

GOVERNMENT OF SIERRA LEONE

# Supplementary Government Budget for FY2013

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Delivered By

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In the Chamber of Parliament

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## **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 Lungi 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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