for the rehabilitation of streets in Freetown and district headquarter towns received a total of Le 117.2 billion. Total expenditure on the widening of Lumley Roundabout to Hillcut Road Junction stands at Le 36.8 billion and that for the Lumley – Tokeh Road at Le 31 billion.

33. On **Transport and Aviation**, total expenditure is estimated at Le 11.3 billion compared to the original budget of Le 11.9 billion. Of this, Le 1.2 billion was spent on procurement of vehicles; Le 8.6 billion for the modernization and expansion of the Lungi International Airport; and Le 1.3 billion for the completion of phase one of the Airport Transfer Project.

34. In the **Energy and Water Sector**, Le 103.2 billion was spent on energy related projects compared to Le 75.5 in the original budget. This includes: Solar Street Lights to be installed throughout the country, the rehabilitation of the Bo/Kenema Power Services; procurement and installation of thermal plants for Lungi and Koidu, the rehabilitation of Yonibana/Mile 91, Moyamba, Port Loko, Pujehun, Magburaka, Lunsar and Sumaila Town water supply systems.

35. Total non-salary expenditure on the **Education Sector** is estimated at Le133.9 billion by end of year compared to Le84.4 billion in the original budget. Of this, Le105.8 billion is grants and Technology to University of Sierra Leone, Njala University, Milton Margai College of Education and Technology and other higher educational institutions, in lieu of the increase in tuition fees, and support for improved conditions of service for junior, intermediate and senior staff; Le4 billion for examination fees to WAEC for the WASCE; Le9.3 billion as Grant-in-aid to boarding schools; Le732 million to support the Girl Child programme; and Le775 million to Technical/Vocational education. In addition, grants for devolved functions in the education sector are estimated at Le 30.5 billion, of which school fees subsidies, text books and teaching and learning materials for Government and Government Assisted Schools amounted to Le16.2 billion; and Le5.8 billion as examination fees to WAEC for NPSE and BECE, respectively.

36. In the **Youth and Sports** Sector, total expenditure is estimated at Le 7.4 billion compared to Le 3.9 billion in the original budget. Le 5.2 billion was spent on international sports competitions and Le 645 million for the Youth Commission.

37. In the **Health** sector, total expenditure is estimated at Le 50.9 billion compared to Le 32.7 billion in the original budget. The over expenditure of Le 18.2 billion was largely as a result of extra budgetary payments to various programmes and institutions including Le 3.2 billion on overseas medical treatment; Le 5.7 billion on procurement of drugs and medical supplies; Le 2.2 billion on Measles campaign under the Expanded Programme on Immunization (EPI); Le 251 million for the installation of a dialysis machine at Connaught Hospital; Le 978 million as Government contribution to the Cuban Medical Brigade; Le 1.5 billion to GAVI; Le 1.9 billion to the Emergency Hospital at Goderich; Le 2 billion to the Nigerian Volunteer medical doctors; and Le 252 million for the functioning of the tele-medicine unit at Connaught Hospital.

38. Grants for devolved functions in the health sector are estimated at Le 30.5 billion. Of this, support to tertiary health care services amounted to Le 15.3 billion; secondary health services, Le 7.8 billion and district peripheral health care services, Le 7.5 billion.

39. The **Security** sector expenditure is estimated at Le 128.4 billion compared to the original budget of Le 110.9 billion. Of this, the Ministry of Defence is estimated to have spent Le 60.4 billion including Le 24.1 billion for rice supplies to military personnel; Le 45.9 billion by the Police including Le 5.2 billion for rice supplies to Police personnel and Le 5.1 billion for uniforms and protective clothing; Le 13.9 billion by Prisons, including Le 10.7 billion for diet and drugs; Le 2.2 billion by the National Fire Authority, including Le 1.9 billion for Fire Engines; Le 2.8 billion by the Office of National Security; and Le 2 billion by the Immigration Department.

40. The expenditure for the **Ministry of Foreign Affairs and International Cooperation** is estimated to reach Le 20.7 billion by the end of year compared to the original budget of Le 16.4 billion. This overrun was as a result of postings and recall of officials from our overseas missions costing about Le 1.9 billion and the rehabilitation of our mission in Monrovia amounting to Le 3.1 billion.

Budget Deficit and Financing

41. Mr. Speaker, the overall budget deficit, excluding grants, is estimated at Le 733.7 billion (4.9 percent of GDP). Including grants, the overall budget deficit is estimated at Le 181.5 billion (1.2 percent of GDP).

42. The overall budget deficit for 2012 is financed largely by external sources in the form of project and programme loans amounting to Le 253.3 billion (1.7 percent of GDP); Domestic financing of the deficit is estimated at Le 166.1 billion (1.1 percent of GDP). Of this, bank financing is estimated at Le 132.8 billion, non-bank financing Le33.3 billion and privatisation receipts, Le 22.5 billion.

IV. POLICY REFORMS FOR A DYNAMIC ECONOMY

43. Mr. Speaker, Honourable Members, sustainable economic growth, underpinned by increased domestic and foreign investment as conditions for creating new jobs and a better life for the citizenry, is the main objective of the Government for the next five years. In this regard, Government will pursue policies and reforms not only to ensure a stable macroeconomic environment but to also enhance the efficiency of public institutions to deliver quality services. To achieve this, Government will deepen and broaden ongoing reforms and continue to improve the business climate and promote investment; enhance transparency and accountability in the use of public funds; and strengthen good governance. The policies and measures to achieve this are described in detail below.

Public Financial Management

44. Mr. Speaker, Honourable Members, Government continues to strengthen public financial management reforms through the implementation of the multi-donor funded Integrated Public Financial Management Reform Project (IPFMRP) which has further consolidated reforms initiated in previous years. In partnership with our development partners, we are now developing a medium term strategy for public financial management reforms to ensure that gains already made are sustained and improved upon.

45. In continuation of our efforts towards deepening the implementation of the Integrated Financial Management Information System (IFMIS), Government will roll out the IFMIS to four additional Ministries, Departments and Agencies (MDAs). These are: the Office of the Vice President, the Ministry of Energy and Water Resources, the Ministry of Lands, Housing and the Environment and the Human Resource Management Office during the ensuing financial year.

46. Mr. Speaker, as part of the ongoing PFM reforms, capacity building across MDAs and local councils has been reinforced to consolidate gains made over the years. I am pleased to inform this Honourable House that, in partnership with the University of Sierra Leone, Institute of Public Administration and Management (IPAM), we have commenced the training of 300 public officials engaged in Public Procurement, Internal Audit, Human Resource Management and Administration across MDAs and Local Councils. This training will be extended to other disciplines during the course of 2013.

47. During the second half of 2012, we also extended our capacity building drive to Non-State Actors (NSAs) to properly equip them to effectively undertake monitoring responsibilities. Over 175 NSA organisations from all regions of the country benefited from this training. My Ministry also launched the demand driven component of the IPFMRP through which grants are provided to qualifying NSA organisations for the monitoring of public financial management in MDAs and Local Councils.

48. During 2012, efforts were also directed towards deepening the Medium Term Expenditure Framework (MTEF) process and strengthening budget management in MDAs. To this end, we adopted the Revised Medium Term Expenditure Framework (MTEF) guidelines. In 2013, Government will publish MTEF guidelines for Local Councils in order to strengthen strategic planning and budget management at the local level.

49. Mr. Speaker, you would recall that my predecessor informed this Honourable House that Government will publish a 'Citizen's Budget' for the first time in Sierra Leone. I am proud to inform you that the first 'Citizen's Budget' was published this year and disseminated nationwide. We shall on a yearly basis publish a 'Citizen's Budget' in a bid to inform the wider segments of our population on the use of public resources.

50. During the course of this year, Sierra Leone participated in the International Open Budget Initiative (OBI) as further testament of Government's determination to ensure the transparency and accountability of our budget process. The results of this exercise will be published during the first quarter of 2013.

Financial Sector Reforms

51. Mr. Speaker, Honourable Members, the financial sector continues to expand with increases in commercial bank branches, establishment of Financial Services Associations as well as microfinance institutions to facilitate access to finance for small and medium-sized enterprises, especially in rural areas.

52. During 2012, the **Bank of Sierra Leone** implemented further reforms to bolster the soundness of the financial sector consistent with the Financial Sector Development Programme (FSDP). To strengthen supervision and regulation of the financial sector, the Bank of Sierra Leone adopted International Financial Reporting standards for local banks in accordance with the Banking Act 2011; carried out joint examination of Nigerian-owned subsidiaries with the Central Bank of Nigeria; strengthened the operations of the Credit Reference Bureau; and implemented the Anti-Money Laundering and Counterfeiting against Terrorism Act.

53. To facilitate financial inclusion, the Bank has encouraged the promotion of financial literacy campaigns and mobile telephone banking, ATMs, money transfers, linkage banking and the downscaling of some commercial bank activities into microfinance, thus introducing new and desirable products in the financial sector and greater competition. In 2013, the Bank of Sierra Leone will continue to implement reforms in micro-finance and rural credit delivery outreach; strengthen the Financial Intelligence Unit; and build capacity in the Bank and the commercial banks.

54. Mr. Speaker, Honourable Members, the Bank of Sierra Leone continues to implement the Payment Systems Modernisation Project. This is expected to 'go live' by end 2013 and the following deliverables will be achieved:

- (i) Real Time Gross Settlement System whereby financial intermediaries can settle interbank transfers continuously and in real time for their own account as well as the account of their customers;
- (ii) Automated cheque processing and automated clearing house operations;
- (iii) Purchase and sale of government securities in real time; and.

Private Sector Development

55. Mr. Speaker, Honourable Members, Government recognises that transformation is contingent on the active participation of the private sector. A strong partnership with the private sector is imperative for job creation, poverty reduction and accelerated growth. While Government will continue to facilitate the enabling environment for the private sector to thrive, it is incumbent on the private sector to undertake investment ventures within the framework of Government policies.

56. Mr. Speaker, Government has removed extensive trade barriers that have for long stalled business initiatives. This is aimed at encouraging competition and investment in value-addition economic ventures. Key investment reforms have also been pursued aiming at streamlining doing business procedures thereby reducing time, cost and mitigating risks in the business environment. Numerous legislations have been passed in this respect by this Honourable House aimed at building investors confidence. We have also packaged attractive incentives for investors to promote foreign direct investment.

58. In similar vein, Government pursued policies and measures for growth of indigenous entrepreneurship in Sierra Leone. We believe that the ordinary Sierra Leonean has much to deliver if given the necessary policy protection and support to move our country forward. In this regard, we have developed the Competition and Consumer Protection Policy, the Intellectual Property Rights and the Local Content Policy, for economic growth and participation of local economic agents in enterprise development in our country.

59. Government has set up a Public Private Partnership (PPP) Unit to manage the inflow of unsolicited projects and promote PPP solutions to address the infrastructure and public services bottleneck in the country. The PPP unit will serve two key functions:

- (i) **Direct transactional support** to centrally manage the backlog of unsolicited bids received by various Line Ministries, and establish a clear protocol for dealing with such proposals;
- (ii) **Create an enabling environment to promote PPP solutions** while improving the broader environment to consummate such transactions.

60. Looking ahead, Government will continue to implement reforms to further improve the business environment; establish additional Export Processing Zones; develop additional growth centres and facilitate competition and consumer protection to attract Foreign Direct Investment so as to create job opportunities for Sierra Leoneans, especially our youths. With assistance from development partners, Government will undertake a Diagnostic Trade Integration Study in 2013 to assess the competitiveness of sectors that are engaged in or have the potential to engage in international trade.

Improving Governance

61. Mr. Speaker, Honourable Members, Government will continue to support good governance, the rule of law, human rights, peace and security as these are essential pre-requisites for attaining and sustaining socio-economic growth. Since 2007, Government, in collaboration with our development partners, worked hard to strengthen institutions and processes to respond more positively to the needs of ordinary citizens.

62. Mr. Speaker, within the governance spectrum, Government committed itself to strengthening and building Parliamentary capacity for passage of bills as well as the Executive for the formulation and presentation of bills; providing sustainable financial and technical support to the Political Parties Registration Commission (PPRC); and increased budgetary allocation to the Anti-Corruption Commission for the fight against corruption.

63. Mr. Speaker, as a result of these measures, our country has made, inter alia, significant strides in promoting integrity and accountability in service delivery. In particular, the recently published Global Integrity Scorecard showed that among the lower and middle income countries in the world, Sierra Leone has achieved important anti-corruption improvements.

64. Government supports the Extractive Industries Transparency Initiative (EITI), which aims to promote transparency and accountability in the extractive sector through the reconciliation and publication of revenues paid by mining and petroleum companies and is working towards ensuring compliance with the EITI requirements. As part of these efforts, the Sierra Leone EITI Secretariat conducted a second reconciliation exercise in the mining, oil and gas sectors where companies and Government entities disclosed and reconciled mining revenues for the period 2008-2010. To instill transparency and accountability in sharing the gains from our mineral wealth, the office of the Auditor-General has included in its work plan, the auditing of all Government institutions involved in the collection of revenues from the extractive sector. Government is also in the process of drafting an EITI legislation which will soon be submitted to this Honourable House for enactment.

Public Sector Reform

65. Mr. Speaker, Honourable Members, the public service continues to play an important role in the attainment of our national developmental goals and aspirations. In 2012, Government undertook capacity review processes to restructure and align institutional roles, set targets for institutions and individuals and monitor service delivery.

66. Mr. Speaker, Honourable Members, the public sector faces enormous challenges in attracting, motivating and retaining competent skilled men and women in the public service. Going forward and with support from the World Bank, Government is implementing the Pay and Performance Project that consists of three interrelated components namely: (i) pay reform; (ii) recruitment and staffing; and (iii) performance management and accountability. To ensure the implementation, monitoring and sustainability of this programme, a collaborative team comprising the leadership of the Sierra Leone Civil Service, Office of the President, the Office of Chief of Staff and the Ministry of Finance and Economic Development has been established.

Fiscal Decentralisation

67. Mr. Speaker, Honourable Members, Government will continue to strengthen the decentralization process in order to sustain and deepen the gains already made in the delivery of services in the rural areas. For fiscal decentralization, the system of allocating grants to councils is being reviewed with a view to making it simpler, transparent and more equitable. Under the revised grants system, resources will be allocated on the basis of the number of beneficiaries rather than the number of service delivery facilities. As part of the review process, Local Councils are now provided with unconditional block grant which they can allocate to sectors or functions for which they are better placed to determine local priorities.

68. For 2013, Government will provide funds to Local Councils to complete on-going projects. Similarly, Government will continue to fund health and education infrastructure in all Local Councils in the medium term. However, from 2014 and beyond, Local Councils would be required to provide 60 percent of the project cost for all economic infrastructure projects they wish to undertake. Thus, Local Councils are urged to intensify the collection of revenues within their localities. In this regard, Government will continue to work with development partners to support Local Councils in their revenue mobilisation drive.

Management of Natural Resource Revenues

69. Mr. Speaker, Honourable Members, the anticipated boom in iron ore production alongside increased production of rutile, bauxite, diamonds, gold, and ongoing oil and gas exploration activities calls for an appropriate fiscal regime to

ensure that revenues from these natural resources are maximised to create lasting benefits for current and future generations. In this regard, since July 2011, the country has benefitted from technical assistance provided by the IMF Fiscal Affairs Department under the 'Topical Trust Fund for Managing Natural Resources' aimed at establishing a stable and predictable fiscal regime for extractive industries, including mining and petroleum.

70. With this assistance, a consolidated and comprehensive Extractive Industries Revenue Bill has been drafted to manage the country's mining and petroleum fiscal regimes and other related matters. The draft bill spells out all the taxes, levies and charges that are applicable to mining and petroleum activities. This implies that the fiscal regime defined in the draft Bill will apply to all future mining and petroleum agreements. Among key reforms proposed in the draft Bill is the introduction of a Mining Resource Rent Tax and a Petroleum Resource Rent Tax. The objective is to enable Government derive additional tax revenues from these activities in the event profits are above projections.

Transformation Development Fund

71. Government is also working with our development partners for the establishment of a Transformation Fund, where slice of all mineral and petroleum tax and non-tax revenues will be deposited. The Transformation Fund will be a part of the Consolidated Revenue Fund so that all revenues flow through the Government Budget. The objective is to ensure that revenues from our natural resources are used prudently and in a transparent manner.

72. Mr. Speaker, the Transformation Fund will serve three complementary purposes; (i) finance the implementation of transformative capital projects; (ii) serve as a stabilisation fund in case of shortfall in non-extractive revenues and (iii) as a savings fund for surplus revenues. Furthermore, Government, with support from the IMF, is also working on a fiscal rule to define the proportion of revenues that will be used in any given year in such a way that Government expenditures remain stable, sustainable and predictable over time.

Public Investment Management

73. Mr. Speaker, Honourable Members, to improve the efficiency and effectiveness of capital spending, a new public investment management process is being established commencing with the presentation in this Budget of the first Public Investment Programme (PIP) for 2013-15. The PIP provides a database of investment projects, including those that are currently being implemented and those for future implementation. It is a rolling 3 year program undertaken annually and published with the annual Appropriation Acts. The first year set of projects are those approved in this budget, either as continuing projects or as new projects.

74. The outer-year projects will comprise fiscal resources assigned to existing projects that are presented in the forward estimates and new projects that have been approved through a quality assurance process which may or may not have assigned funding. In this way the PIP can be used in discussions with development partners and private partners/financiers to provide information on the Government's strategic intentions and priorities.

75. In this regard, each MDA will develop its medium-term strategic plan and policy priorities from the National Strategic Plan- the Agenda for Prosperity to ensure consistency with the attainment of Government objectives over the medium term. It is from MDAs' strategies and priorities that projects and programs will be developed for inclusion in the PIP and subsequently in the MTEF and annual budget.

76. From 2014, no new investment project can be incorporated in the Budget unless it has been approved for inclusion in the PIP and these new projects will have to undergo a quality assurance process. This process involves:

- (i) the submission by MDAs early in the fiscal year of preliminary business-case proposals, justified in terms of the National/MDA strategic goals and assessment of sector benefits, and showing indicative costs, risk profile, procurement method, likely funding source, required policy changes and consideration of alternative projects/approaches;
- (ii) MOFED will review the business case to ensure the project complies with the Government's strategic priorities, that the cost is realistic, conditions are appropriate for the project and whether funding for the project is reasonably likely to be available over the medium term (whether from the Government, development partners or the private sector under PPP arrangements); and
- (iii) if considered a good strategic fit and feasible, indicative net economic and social returns are significant, costs are realistic, procurement method is efficient and accountable and funding likely, approval would be given for the MDA to prepare a more detailed business case submission.

77. Mr. Speaker, Government will undertake a critical review of the performance of contractors in 2013 with a view to determining their capacity to implement projects. This includes contracts for all Government and Donor funded projects, especially contractors in the road maintenance sector. The contracts of those whose performance is assessed to be unsatisfactory will be terminated and sanctions applied as agreed in the contract. In this regard, Government will strengthen the project planning, monitoring and evaluation capacity of the Ministry of Finance and Economic Development through the recruitment of personnel with the appropriate skills mix to undertake reviews and monitoring and evaluation activities of all capital projects.

V. Medium-Term Macroeconomic Objectives and Outlook, 2013 – 2015

78. Mr. Speaker, the overarching goal of Government's economic policy for the medium- to long-term is to ensure rapid and sustained inclusive economic growth and development. The key objectives are to:

- (i) preserve the gains made in stabilising the economy;
- (ii) ensure rapid and sustained inclusive green economic growth;
- (iii) create fiscal space for high-priority public investments to spur long-term growth and development; and
- (iv) ensure sustainable debt levels.

79. Rising mining revenues, strengthened revenue administration and prudent expenditure management will reduce Government borrowing from the domestic banking system and hence foster macroeconomic stability. It will at the same time create the fiscal space for enhanced spending on infrastructure and the productive sectors of the economy to accelerate sustained and inclusive economic growth for job creation.

80. Mr. Speaker, the medium term outlook of the Sierra Leone economy is broadly positive. The economy is projected to expand by 15.1 percent in 2013 and further by 14.1 percent and 12.1 percent in 2014 and 2015, respectively. The projected growth rate of the economy will be driven mainly by the increased activities in the mining sector, especially iron ore production. Excluding iron ore, the economy is expected to grow by an average of 6 percent during 2013-2015. Agriculture, construction and services as well as scaling up infrastructure investments will be the main drivers of non-iron ore economic growth in the medium term.

81. Inflation is projected to return to single digits in 2013 and in the medium term as the exchange rate continues to stabilise and domestic supply of food items increase while monetary policy remains tight.

82. Mr. Speaker, the medium term will see a significant growth in exports at 40 percent while imports will moderate to an average of about 11 percent. Consequently, the current account deficit, including official grants, will narrow to 12.3 percent in 2013 and further down to an average 8.7 percent in 2014 and 2015. Gross foreign reserves will average 3 months of import cover given the huge Foreign Direct Investment related imports required for mining and construction activities.

83. Mr. Speaker, to achieve these objectives, Government will be implementing a combination of proactive monetary policy, a cautious debt management policy and a prudent fiscal policy.

84. Monetary policy will continue to focus on achieving and maintaining price stability consistent with high and sustainable economic growth. In 2013 and the medium-term, monetary policy will aim to deliver single-digit inflation in an effort to create the enabling environment required to support private sector led growth. To support these efforts, Government will further recapitalise the Bank of Sierra Leone to strengthen its capacity to implement monetary policy and to cover the losses of the of the Bank for the period 2009-11 consistent with the Bank of Sierra Leone Act, 2011.

85. The exchange rate regime will remain flexible to facilitate rapid adjustment to domestic and external shocks and maintain the external competitiveness of the economy. The Bank of Sierra Leone will continue to build foreign exchange reserves to cushion external shocks and encourage increased foreign exchange sales to support liquidity management and facilitate the absorption of aid flows. The Bank of Sierra Leone will also continue to intervene in the foreign exchange market to sterilize the impact of external budgetary inflows as well as reduce short term volatilities in the exchange rate. Measures will be put in place to develop and deepen the inter-bank foreign exchange market for efficient management of prospective foreign exchange resource inflows.

86. As the Eurozone debt crisis escalates, compounded by the downward revision of the global discount rate, access to external financing for post HIPC countries such as Sierra Leone is becoming increasingly difficult. To mitigate potential effects on our public debt portfolio, Government remains committed to prioritizing highly concessional loans for financing development programmes. Recent debt sustainability analysis shows that Government's external debt will remain sustainable in the medium-term with a moderate risk of debt distress.

87. Mr. Speaker, Honourable Members, while Government continues to make significant progress in addressing the challenges of external debt, we are also mindful of the challenges posed by the increase in domestic debt. To address these, Government is taking proactive steps by developing a strategy to mitigate rollover and interest rate risks. In order to meet the financing needs of Government at lower cost over time, Government, in collaboration with the Bank of Sierra Leone, will commence in 2013 the design and publication of a Quarterly Auction Calendar, which will provide an indication of Government's borrowing plans across debt instruments and tenors.

88. Mr. Speaker, going forward, the decision of managing Sierra Leone's public debt will be guided by an articulated Medium Term Debt Strategy (MTDS) to be developed with assistance from the World Bank and the IMF.

89. Over the medium term, fiscal policy will be guided by the objective of scaling back the fiscal deficit. To achieve this objective, Government will intensify the ongoing reforms in public financial management, improve tax collection, review the import duty exemptions regime, rationalise recurrent expenditures, and address the threat of high domestic debt burden.

VI. The 2013 Budget

90. Mr. Speaker, Honourable Members, the theme of the 2013 budget is **“accelerating structural transformation and inclusive green growth for prosperity”**. Hence, the 2013 budget aims to create fiscal space to support the continuation of the process of our structural transformation as well as to make significant progress towards attaining the Millennium Development Goals (MDGs).

Domestic Revenue Projections

91. Total domestic revenue and grants for 2013 are projected at Le 2.7 trillion (15.6 percent of GDP). Of this, total domestic revenue will amount to Le 2.1 trillion (12.1 percent of GDP). Income taxes will amount to Le 809.6 billion (3.9 percent of GDP). Personal income tax from both the public and private sectors will contribute Le 660.2 billion and corporate taxes, Le 144 billion.

92. The Goods and Services Tax (GST) is projected to yield Le 513 billion (3 percent of GDP). Of this, GST on imported goods will contribute Le 325 billion. GST on domestic goods will amount to Le 188.1 billion.

93. Customs and excise duties are projected at Le 437 billion (2.5 percent of GDP), with import duties contributing Le 305.7 billion and excise duties on petroleum product, Le 120.3 billion. Other excise duties and freight levy will amount to Le 7.5 billion and Le 3.6 billion, respectively.

94. Mining royalties and licenses are forecasted to amount to Le 189 billion (1.1 percent of GDP). Of this, royalty on iron ore is expected to amount Le 101.6 billion. Royalties on diamond and gold will amount to Le 20.1 billion. Royalties on rutile and bauxite are projected at Le 7.1 billion and Le 6.4 billion, respectively. Mining licenses are expected to amount to Le 53.8 billion.

95. Revenues from Government Departments are projected at Le 76.6 billion. These include royalties on fisheries projected at Le 6.4 billion, dividends anticipated from parastatals Le 13.2 billion and fees, levies and charges collected by Ministries, Departments and Agencies projected at Le 60 billion. Road User Charges and Vehicle Licenses are projected at Le 40.8 billion.

96. Mr. Speaker, total grants expected from our development partners in 2013 is projected at Le 613.9 billion. Of this, programme grants will amount to Le 196.7 billion (1.1 percent of GDP). Our budget support partners, including the European Union and the United Kingdom Department for International Development (DFID), will provide a total of Le 164.1 billion while the Global Fund will provide Le 32.6 billion to support health sector human resources. Project grants will amount to Le 417 billion (1.7 percent of GDP).

Revenue and Tax Policies for 2013

97. Mr. Speaker, Honourable Members, to achieve the projected domestic revenue targets in 2013, my Ministry, in collaboration with the National Revenue Authority, will pursue a two-pronged approach as follows:

- (a) broaden the tax base; and
- (b) strengthen tax compliance through robust enforcement of the legislations for non-mineral revenues

98. While efforts are being made to improve the capacity of Government to design and administer taxes on the extractive sector, attention will also be paid to the administration of non-mineral taxes. The international prices of mineral and petroleum products are often volatile and unpredictable. This makes it absolutely essential for the Government to **broaden the tax base, especially non-mineral revenues**, to avoid excessive dependence on unpredictable mineral revenues. In addition, the capacity of the National Revenue Authority to effectively administer taxes on mining activities will be strengthened with support from development partners.

99. As part of these efforts, NRA will introduce and implement a small and micro-enterprise (SMEs) taxpayer regime. A simple mechanism will be established to allow the determination of the turnover of these businesses and taxed accordingly. This will minimize the bureaucracy and relieve businesses from the huge financial costs incurred to engage accounting and tax consulting firms to prepare audited financial statements. Additionally, to improve domestic GST performance, the NRA will print and issue GST receipt books to all Registered Business Entities.

100. Mr. Speaker, in 2013, the Domestic Tax Department of the NRA will be computerised with the installation of the D-Tax software package for the effective administration of domestic taxes. This will interface with the current Taxpayer Identification Number (TIN) system currently used in the registration of taxpayers. An effective accounting and reconciliation module is in-built in this system to assist the NRA and commercial banks in revenue collection and realisation processes.

101. For the taxation of foreign nationals, Personal Income Tax Clearance Certificate for foreign staff will be put in place. This will assist the NRA in ensuring that correct taxes are paid by foreign workers on the income earned in Sierra Leone. This will be done through the collaborative efforts of the Ministry of Labour, Immigration Department and relevant MDAs. All of the above measures will be presented in the 2013 Finance Bill.

102. Mr. Speaker, the existing legal framework for tax administration will also be reviewed and modernised. In particular, the Income Tax Act, 2000 will be reviewed to incorporate and streamline changes the Act has undergone since 2000. This will see a single document enacted, thus relieving taxpayers and other users from the burden of accessing tax provisions from fragmented legislations. In addition, a Tax Administration Bill will also be drafted with assistance from our development partners. This Bill will clearly show the various processes and procedures that will be adhered to for an effective tax administration.

Expenditure Priorities and Allocations

103. Mr. Speaker, Honourable Members, 2013 marks the transition from the **Agenda for Change** to the **Agenda for Prosperity**. This budget presents the first step in the journey to prosperity. The implementation of the **Agenda for Change** resulted in significant increases in spending between 2008 and 2012 on the priority sectors of agriculture, roads, energy, health and education. Despite this, significant unmet needs remain, particularly in infrastructure and social services.

104. In this context, Government will, therefore, continue to allocate greater amounts of funds from the budget to finance infrastructure projects, including the construction of highways and township streets, the installation of thermal plants and transmission and distribution lines, the construction and rehabilitation of water supply systems, the construction of schools and hospitals and enhanced support for the Free Health Care Programme. Funds will also be allocated to improve agricultural productivity and to support value-addition activities in the fisheries, tourism and manufacturing sectors.

105. Mr. Speaker, Honourable Members let me now describe the expenditure allocations for 2013 starting with non-discretionary expenditures.

Wages and Salaries

106. Mr. Speaker, Honourable Members, the Government wage bill for 2013 will amount to Le 999.1 billion. This translates to a 12.5 percent increase in the salaries of public sector workers. The sum of Le 2.4 billion is allocated for the recruitment of civil servants to fill critical skills gaps in line ministries as part of the ongoing pay reform programme.

Interest Payments

107. Mr. Speaker, total interest payments on government debt for 2013 is projected at Le 345 billion. Of this, interest on domestic debt will amount to Le 304 billion and interest on foreign debt, Le 40.8 billion. These higher interest payments represent the cost of funds for enhancing the country's landscape through infrastructural development.

Infrastructure

108. Mr. Speaker, Honourable Members, a good infrastructure is the foundation for accelerated development, better competitiveness of the economy and faster flow of goods and persons as well as delivery of services. Government will, therefore,

continue to invest heavily on infrastructure projects to support the transformation of our country in roads, energy, and water supply and in the productive and social sectors.

Roads

109. Government is allocating Le 430.4 billion to the road sector. This includes Le 214.1 billion from internally generated resources to complete the on-going reconstruction/rehabilitation of roads in the Western Area, regional and district headquarter township streets, the commencement of reconstruction of the Makeni-Kamakwe-Madina-Oula Road and the Mange-Mambolo-Rokupr Road, Bottom-Mango-Signal Hill-Congo Cross Road, widening of the Jomo-Kenyata-Hill-Cot-Choithram Hospital Roads, Bandajuma-Pujehun Road, Taiama Junction-Njala University Road and the construction of bridges in rural communities.

110. Government counterpart contribution to donor-funded road projects, including Matotoka-Sefadu Road, Port Loko–Lungi Road, Kenema-Pendembu Road, Pendembu-Kailahun Road, Hill-Side Bye-Pass Road, Lumley-Tokeh Road, Makeni – Kabala Road will amount to Le55 billion. In addition, development partners will disburse about Le 216.2 billion under the public investment programme to support the construction of highways indicated above. Total allocation to the road sector accounts for 25.8 percent of total expenditure.

111. The Road Fund will receive Le 40.8 billion for periodic road maintenance by the Sierra Leone Roads Authority.

Energy

112. The energy sector has a strong influence on all economic sectors and represents a pillar for sustainable development. In this context, Government will promote an efficient, competitive and financially stable energy sector as a condition for a reliable high quality and economically acceptable supply of electricity.

113. Government is, therefore, allocating an amount of Le82.8 billion under the Public Investment Programme (PIP) to the energy sector. This includes Le 63.6 billion of domestic resources to support, inter alia, the electrification of district and provincial headquarter towns, the procurement of transmission and distribution materials, the supply and installation of thermal plants, the supply of pre-paid metres and the solar electrification of rural communities. Development partners will disburse Le 19.3 billion to foreign funded energy projects. Total budgetary allocation to the energy sector accounts for 7.3 percent of total expenditure.

Information, Communication and Technology (ICT)

114. Government is allocating Le 3.8 billion to the ECOWAS Regional Backbone Infrastructure and e-governance, West African Regional Communications Infrastructural programme and the National Optical Fibre Project. Development partners will disburse Le61.6 billion for the implementation of these projects, including the modernisation of SIERRATEL.

Transport

115. Mr. Speaker, an efficient transport system will facilitate the movement of goods and people on time and at a low cost. Hence, Government is allocating an amount of Le 4.5 billion to the transport sector to finance, inter alia, the cost of preparatory activities for the construction of a modern airport at Mamamah. Of this, an amount of Le 500 million is allocated for the procurement of motorised ferries for use in rural inland waterways. Development partners will disburse Le10.1 billion for the implementation of the Sierra Leone Infrastructural Development Project and the partial upgrading of the Sierra Leone Maritime Administration.

Water Supply

116. Mr. Speaker, Honourable members, there is an urgent need to improve water supply systems in every corner of this country. In this regard, Government is allocating Le 7.4 billion from the recurrent budget to support the Water Directorate in the Ministry of Energy and Water Resources comprising SALWACO and the Water Resource Management Unit as well as the Energy and Water Regulatory Commission. In addition, Government is providing Le1.5 billion from the recurrent budget to Local Councils for rural water services.

117. To achieve our objective in improving water supply, Government is allocating Le 13.7 billion from domestic resources for, inter alia, the completion of the ongoing rehabilitation of water supply systems in Mile 91/Yonibana, Yoni-Seli, Lunsar, Pujehun, Kailahun, Port Loko, Magburaka, Kamabai and Moyamba; construction of wells and gravity fed systems in communities along the Waterloo-Masiaka Road; reconstruction of gravity water system in Yormandu and Kamiando, and the commencement of the construction of water supply system in Bonthe city. Development partners will disburse Le 48.3 billion towards the implementation of the donor-funded Three Towns Water Supply and Sanitation Project and the Kabala Water Supply Project.

Agriculture

118. Mr. Speaker, the agriculture sector remains the backbone of the economy. It is key to achieving food security for the people of Sierra Leone. In this regard, Government is allocating an amount of Le 24.5 billion from the recurrent budget to agriculture. Of this, Le 17.7 billion will support food security activities; Le 1.5 billion for agricultural extension services and Le 2.6 billion is allocated to the Sierra Leone Agricultural Research Institute (SLARI). In addition, Government is providing Le 13.2 billion as transfers to Local Councils to support agricultural activities in rural areas.

119. Under the PIP, Government is providing Le 6.3 billion as counterpart contribution towards the implementation of various projects in the agricultural sector. Our development partners will disburse Le129.3 billion to support the implementation of various agricultural projects including the Small Holder Commercialisation Programme, the Agriculture Sector Rehabilitation Project, the Nerica Rice Dissemination Project, and the Rural and Private Sector Development Project. Total budgetary allocation to the agriculture sector accounts for 10 percent of the total expenditure.

Education

120. Mr. Speaker, Honourable Members, to improve the quality of education, Government is providing Le 137 billion from the recurrent budget to support the education sector. Of this, Le 109.9 billion is grants to tertiary educational institutions. In addition, Government is providing Le 23.9 billion from the recurrent budget to Local Councils for the payment of school fees subsidies, the payment of examination fees to WAEC for NPSE and BECE and the procurement and distribution of teaching and learning materials as well as text books for primary schools.

121. Under the PIP, Government is providing Le 3.8 billion from internally generated resources to the sector. Of this, Le 1.1 billion is counterpart contribution towards the implementation of donor funded projects in the sector, including the rehabilitation and expansion of Fourah Bay College and the Institutional and Capacity Building to Technical and Vocational Training Project. Government is also allocating Le 2.7 billion as development grants for the completion of on-going Local Council projects in the education sector as well as the re-construction of primary and Junior Secondary School facilities in our rural communities. Our development partners will provide Le 19.9 billion towards the implementation of various projects in the sector. Total spending in education represents 10.1 percent of total expenditures from 8.5 percent in 2012.

Health

122. Mr. Speaker, Honourable Members, Government will continue to invest in various aspects of the health sector in order to accelerate progress towards achieving the MDGs particularly MDGs 4 and 5. Health is a factor that affects the social position of our population and is a pre-condition for economic growth. Therefore, Government will continue with efforts to improve, promote, and sustain the health of all citizens.

123. In this regard, Government is allocating Le 39 billion from the recurrent budget to the health sector. Of this, Le 13.5 billion is to support the Free Health Care Programme; Le 2 billion for the Immunization Programme; Le 6.8 billion for the procurement of drugs and medical supplies; and Le 5.2 billion for primary health services. In addition, Government is allocating Le34.4 billion to district peripheral health services, secondary and tertiary health care services.

124. Under the PIP, Government is providing an additional Le 3.7 billion, of which, Le 1.7 billion is development grants to Local Councils for the completion of on-going projects including the rehabilitation of the Nixon Memorial Hospital in Segbwema and the construction of peripheral health units in rural communities. An amount of Le 2 billion is allocated as counterpart contribution to various donor funded health projects including the Global Fund Health Strengthening project.

125. Development partners will disburse Le 120.6 billion for the implementation of various health sector projects. Total expenditure in the health sector represents 10.5 percent from 6.8 percent in 2012.

Youth and Sports

126. As emphasised by His excellency the President on the occasion of the State Opening of Parliament recently, Government is very much committed to improving the socio-economic status of the youth. Government is allocating Le 4.8 billion from the recurrent budget to the Ministry of Youth, Employment and Sports, of which Le 2.2 billion is for youth development programmes. In addition, Le 2.4 billion is allocated to Local Councils for youth and sport services.

127. Under the PIP, Government is providing an additional Le 1 billion as counterpart funds for the implementation of youth related donor-funded projects. Development partners will disburse Le 29.5 billion towards the implementation of the Youth Employment project and the Sierra Leone Community Driven Project.

Social Protection for Vulnerable Groups

128. Achieving sustainable economic development is possible only through good social protection of the most vulnerable. As a demonstration of its commitment to support vulnerable groups, Government has included **social protection** as a stand-alone pillar under the ***Agenda for Prosperity***. Government is, therefore, providing Le 5.4 billion to the Ministry of Social Welfare, Gender and Children Affairs. Of this, Le 3.2 billion is to support social protection services including programmes for the physically challenged, diet for Approved schools and the Remand homes, grants to welfare institutions and social development programmes. In addition, Le 1 billion is allocated for child orphans, and Le 554 million is provided to Local Councils for Social Welfare, Gender and Children's affairs in local communities.

129. Under the PIP, Le 300 million is allocated as support to the Reparation Programme and Le 950 million for the Social Action Support Programme.

Security

130. Mr. Speaker, Government recognises that economic growth and transformation cannot take place in an unstable environment. Therefore, Government will provide the security services the required support to ensure the protection of life and property.

131. Government is, therefore, allocating a total of Le 150.4 billion to the security services. Of this, Le 62.3 billion to Defence, of which, Le 16 billion for rice supplies; Le 58.4 billion to the Sierra Leone Police, of which, Le 19.9 billion for rice supplies; Le 15.3 billion to Prisons, of which, Le 8.4 billion for diet, Le 850 million for drugs and Le 2.7 billion for rice; Le 5.1 billion to the National Fire Force; Le 3.3 billion to the Office of National Security and Le 1.7 billion to the Immigration Department.

Parliament

132. Mr. Speaker, Government is committed to strengthening the capacity of Parliament in carrying out its oversight role to ensure better political and economic governance. Government is, therefore, allocating Le 10.1 billion to facilitate the activities of this Honourable House, of which, Le 6.5 billion is Constituency Facilitation Allowance.

Governance

133. Good governance is a precondition for inclusive economic growth. To this end, Government is allocating Le 3.4 billion to the Audit Service; Le 8.6 billion to the National Electoral Commission; Le 2.8 billion to the Anti-Corruption Commission;

Le 4.6 billion to Statistics Sierra Leone; Le 1.8 billion to the National Public Procurement Authority; Le 960 million to the National Commission for Human Rights; and Le 350 million to the Secretariat of the Extractive Industry Transparency Initiative.

Judiciary

134. Government also considers an effective **Judiciary** as necessary for the delivery of equal justice to all citizens as well as improving the business and investment climate. In this respect, Government is allocating Le 1.5 billion from the recurrent budget to the Judiciary. In addition, Le 850 million is allocated as counterpart contribution to the DFID-funded Access to Security and Justice Programme, and Le 350 million for the Fast Track Commercial Court project.

Government Buildings

135. Government is allocating Le 1.2 billion from the recurrent budget for the repair and maintenance of Government Buildings. In addition, Government is also allocating Le 28.3 billion under the PIP for the construction of Government buildings, including the rehabilitation of State House and the House of Parliament, construction of Office buildings for Audit Service Sierra Leone, the Anti -Corruption Commission, replacement of seven elevators at the Youyi Building and the reconstruction of military, police and prison facilities.

VII. RISKS TO THE 2013 BUDGET

(i) Fluctuations in export commodity prices

136. Mr. Speaker, the prices of a number of our export commodities are susceptible to large and unexpected fluctuations during the year. Where these fluctuations are biased downwards, the fiscal impact could be significantly adverse. For example, any large unanticipated drop in iron ore prices will reduce the royalties and taxes due from iron ore mining activities, thus limiting the fiscal space available for planned expenditures.

(ii) Food and fuel price hikes

137. As we have witnessed over the past several years, external shocks in international food and fuel prices have had disproportionately negative impacts on our people. In particular, higher international food price worsen food security . In such instances, Government will resort to using fiscal measures to help those who are most vulnerable, especially in respect of food price hikes limiting the fiscal space for infrastructure financing.

(iii) Slow growth of the developed world and emerging economies

138. Mr. Speaker, in today's globalised world, a small open economy like Sierra Leone inevitably relies on the health of other economies, such as the advanced western economies, China, and other emerging economies to stimulate domestic economic activity. Should these countries' economies slow down more than anticipated, our trade prospects, development assistance and the inflow of remittances would worsen.

(iv) External budget support

139. Budgetary support will continue to be necessary in complementing Government's resources to deliver public services. However, the predictability and timely disbursement of these funds remain a challenge. With the continuing Eurozone crisis, donor inflows also remain uncertain. In this regard, donor coordination and close partnership with Government will, as usual, be the catalyst to minimise the associated risks in this area.

VI. CONCLUSION

140. Mr Speaker, Honourable Members of Parliament, I would like to take this opportunity to express my sincere thanks to all our development partners who continue to provide us with resources for the implementation of the Agenda for Change and now the Agenda for Prosperity. We will continue with our regular consultations and bilateral engagements through our Development Partnership Committee (DEPAC) meetings.

141. I would also like to extend my gratitude to all those who contributed to the budget formulation process including the preparation of the estimates and this statement. I would like to mention in particular, my predecessor, a man who devoted significant part of his productive life to the economic development of this nation. I do wish to build on the strong foundation he has put in place for the transformation of the economy. Permit me, Mr. Speaker, Honourable Members, to salute this great man of our time. I would also like to thank the Chairman and Members of the Parliamentary Finance Committee, Cabinet colleagues, the Governor, management and staff of the Bank of Sierra Leone, staff of the Law Officers Department, members of the District Budget Oversight Committee, the Deputy Ministers, the Financial Secretary and staff of the Ministry of Finance and Economic Development and staff of other MDAs. I would also like to recognise the valuable contributions received from private sector institutions, including the Sierra Leone Chamber of Commerce, Industry and Agriculture and the Sierra Leone Association of Manufacturers. As usual the Government Printer and staff rose to the occasion and printed the Budget statement on time.

142. Finally, this budget is about discipline and restraint but also about our priorities; ensuring precious funds are re-directed to the purposes and sectors that need them most; invest in productivity and competitiveness by building major improvement in education, health, infrastructure and energy. This transformation at our doorsteps brings new opportunities – not just in mining, but also in services, manufacturing, and in our rural economy, where the outlook is bright. This budget redirects and prioritises spending to convert a more productive economy into a fairer community as well.

143. Mr. Speaker, Honourable Members, this Government believes that the tremendous opportunities of the mining boom should be shared fairly with all Sierra Leoneans. That is why this budget supports workers and parents, the youth, the physically challenged and helps business prosper. I, therefore, commend it to the House.

144. I wish you a Merry Christmas and a bright and Prosperous 2013.

145. God bless us all.

G.P.O/217/12/750/12.2012.



GOVERNMENT OF SIERRA LEONE

GOVERNMENT BUDGET

and

Statement of Economic and Financial Policies

For the Financial Year, 2013

*Theme: "Accelerating structural transformation and inclusive green
growth for prosperity"*

DELIVERED BY

DR. KAIFALA MARAH

Minister of Finance and Economic Development

in the Chamber of Parliament

TOWER HILL, FREETOWN

ON

Friday, 21st December, 2012

GOVERNMENT OF SIERRA LEONE
ANNEX 1 - BUDGET PROFILE FOR FY2013-2014

In Millions of Leones (Le 'm)

PARTICULARS	FY 2013	FY 2013	FY 2014	FY 2014	FY 2014	FY 2014	FY 2014
	Actual Q1-4 Jan-Dec	% of GDP	Original Budget Q1-4 Jan-Dec	% of GDP	Revised Budget Q1-4 Jan-Dec	% of GDP	Suppl'try Budget Q3-4 Jul-Dec
Total Revenue and Grants	2,827,615	15.7%	3,220,858	15.5%	3,352,858	16.4%	132,000
Domestic Revenue	2,280,015	12.7%	2,581,290	12.4%	2,612,637	12.8%	31,347
Income Tax Department	929,294	5.2%	909,945	4.4%	1,014,900	5.0%	104,955
Corporate Tax	266,833	1.5%	258,930	1.2%	283,430	1.4%	24,500
Personal Income Tax - incl. Govt PAYE	656,832	3.7%	643,105	3.1%	720,530	3.5%	77,425
Other Taxes	5,629	0.0%	7,910	0.0%	10,940	0.1%	3,030
Goods and Services Tax	440,266	2.4%	523,412	2.5%	502,360	2.5%	(21,052)
Import GST	282,875	1.6%	292,306	1.4%	318,518	1.6%	26,212
Domestic GST	157,391	0.9%	231,106	1.1%	183,842	0.9%	(47,264)
Customs and Excise Department	491,191	2.7%	650,378	3.1%	554,774	2.7%	(95,604)
Import Duties	268,713	1.5%	298,535	1.4%	289,454	1.4%	(9,081)
Excise Duties on Petroleum Products	200,614	1.1%	304,149	1.5%	235,390	1.2%	(68,759)
Other Excise Duties	20,000	0.1%	31,296	0.2%	27,840	0.1%	(3,456)
Other Revenue - incl. Freight Levy	1,864	0.0%	16,398	0.1%	2,090	0.0%	(14,308)
Mines Department	235,038	1.3%	261,541	1.3%	299,579	1.5%	38,038
Royalty on Rutile	4,418	0.0%	4,042	0.0%	2,932	0.0%	(1,110)
Royalty on Bauxite	2,384	0.0%	6,328	0.0%	4,057	0.0%	(2,271)
Royalties on Diamond and Gold	34,539	0.2%	47,527	0.2%	55,821	0.3%	8,294
Royalty on Iron Ore	126,100	0.7%	153,366	0.7%	180,716	0.9%	27,350
Licences etc.	67,597	0.4%	50,278	0.2%	56,053	0.3%	5,775
Other Departments	100,983	0.6%	123,153	0.6%	128,163	0.6%	5,010
Royalties etc. on Fisheries	15,550	0.1%	15,632	0.1%	15,870	0.1%	238
Parastatals	0	0.0%	14,032	0.1%	5,032	0.0%	(9,000)
Other Revenues	85,433	0.5%	93,489	0.5%	107,261	0.5%	13,772
Road User Charges & Vehicle Licences	83,242	0.5%	112,861	0.5%	112,861	0.6%	0
Grants	547,600	3.0%	639,568	3.1%	740,221	3.6%	100,653
Programme	169,982	0.9%	217,168	1.0%	317,821	1.6%	100,653
o/w Debt Relief Assistance	0	0.0%	0	0.0%	0	0.0%	0
o/w HIPC - \$' m	\$0.00		\$0.00		\$0.00		\$0.00
o/w Japanese Food and Oil Aid	0	0.0%	\$0.00	0.0%	\$0.00	0.0%	\$0.00
o/w Global Fund Salary Support	0	0.0%	32,094	0.2%	32,094	0.2%	0
o/w External Donors Budgetary Support /4	169,982	0.9%	185,074	0.9%	285,727	1.4%	100,653
o/w UK DFID - \$' m	\$20.78		\$20.56		\$20.56		\$0.00
o/w EU - \$' m	\$15.46		\$14.21		\$14.21		\$0.00
o/w World Bank - \$' m	\$0.00		\$0.00		\$25.00		\$25.00
o/w Kuwaiti Fund Refund/UNPBF Nigeria - \$'m/China/Saudi ('13)	\$2.98		\$0.00		\$0.00		\$0.00
o/w African Dev. Bank - \$' m	\$0.00		\$7.93		\$6.15		-\$1.78

GOVERNMENT OF SIERRA LEONE
ANNEX 1 - BUDGET PROFILE FOR FY2013-2014

In Millions of Leones (Le 'm)

PARTICULARS	FY 2013	FY 2013	FY 2014	FY 2014	FY 2014	FY 2014	FY 2014
	Actual Q1-4 Jan-Dec	% of GDP	Original Budget Q1-4 Jan-Dec	% of GDP	Revised Budget Q1-4 Jan-Dec	% of GDP	Suppl'try Budget Q3-4 Jul-Dec
Peace Building Fund	0	0.0%	0	0.0%	0	0.0%	0
Elections Basket Fund	0		0		0		0
Projects	0		0		0		0
Project - Other Projects	377,618	2.1%	422,400	2.0%	422,400	2.1%	0
Total Expenditure and Lending minus Repayments	3,163,997	17.6%	4,155,592	20.0%	4,275,941	20.9%	120,349
Recurrent Expenditure	2,185,127	12.1%	2,615,014	12.6%	2,550,675	12.5%	(64,338)
Wages & Salaries	1,060,021	5.9%	1,360,916	6.6%	1,374,296	6.7%	13,380
o/w: Pensions, Gratuities and Other Allowances	51,366	0.3%	55,328	0.3%	69,135	0.3%	13,807
o/w: Contributions to Social Security	79,066	0.4%	108,613	0.5%	144,291	0.7%	35,677
Non-Salary, Non-Interest Recurrent Expenditure	823,948	4.6%	914,356	4.4%	943,886	4.6%	29,530
Goods and Services	519,820	2.9%	590,772	2.8%	611,302	3.0%	20,530
o/w <i>Social and Economic</i>	162,267	0.9%	220,009	1.1%	224,677	1.1%	4,668
<i>General and Others</i>	212,413	1.2%	206,815	1.0%	212,677	1.0%	5,862
o/w <i>National Revenue Authority</i>	54,636	0.3%	65,167	0.3%	65,167	0.3%	0
<i>Statistics - Sierra Leone</i>	5,464	0.0%	7,860	0.0%	7,860	0.0%	0
<i>Defence Expenditure</i>	63,298	0.4%	70,615	0.3%	80,615	0.4%	10,000
<i>Police</i>	60,045	0.3%	67,627	0.3%	67,627	0.3%	0
<i>Prisons</i>	21,798	0.1%	25,706	0.1%	25,706	0.1%	0
<i>Transfers to Local Councils</i>	85,050	0.5%	71,437	0.3%	71,437	0.3%	(0)
<i>Grants for Admin. Expenses</i>	29,885	0.2%	3,481	0.0%	3,481	0.0%	(0)
<i>Grants for Devolved Functions</i>	55,165	0.3%	67,956	0.3%	67,956	0.3%	0
<i>Grants to Educational Institutions</i>	125,774	0.7%	125,318	0.6%	132,318	0.6%	7,000
<i>Transfer to Road Maintenance Fund</i>	83,242	0.5%	112,861	0.5%	112,861	0.6%	0
<i>Elections and Democratization</i>	10,060	0.1%	13,968	0.1%	15,968	0.1%	2,000
<i>Domestic contribution</i>	10,060	0.1%	13,968	0.1%	15,968	0.1%	2,000
<i>National Electoral Commission</i>	10,060	0.1%	13,968	0.1%	15,968	0.1%	2,000
Total interest payments	301,158	1.7%	339,742	1.6%	232,494	1.1%	(107,248)
Domestic Interest	266,272	1.5%	300,757	1.4%	192,357	0.9%	(108,400)
Foreign Interest	34,886	0.2%	38,985	0.2%	40,137	0.2%	1,152
Capital Expenditure and Net Lending	978,871	5.4%	1,540,578	7.4%	1,725,266	8.4%	184,688

GOVERNMENT OF SIERRA LEONE
ANNEX 1 - BUDGET PROFILE FOR FY2013-2014

In Millions of Leones (Le 'm)

PARTICULARS	FY 2013	FY 2013	FY 2014	FY 2014	FY 2014	FY 2014	FY 2014
	Actual Q1-4 Jan-Dec	% of GDP	Original Budget Q1-4 Jan-Dec	% of GDP	Revised Budget Q1-4 Jan-Dec	% of GDP	Suppl'try Budget Q3-4 Jul-Dec
Capital Expenditure	1,146,533	6.4%	1,592,152	7.7%	1,776,839	8.7%	184,688
Foreign Loans and Grants	729,781	4.1%	1,056,099	5.1%	1,056,100	5.2%	1
Loans	352,163	2.0%	633,700	3.1%	633,700	3.1%	0
Grants	377,618	2.1%	422,400	2.0%	422,400	2.1%	0
Domestic	416,752	2.3%	536,052	2.6%	720,739	3.5%	184,687
Lending minus Repayment	(167,663)	-0.9%	(51,574)	-0.2%	(51,574)	-0.3%	0
OVERALL DEFICIT/SURPLUS (-)(+)							
(on commitment basis) including grants	(336,383)	-1.9%	(934,734)	-4.5%	(923,083)	-4.5%	11,651
excluding grants	(883,983)	-4.9%	(1,574,302)	-7.6%	(1,663,304)	-8.1%	(89,002)
basic primary balance 1/ 2/	146,956	0.8%	(178,461)	-0.9%	(374,710)	-1.8%	(196,249)
domestic primary balance	(124,741)	-0.7%	(482,055)	-2.3%	(571,905)	-2.8%	(89,850)
Contingency Expenditure	(5,425)	0.0%	(2,838)	0.0%	(4,838)	0.0%	(2,001)
Change in Arrears:	(24,444)	-0.1%	(6,960)	0.0%	(32,567)	-0.2%	(25,607)
Domestic Suppliers (Incl. outstanding commitments of previous year)	(17,215)	-0.1%	(3,409)	0.0%	(29,016)	-0.1%	(25,607)
Govt. Arrears to Parastatals	(1,000)	0.0%	-	0.0%	-	0.0%	-
Wages Arrears 3/	(6,229)	0.0%	(3,551)	0.0%	(3,551)	0.0%	-
OVERALL DEFICIT (CASH BASIS)							
Including grants	(366,252)	-2.0%	(944,532)	-4.5%	(960,488)	-4.7%	(15,956)
TOTAL FINANCING	366,252	2.0%	944,532	4.5%	960,488	4.7%	15,956
Foreign	294,108	1.6%	589,901	2.8%	591,785	2.9%	1,884
Borrowing (Loans)	379,927	2.1%	694,376	3.3%	694,376	3.4%	0
Project	352,163	2.0%	633,700	3.1%	633,700	3.1%	0
Programme	27,764	0.2%	60,676	0.3%	60,676	0.3%	0
External Debt Amortisation	(85,819)	-0.5%	(104,475)	-0.5%	(102,591)	-0.5%	1,884
Debt Relief	0	0.0%	0	0.0%	0	0.0%	0
Domestic Financing 2/	231,251	1.3%	310,857	1.5%	370,815	1.8%	59,958
Bank	299,574	1.7%	244,808	1.2%	304,766	1.5%	59,958
Central Bank	(59,538)	-0.3%	16,153	0.1%	112,716	0.6%	96,563
Non- MDRI (Securities)	(12,703)	-0.1%	0	0.0%	0	0.0%	0
Ways and Means Advances	(46,834)	-0.3%	16,153	0.1%	112,716	0.6%	96,563
MDRI Related Deposits	0	0.0%	0	0.0%	0	0.0%	0

GOVERNMENT OF SIERRA LEONE
ANNEX 1 - BUDGET PROFILE FOR FY2013-2014

In Millions of Leones (Le 'm)

PARTICULARS	FY 2013	FY 2013	FY 2014	FY 2014	FY 2014	FY 2014	FY 2014
	Actual	% of GDP	Original	% of GDP	Revised	% of GDP	Suppl'try
	Q1-4 Jan-Dec		Budget Q1-4 Jan-Dec		Budget Q1-4 Jan-Dec		Budget Q3-4 Jul-Dec
Commercial Banks (Including issuance of Le60bn 2-yr Energy Bond)	359,112	2.0%	228,655	1.1%	192,050	0.9%	(36,605)
Non-Bank	(68,323)	-0.4%	66,049	0.3%	66,049	0.3%	0
Privatisation and Other Receipts	12,904	0.1%	43,773	0.2%	9,101	0.0%	(34,672)
Float	(172,010)	-1.0%	0	0.0%	(11,214)	-0.1%	(11,214)
o/w: Cheques payable	18,607		0		0		0
Change in Outstanding Arrears	38,589		0		0		0
Cheques from 2011/2012/2013 paid in 2012/2013/2014	(241,170)		0		(11,214)		(11,214)
Cheques on Hold at BSL and AGD at end of period	11,214		0		0		0
Cash in Transit	0		0		0		0
Unaccounted	750		0		0		0
Financing Gap	0	0.0%	0	0.0%	0	0.0%	0
Memorandum Items:							
Public Debt Charges	386,977	2.2%	444,216	2.1%	335,084	1.6%	(109,132)
o/w External Debt Payments (incl. HIPC Debt Relief)	120,705	0.7%	143,459	0.7%	142,727	0.7%	(732)
External Budgetary Support (excl. HIPC Debt Relief; incl. PBF)	197,746		277,844		378,497		100,653
Nominal GDP Figure (excluding Iron Ore)	17,990,282	100.0%	20,775,300	100.0%	20,432,100	100.0%	20,432,100
Poverty Related Expenditure	1,063,000		1,032,180		1,158,385		0
Exchange Rate Le/US\$	4,334		4,334		4,334		4,334

1/ Domestic revenue less total expenditure and net lending, excluding interest payments and externally financed capital expenditure

2/ Fiscal Targets

3/ Wages arrears - this is usual provision made to reduce stock of wage arrears.

4/ External Budgetary Support - this includes GBP 1.8 million from DfID in FY2013 to support salaries of Health Sector Workers under the Free Health Care Programme.

ANNEX 2 -RECURRENT AND DEVELOPMENT EXPENDITURE SUPPLEMENTARY ESTIMATES, FY2014

MDA Code	MDA	Activities	Amount Le'm	US\$'m
	Wage Bill		13,380	3.09
107	Chiefdom Administration	Payment of salaries for Paramount Chiefs and Chiefdom Functionaries	13,380	3.09
	Goods and Services		16,196	3.74
105	Ministry of Political and Public Affairs	Expansion of the activities of the Ministry Countrywide	800	0.18
110	Corporate Affairs Commission (11018)	Final Set-up costs to effectively run the affairs of the Commission	715	0.16
110	Office of the Ombudsman (11008)	Administrative and Operating Costs - Rent for Regional Offices	340	0.08
110	Office of the Secretary to the President (11000)	Local & Overseas Travelling	1,000	0.23
110	Office of the Vice President	Local & Overseas Travelling	240	0.06
116	Parliament	Local & Overseas Travelling	600	0.14
201	Ministry of Defence	Final Payment for the procurement of uniforms for officers	10,000	2.31
305	Ministry of Social Welfare, Gender and Children's Affairs	Expansion of the activities of the Ministry Countrywide	800	0.18
404	Ministry of Transport and Aviation	Operating costs for the Airport Transfer Project Unit	501	0.12
414	Ministry of Water Resources	Administrative and Operating Costs	200	0.05
414	Sierra Leone Water Company SALWACO (41403)	Operating costs for rural water facilities	1,000	0.23
	Transfers		13,334	3.08
128	Ministry of Foreign Affairs and International Cooperation	Transfer to refurbish Chancery Building in New York-Chinese Assistance	2,167	0.50
134	National Electoral Commission	Conduct of bye-elections	2,000	0.46
301	Ministry of Education, Science and Technology	Full effect of the implementation of tuition fees subsidies and subventions	7,000	1.62
305	Ministry of Social Welfare, Gender and Children's Affairs	Campaign against teenage pregnancy	2,167	0.50
	Domestic Capital Expenditure		184,687	44.23
133	Ministry of Information and Communication	Dedicated Security Project	3,000	0.69
201	Ministry of Defence	40% payment for the procurement of military vehicles	20,239	6.29
201	Ministry of Defence	Medical equipment and communication gadgets for officers	6,501	1.50
206	Ministry of Police	Procurement of CCTVs and other security devices	8,668	2.00
302	Ministry of Youth, Employment and Sports	Construction of Youth village in Koinadugu District	700	0.16
304	Ministry of Health and Sanitation	Procurement of medical equipment and supplies	65,010	15.00
308	National Commission for Social Action (NaCSA)	Reparation programme for war wounded - final phase	6,068	1.40
406	Ministry of Energy	Thermal Plants for Provincial Towns (BKPS)	8,668	2.00
406	Ministry of Energy	Hydro Power Station - Bathurst - Charlotte	650	0.15
406	Ministry of Energy	Procurement of Thermal Plants and T&D Materials for District HQ Towns	60,000	13.84
408	Ministry of Works, Housing and Infrastructure	Construction of Presidential Lodge in Kabala	3,000	0.69
408	Ministry of Works, Housing and Infrastructure	Rehabilitation of Road: Bathurst - Charlotte	433	0.10
420	Sierra Leone Agricultural Research Institute (SLARI)	Rehabilitation of Research Stations	1,750	0.40
	Others		38,822	8.96
509	Domestic Suppliers' Arrears	Clearance of FY2013 Cheques Payable with AGD	25,607	5.91
610	Contingency Expenditure	Various Unforeseen Expenditures	2,001	0.46
	Various Stock of Outstanding Obligations	Clearance of FY2013 Printed Cheques with AGD	11,214	2.59
	Grand Total		266,419	63.09

Exchange Rate Le/US\$1

4,334

ANNEX 3 -FINANCING OF THE FY2014 SUPPLEMENTARY BUDGET

In Millions of Leones

Particulars	FY2014 Suppl'try Budget
Total Revenue and Grants	132,000
Domestic Revenue	31,347
Grants	100,653
Total Expenditure and Net Lending	120,348
Recurrent Expenditure	(64,339)
Wages and Salaries	13,380
Non-salary, non-interest Recurrent Expenditures	29,529
Goods and Services	20,530
Transfers	8,999
Total Interest Payments	(107,248)
Domestic	(108,400)
Foreign	1,152
Capital Expenditure and Net Lending	184,687
Domestic Capital Expenditures	184,687
OVERALL DEFICIT/SURPLUS (-) (+)	11,652
Contingency Expenditure	(2,001)
Change in Arrears	(25,607)
Domestic Suppliers Arrears	(25,607)
Overall Deficit (Cash Basis)	(15,956)
Financing	15,956
Foreign	1,884
Project	0
Programme	-
External Debt Amortisation	1,884
Domestic	25,286
Bank	59,958
Central Bank	96,563
Commercial Banks	(36,605)
Non-Bank	-
Privatisation Receipts	(34,672)
Float	(11,215)
FY2013 Printed Cheques cleared in FY2014	(11,214)
Unaccounted	(1)
Summary:	
Projected Additional Inflows:	301,090
Total Revenue and Grants	132,000
Net Savings on Debt Service Payments	109,132
Issuance of 2-yr Energy Bond	59,958
Projected Additional Outflows:	301,090
Wages and Salaries	13,380
Non-salary, non-interest Recurrent Expenditures	29,529
Domestic Capital Expenditures	184,687
Contingency Expenditures	2,001
Domestic Suppliers' Arrears	25,607
Reduction in Privatisation Receipts	34,672
Clearance of FY2013 Printed Cheques in FY2014	11,214
Gap	0

GOVERNMENT OF SIERRA LEONE

Supplementary Government Budget for FY2013

Delivered By

Dr. Kaifala Marah

Minister of Finance and Economic Development

In the Chamber of Parliament

Tower Hill, Freetown

On

Thursday, 4 July 2013

I. Introduction

Mr. Speaker, Honourable Members, you would recall that I presented the FY2013 Budget and the Statement of Economic and Financial Policies to this Noble House on 21st December 2012. Following critical debates and laid down parliamentary procedures, this Honourable House subsequently approved the budget on 26th March 2013. Prior to this, the request for Presidential Warrant was approved by the House on the same day I laid the budget. Thus, the implementation of the 2013 Budget using the approved warrant commenced in January 2013.

2. Mr. Speaker, following, three months of implementation, it became clear that we must revise the original 2013 budget framework for the following reasons:

First, the 2013 Budget approved by Parliament reflected the macroeconomic and fiscal framework agreed with the International Monetary Fund in September 2012, which in turn was underpinned by the projections for key economic variables. However, since then, some of the underlying assumptions on which the domestic revenue projections were based no longer exist; for example, the fall in the international price of rutile and bauxite and its implications for royalty on same. **Second**, only preliminary estimates of the 2012 budget outturns were available at the time I presented the Budget to Parliament in December 2012. Hence, the full and comprehensive picture of actual expenditures and revenues collected as at end December 2012 was not available. **Third**, two months into the implementation of the 2013 budget, several compelling expenditure requirements emerged not foreseen during the preparation of the budget. These extra budgetary expenditures increased the financing gap in the FY2013 budget. Hence there is need to mobilise additional revenues to finance the increasing expenditure requirements.

3. Mr. Speaker, in view of the foregoing and consistent with Section 112(3) of the 1991 Constitution, which provides that “a supplementary estimate shall be presented to Parliament for approval for expenditures that were not part of the appropriation or for which funds are insufficient”, we now present proposals for the supplemental 2013 budget.

4. The preparation and submission of a Supplementary Budget to Parliament is a manifestation of our determination to respect the national legal frameworks for public financial management including the 1991 Constitution of Sierra Leone, the Government Budgeting and Accountability Act, 2005 and its related Financial Management Regulations, which require that any spending above the original appropriation warrants the submission of a Supplementary Budget to Parliament.

5. Mr. Speaker, as usual, before presenting the details of the 2013 Supplementary Budget, I would like to provide highlights of **macroeconomic developments during January to June 2013 and budgetary performance for January to March 2013.**

II. Macroeconomic Developments: January-June 2013

6. Mr. Speaker, the economy grew by 15.2 percent in 2012 driven largely by the increase in iron ore production from 137,000 metric tons in 2011 to 6.6 million metric tons in 2012. Excluding iron ore, the economy grew by 5.3 percent supported by increased activities in agriculture, construction, manufacturing and the services sectors. Preliminary data for the first five months of the year indicate that the economy is on track to achieve the projected growth of 13.3 percent for 2013 as output in the agriculture, mining, manufacturing, construction and services sectors continues to expand.

7. National inflation continued its downward trend with the year-on-year inflation falling to 10.9 percent in April 2013 from 16.7 percent at the end of 2011. Inflation is expected to return to single digit by the end of this year. Following the current stance of zero domestic borrowing, interest rates on the 91-day Treasury Bills fell to 6.0 percent in June 2013 from 19.0 percent in December 2012.

8. Gross foreign exchange reserves at the BSL reached US\$ 437.4 million, equivalent to 3.0 months of imports as at end June 2013. The exchange rate remained stable during January to June 2013.

III. Budgetary Performance in Quarter 1: January to March 2013

9. Mr. Speaker, domestic revenue collection amounted to Le 500.2 billion in Quarter 1 compared to Le 413.4 billion in Q1 2012 and exceeded the programme target of Le 469 billion. Of the total domestic revenue collected, Income Taxes amounted to Le 207.5 billion, GST Le 99.8 billion, Customs and Excise duties, Le 107 billion. Non-Tax revenue amounted to Le 83 billion, of which Mining Licenses and Royalties amounted to Le 60 billion.

10. Total expenditure amounted to Le497.8 billion in Quarter 1, compared to the budgeted amount of Le759.9 billion. Of the total, recurrent expenditures amounted to Le454.8 billion. Wages and salaries amounted to Le 249.4 billion within the budgeted amount of Le250 billion. Total interest payments amounted to Le67.9 billion, of which Le60.7 billion constitute interest payments on domestic debt. Non-salary, non-interest recurrent expenditures amounted to Le 137.5 billion. Capital expenditures funded from domestic revenues totalled Le 43.0 billion.

IV. Revisions to the Original 2013 Budget

11. Mr. Speaker, developing the FY2013 Supplementary Budget involves revising the original FY2013 budget (domestic revenue, grants, expenditure and financing) by incorporating the new fiscal policy measures and underlying assumptions. The difference between the revised estimates and original budget is the Supplementary Budget.

12. This section details the revisions to the 2013 original budget to reflect the emerging expenditure issues as well as the changes in the assumptions underpinning the original 2013 revenue projections.

Revisions to the Original Expenditure Profile

13. Mr. Speaker, Honourable Members, some of the emerging/new expenditure requirements that warrant a revision to the original expenditure profile are as follows:

(i) Clear unpaid bills carried over from 2012 amounting to Le 299.3 billion (including Ways and Means Advances from the Bank of Sierra Leone of Le48.1 billion and outstanding pension payments to NASSIT of Le40.1 billion);

(ii) Complete in 2013 all ongoing infrastructure projects initiated since 2010 under the Agenda for Change. This requires additional resources estimated at Le 75.4 billion. Of this increase, Le31.6 billion will go towards the completion of on-going roads construction projects; Le12.6 billion towards completion of on-going energy related projects including the procurement and installation of Thermal Plants and Transmission and Distribution Materials; Le3.7 billion for water supply projects; Le4 billion to the Sierra Leone Police for the procurement of security equipment. In addition, the rehabilitation of the Bumbuna Hydro Electric Dam and the thermal plants at Kingtom and Black Hall Road as well as purchase of fuel for NPA under the Emergency Power Programme is estimated at Le 52.2 billion;

(iii) The Bank of Sierra Leone to utilise the remaining balance Le 81.8 billion of Non-Negotiable, Non- Interest Bearing securities (NNIBs) by converting into marketable securities to support monetary policy operations with interest obligations thereon;

(iv) The outstanding pension contributions to NASSIT amounting to Le 40.1 billion have been securitised by issuing a marketable 2-year bond to NASSIT. The interest costs of proposals (iii) and (iv) above is estimated at Le 8.2 billion. Despite this, the recent decline in domestic interest rates, owing to the current stance of zero domestic borrowing is expected to offset the increase in interest payments emanating from the above policy measures. Savings in domestic interest payments for the year is estimated at Le 10.6 billion;

(v) Following the successful conduct of the 2012 general elections, the new Government structure pronounced in early 2013 saw the creation of new line Ministries and Agencies together with additional political appointments. This has budgetary implications for the Government Wage Bill as well as the Goods and Services budget. Provision was not made for these in the original FY2013 Budget;

(vi) As part of Government's strategy to improve the welfare of academic staff in Tertiary Institutions, Government, through the Ministry of Education, Science and Technology, has adopted proposals to allow the Universities to charge tuition fees at market rates. To cushion the effect of these on students and parents, Government is providing an additional Le8.5 billion to the University of Sierra Leone and N'jala University as additional fees subsidy agreed with the Universities;

(viii) The increasing cost of diet and drug supplies combined with the increase in the number of Inmates requires additional expenditure allocation of Le 1.7 billion to the Prisons Department. In addition, preparations to commemorate the 100 years of the Prisons Service in Sierra Leone in 2014 call for additional resources of Le4.0 billion for the procurement of uniforms and regalia for all prison officers;

(ix) The National Electoral Commission require additional resources amounting to Le 1.5 billion for the conduct of bye-elections and paramount chieftaincy elections in 2013;

(x) The budgetary allocation to the Ministry of Transport and Aviation has been increased by Le2.4 billion for the procurement of Government vehicles;

(xi) An amount of Le4.97 billion has been allocated to the newly established Ministry of Water Resources and Le 1.7 billion to the Ministry of Youth Affairs;

(xii) Government pledged Le4.4 billion, the equivalent of US\$1.0 million, as part of the international support to the Republic of Mali;

(xiii) Payment of Le4.4 billion, the equivalent of US\$1.0 million, to the survivors of the Togolese victims of the helicopter crash at Lungu in June 2007;

(xiv) The introduction of the use of GST Receipts to address the problem of under-performance in GST collection. The cost is estimated at Le30.3 billion, the equivalent of US\$7 million;

Revisions to Original Revenue Projections and Changes in the Underlying Assumptions

14. Mr. Speaker, Honourable Members, as previously stated, changes in some of the assumptions that underpinned the domestic revenue projections in the original 2013 budget will impact negatively on domestic revenue performance for 2013. Hence, projections for the following revenue streams are being revised downwards:

- (i) Personal Income Taxes – compared to the original projection, Personal Income Taxes are projected to decline by Le114 billion after adjusting for one-off payments of Personal Income Taxes in 2012. The actual Income Taxes collected

in 2012, which included the one-off payments of foreign payroll tax by African Minerals Limited and the proceeds from the sale of Government shares held in Sierra Rutile Limited formed the basis of the original 2013 projections of Income Taxes. Hence, the original 2013 Income Taxes were over-projected;

(ii) Import GST is revised downwards by Le 62.3 billion to reflect the revised lower than originally projected dutiable imports. Data collected for Quarter 1, 2013 showed a 38 percent decline in dutiable imports relative to the same period in 2012;

(iii) Import duty projections were also reviewed downwards by Le 39 billion due to lower than expected import volumes as explained above;

(iv) Royalties on rutile and bauxite are now projected to decrease by Le 7 billion compared to the original budget due to fall in international prices for these commodities; and

(v) Royalties on iron are also discounted by Le 2 billion to reflect the fall in world market prices and unexpected production difficulties.

16. Mr. Speaker, Honourable Members, despite the above scenario, projections for a number of other revenue streams are being revised upwards as follows:

(i) Corporate Income Taxes are projected to increase by Le75.7 billion over the original budget in line with the projected expansion in economic activities;

(ii) Royalties on diamonds are projected to increase by Le17 billion over the original projection due to the anticipated increase in production and favourable market conditions;

(iii) Excise duty on locally manufactured goods is projected to increase by Le18.7 billion on account of the expected increase in manufacturing activities;

(iv) Freight Levy will increase by Le2.4 billion based on performance in Quarter1, 2013;

(v) Signature bonuses of Le US\$7.5 million (Le32.5 billion) are expected from petroleum exploration activities; and

(vi) Revenues collected by various Government Departments are projected to increase by Le 24 billion over the original projections due to the anticipated expansion in sector economic activities as well as the implementation of the revised fees and licenses in the second half of the year;

17. Mr. Speaker, other revenue projections include the disbursement of the second tranche of the Sierra Rutile Limited loan repayment estimated at about €8.2 million (Le46.2 billion), plus the delayed 2012 disbursement of €9.02 million (Le50.8 billion)

are also being incorporated in the revised budget. The World Bank will also disburse US\$ 3.5 million (Le15.2 billion) under the Pay and Performance Project.

Revised Donor Budget Support Disbursements

Mr. Speaker, some of our budget support partners have also increased their support to the 2013 budget as follows:

(i) DFID will now disburse a total of US\$ 23.3 million, the equivalent of £12.6 million (Le101.8 billion), compared to the original US\$18.4 million (Le79.7 billion), in lieu of delayed disbursement of the FY2012 performance tranche;

(ii) The World Bank has increased the 2013 budget support to Sierra Leone by US\$15 million (Le65.0 billion), including US\$10 million (Le43.3 billion) to support the emergency energy programme and US\$ 5 million (Le21.7 billion) as additional general budget support;

(iii) The European Union will disburse as programmed Euros 14 million (Le78.9 billion); and

(iv) The Global Fund will also disburse an amount of US\$7.4 million (Le32.1 billion) in support of health sector workers as originally budgeted.

V. The FY2013 Supplementary Budget

18. Mr. Speaker, Honourable Members, the emerging new expenditures, extra-budgetary expenditures and new revenue streams require an extra appropriation in the context of a supplementary budget. The details of the supplementary budget are as follows:

19. Total revenue and grants have been revised from Le 2.68 trillion or 15.6% of GDP to Le 2.83 trillion or 16.4% of GDP, representing an increase of about Le 147 billion. Domestic revenue has been revised from Le 2.1 trillion or 12.1% of GDP to Le 2.2 trillion or 12.7% of GDP, resulting in an increase of about Le130.5 billion. Grants have been revised from Le 613.9 billion or 3.6% of GDP to Le 630.5 billion or 3.6% of GDP, an increase of Le 16.5 billion.

20. Total expenditure and net lending has increased from Le 3.2 trillion or 18.7% of GDP to Le 3.36 trillion or 19.5% of GDP, representing an increase of about Le 152.6 billion. Of this, recurrent expenditure has been revised from Le 2.0 trillion to Le 2.2 trillion, an increase of about Le 175.9 billion.

21. Wages and salaries are now projected to reach Le1.06 trillion or 6.1% of GDP. The original budget estimate was Le999.1 billion or 5.8% of GDP. The main reason for the increase is to accommodate the full year effect of the implementation of a 13% increase in wages and salaries of Civil Servants, Military Officers, Police Officers and Teachers, under the Multi-Year Pay Reform Programme (2011-2015), which aims at a transparent and affordable multi-year upward adjustment in public sector pay and

compensation. Other factors include a provision of Le5 billion as pension arrears to ex-Ministers and Parliamentarians. The increase in wage bill has also taken into account the establishments of new MDAs and additional political appointees mentioned earlier.

22. Goods and Services expenditure is projected to increase from Le660.6 billion or 3.9% of GDP in the original budget to Le789.2 billion or 4.6% of GDP.

23. Capital expenditure has been revised from Le1.2 trillion to Le 1.28 trillion. This reflects the increase in domestically funded capital expenditures by Le75.4 billion.

24. The overall budget deficit excluding grants is now revised to Le1.16 trillion compared to the original deficit of Le 1.14 trillion compared to Le1.48 trillion in 2012. Including grants, the overall deficit is now projected at Le 535.6 billion compared to Le854.3 billion in 2012. The deficit will be financed by external project and programme loans, domestic borrowing from the bank and non-bank sectors as well as privatisation receipt.

25. Mr. Speaker, the revised external borrowing for the year in the form of project and programme loans is projected at Le 453.7 billion. The supplementary financing requirement will be financed by additional programme loans from the World Bank of about US\$18.5 million (Le80.2 billion) referred to earlier, which will be disbursed during the second half of the year. Of this amount, US\$10 million (Le43.3 billion) will go towards the support of the Emergency Energy Programme, US\$5 million (Le21.7 billion) as additional general budget support in addition to the US\$10 million (Le43.3 billion) already budgeted in the original 2013 budget and US\$3.5 million (Le15.2 billion) for the Pay and Performance Programme.

26. Domestic financing for the year is projected at Le336.8 billion. Of this Central bank financing of the budget is programmed to reflect the statutory limit of central bank credit to the central government as per the BSL Act, 2011, that is, 5 percent of actual domestic revenues collected in 2012 amounting to Le 45.6 billion after netting of the 2012 Ways and Means Advances.

27. Mr. Speaker, Honourable Members, in view of the improved macroeconomic environment, the Government of Sierra Leone in collaboration with the Bank of Sierra Leone is issuing 2-year Infrastructure Bond amounting to Le200 billion this year to the bank and non-bank sectors of the Sierra Leone economy. The purpose of the bond is to finance and sustain Government's infrastructure development programme as well as to restructure the domestic debt portfolio from short to medium term securities. As it has happened in other developing countries, including those within the ECOWAS sub- region, the issuance of a medium term bond will deepen the bond market, mitigate refinancing and interest rate risk as well as enhance access to liquidity for investors. It will also provide cash-flow relief to the Government budget as interest payments fall due semi-annually instead of the present quarterly

payments. The bond to be issued will be marketable and can be used as collateral by commercial banks and other domestic financial investors in the economy.

28. Mr. Speaker, privatization receipts, which were zero in the original budget, are now projected to amount to US\$2.6 million (Le11.3 billion) for 2013, being proceeds from the Sierra Leone Ports Authority Concession.

VI. Conclusion

29. Mr. Speaker, Honourable Members, the total Supplementary Estimate above the original FY2013 budget submitted to the House for ratification is estimated at Le518 billion.

30. Mr. Speaker, Honourable Members, the presentation of this supplementary budget was necessitated by the need to complete on-going projects and programmes under the Agenda for Change and to commence the implementation of the Agenda for Prosperity. I, therefore, commend the Supplementary Budget for 2013 to the House.

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