Government of Sierra Leone

FISCAL STRATEGY STATEMENT, 2020-2022

MINISTRY OF FINANCE

JULY 2019

FISCAL STRATEGY STATEMENT, 2020-2022

INTRODUCTION

Section 21 (1) of the Public Financial Management (PFM) Act, 2016 states that "***When an election to the Office of the President of the Republic of Sierra Leone has taken place, the new Cabinet shall, based on the principles of responsible financial management, specify in its first Fiscal Strategy Statement, the fiscal objectives to be applied in the next five years*** ". In compliance with this provision and following the assumption of power in April 2018, the Minister of Finance prepared the First Fiscal Strategy Statement (FSS) for the five-year period covering 2019 to 2023, which was approved by Cabinet and laid in Parliament in November 2018.

Sections 21 (2) and 23 (1) of the Act also require the Minister of Finance to prepare Annual Fiscal Strategy statements for the subsequent five years. Section 23 (1) states: "**Not later than the end of the seventh month of every financial year, the Minister shall, with approval of the Cabinet, prepare and lay before Parliament for its information a Fiscal Strategy Statement."** Section 23 (1) (a) to (k) specifies the contents of the Fiscal Strategy Statement.

To comply with this provision, the Minister of Finance prepared the Annual Fiscal Strategy Statement for the financial year 2020, which specifies the fiscal objectives of Government for the next three years (2020-2022).

In line with sections 22 (1) to (3) and section 23 (1) (a) to (k), the 2020 Fiscal Strategy Statement is organised as follows: Following the introduction, Section I presents the Government's broad fiscal strategy and objectives. Section 2 provides an overview of recent global and domestic macroeconomic developments and the macro-fiscal forecasts for 2020-2022 and underlying assumptions. Section 3 presents Government's fiscal policy for the medium-term including a review of recent fiscal developments; presentation of the medium-term fiscal forecasts (revenue and expenditure) and discusses the revenue enhancing and expenditure management measures for the medium-term. Section 4 presents the Medium-Term Expenditure Framework detailing expenditure ceilings for the key MDAs, both for recurrent and domestic capital expenditures for the medium-term. Finally, section 5 presents the Fiscal Risks Statement, which presents a sensitivity analysis of the macroeconomic, fiscal and policy risks to the achievements of the specified fiscal objectives. This section ends with a discussion on the proposed mitigating measures.

1. FISCAL STRATEGY AND OBJECTIVES

The key objective of fiscal policy over the medium-term is to achieve fiscal and debt sustainability through sustained fiscal consolidation. This is consistent with the principles of Responsible Financial Management as articulated in Section 20(2) of the PFM Act, 2016, which include, among others, the following:

(i) achieve and maintain prudent levels of public debt so as not to impose an inequitable burden on future generations;
(ii) achieve and maintain an appropriate balance between revenues and expenditures of general Government;
(iii) provide timely, reliable, and adequate information to the public on fiscal objectives, data, and risks to ensure transparency in budgetary and financial management of the general Government and public enterprises; and
(iv) formulate and implement fiscal policies to achieve macroeconomic stability;
(v) and manage prudently the fiscal risks faced by Sierra Leone.

Consistent with the above fiscal management principles, Government's fiscal objectives remained broadly the same as specified in its first Fiscal Strategy Statement, (2019-2023). In this context, Government will pursue the following fiscal objectives in the medium-term:

(i) Improve domestic revenue collection from 13.7 percent of GDP in 2018 to 16.4 percent in 2022. This target is the outcome of a baseline revenue projection agreed with the IMF based on the current macroeconomic fundamentals. Government's revenue target is more ambitious at 17.2 percent of GDP given its commitment to sustain the current momentum of enhanced domestic revenue mobilisation through the implementation of several tax policy and administrative reforms. Government's objective is to attain the domestic revenue to GDP ratio of 20 percent by 2023. Higher domestic revenues will create the fiscal space for priority spending especially on the Free Quality Education programme and infrastructure.

(ii) Seek to maintain Government expenditure at an average of 21.5 percent of GDP during 2019 to 2022.

(iii) A complementary objective is to gradually bring down the wage bill to the sustainable level of 6.0 percent of GDP by 2021 from 6.7 percent of GDP in 2019. In nominal terms, based on current projections, the Government wage bill will increase from Le 2.5 trillion in 2019 to Le 2.75 trillion in 2020 and further to Le 3.46 trillion in 2022.

(iv) On the basis of the projected higher domestic revenues and conservative expenditure levels, Government aims to reduce the budget deficit, including grants, from 5.8 percent of GDP in 2018 to 3.6 percent of GDP in 2019 and further down to 3.2 percent of GDP by 2022. Excluding grants, the budget deficit will decrease from 7.4 percent of GDP in 2019 to 5.3 percent of GDP in 2022. Domestic bank financing of the deficit will be reduced to 2.0 percent of GDP by 2022.

(v) Total public debt will be kept below debt sustainability threshold of 55 percent of GDP in present value (PV) terms and 70 percent of GDP in nominal terms consistent with our obligations under the ECOWAS macroeconomic convergence criteria for the monetary union. External debt will not exceed 40 percent of GDP in PV terms during the period. The projected decline in the budget deficit is expected to reduce the rate of domestic debt accumulation.

Government will implement the following broad policy strategies to achieve the above stated fiscal objectives:

(i) Government will sustain its fiscal consolidation drive by intensifying domestic revenue collection while rationalizing public expenditures. The details of the revenue enhancing and expenditure control measures are described in section 3 of this Strategy statement;

(ii) Government will continue to implement the reforms that will improve the integrity and sustainability of the payroll;

(iii) Government will continue to prioritize concessional loans and rely more on grants for the financing of projects. Government will also explore the possibility of using non-debt creating financing options such as PPPs while taking note of the associated contingent liabilities. Government is also developing a strategy for the clearance of domestic arrears. To enhance debt management capacity, Government is developing a Medium-Term Debt Management Strategy focusing on reducing rollover risks and borrowing costs

2. RECENT ECONOMIC DEVELOPMENTS

2.1 Global Economic Developments and Outlook

After growing by almost 4 percent in 2017, growth slowed in the second half of 2018 to 3.2 percent, reflecting marked slowdown in economic activities in developed and some large emerging market countries, underpinned by escalating trade tensions and an increasingly uncertain policy environment.

Global economic activities are, however, expected to recover some of its lost momentum in the second half of 2019, helped in part by the recent trade truce at the just concluded G-20 summit between the US and China, the reopening of the technology supply value chain, growth surprises in developed countries in the first quarter of the year, combined with a more supportive monetary environment. Global economic growth is now projected to reach 3.3 percent in 2019 and to firm up further to 3.5 percent in 2020 as activities start to pick up in the second half of 2019 amid projected recovery in some large countries in emerging and developing economies, as markets became more optimistic of durable and a credible US-China trade deal coupled with accommodative monetary policy stance. But risks remain tilted to the downside. These include a possible re-escalation of trade tensions, policy uncertainty, heightened geopolitical risks, and a sudden sharp tightening of financial conditions.

In China, Sierra Leone's biggest trading partner, economic performance continued to be plagued by the sustained intensification of the trade dispute with the US, which continue to undermine business confidence. After posting robust and better than expected growth in the last two quarters, growth suddenly slowed last quarter - from April through June - to 6.2 percent. The economy is now projected to grow by 6.2 percent in 2019 and further slowdown to 6.0 percent in 2020, as the economic continue its gradual transition from an export-led growth paradigm to a low but more stable and sustainable growth path that focuses on research and development and services.

In the US, sentiment indicators and high frequency data suggest the economy is growing at a robust clip but gradually slowing towards its long-term trend. Consumer spending is robust, buoyed by a strong labor market and continued strong consumer confidence. By contrast, capital spending by businesses has been weak, and indicators of business sentiment have been soft as the stimulus from the fiscal impulse start to fade. After growing by almost 3.0 percent in 2018, growth is now projected to slow down to 2.6 percent in 2019 and to further slowdown to 1.9 percent in 2020 as the initial effect of the fiscal stimulus continue to dissipate. The recent G-20 summit provided a constructive change in tone about trade discussions, but business sentiment and investment plans will likely remain sensitive to uncertainty around trade and the global outlook. Fiscal policy is also a source of uncertainty, with both the debt ceiling and the federal budget needing to be resolved.

In the Euro area, the economic performance continued be to be weighed down by moderating external demand underpinned by the current trade dispute between the US and China, falling competitiveness, slowing demand for capital goods and the lingering effect of a possible disorderly no Brexit deal. After a lackluster growth of 1.9 percent in 2018, growth is projected to further slowdown to 1.3 percent in 2019 and increase slightly to 1.6 percent in 2020.

Against this challenging backdrop of a less supportive external environment, Sub-Saharan Africa's average growth is expected to increase from 3.1 percent in 2018 to 3.4 percent in 2019 and 3.6 percent in 2020. The strong growth is coming from the non-resource rich countries and the projected recovery of resource-rich countries in the second half as the current trade truce between the US and China is projected to support commodity prices.

Consumer price inflation remained low across advanced economies, given the drop in commodity prices and sluggish wage growth. For some emerging market economies and developing countries, however, widening fiscal deficit and currency depreciation are making domestic prices slightly elevated, partially offsetting downward pressure from lower commodity prices.

Most industrial commodity (metals and energy) prices have recovered in 2019 following notable declines late last year. Crude oil prices recovered over the first half of the year, averaging $64 per barrel (bbl), supported by production cuts among OPEC and its non-OPEC partners, as well as the United States' decision to terminate waivers for its sanctions on Iran. Oil prices are expected to average $66/bbl in 2019 and $65/bbl in 2020. However, the supply cuts by OPEC members have resulted in substantial spare capacity, which lessens the likelihood of spikes in oil prices in the near term.

Iron ore prices increased by 28.8 percent between August 2018 and February 2019 amid supply disruptions from the world's top iron ore miners notably Brazil and Australia. Overall, metals prices are expected to decline slightly in 2019 and 2020.

2.2 DOMESTIC MACROECONOMC DEVELOPMENTS

The Sierra Leone economy grew by 3.5 percent in 2018 compared to 3.8 percent in 2017. The slowdown in real GDP growth reflects mainly the weak performance in the mining and construction sectors. The Tonkolili Iron Ore Mine remained closed throughout 2018. The production of rutile was lower than projected mainly due to periodic disruptions in production caused by employee strike actions during the year. The scaling down of public funded construction activities pending the financial and technical audits also contributed to the slowdown in economic activities in 2018.

The non-iron ore economy grew relatively stronger at an estimated 5.4 percent in 2018 driven by the pickup in other mining activities including diamond, bauxite and zircon production; normal agriculture activities and strong growth in the services sectors.

Inflationary pressures moderated towards the last quarter of the year, but remained high throughout 2018. Inflation rose gradually from 14.5 percent in January to a peak of 19.3 percent in October before moderating to 17.5 percent in December 2018. The rise in inflation during the year can be attributed to several factors most notably the pass-through effect of the depreciation of the Leone, liberalisation of domestic fuel prices and food related supply shocks. The moderation in inflationary pressures in the last quarter of the year was supported by decline in food prices during the period. Annual average inflation for 2018 estimated at 16.6 percent was lower compared to 18.2 percent recorded in 2017.

Reflecting largely the fiscal consolidation measures implemented by Government in the last three quarters of the year, the overall budget deficit, including grants, shrunk from 8.8 percent of GDP in 2017 to 5.8 percent of GDP in 2018. Domestic revenues increased to 13.7 percent of GDP in 2018 from to 12.3 percent of GDP in 2017 while Government expenditures were contained at 21.5 percent of GDP compared to the budgeted amount of 23.5 of GDP.

The trade deficit increased marginally to 14.6 percent of GDP in 2018 from 14.5 percent of GDP in 2017 as the sharp drop in exports was not fully offset by the negligible increase in imports. However, the current account improved to 13.8 percent of GDP in 2018 from 14.5 percent of GDP in 2017 mainly due to an increase in the inflow of private transfers. Despite the increase in foreign direct investments (FDI), the surplus in the capital and current account decreased to US$479 (11.7 percent of GDP) in 2018 from US$507.4 (13.7 percent of GDP). As a result, the overall balance of payments worsened to a deficit of US$34.6 million (0.9 percent of GDP) in 2018 from US$6.1 million (0.2

percent of GDP) in 2017.

Gross international reserves decreased from US$501 million (equivalent to 3.7 months of imports) in 2017 to US$ 483 million (3.6 months of imports) in 2018, partly reflecting the sale of foreign exchange by the Bank of Sierra Leone at the weekly auctions to the smoothen the volatility in the exchange rate of the Leone to the US Dollar. Despite this, the official exchange rate of the Leone to the US Dollar depreciated by 11.9 percent, from Le7,537 per USD at the end of December 2017 to Le 8,396 per USD at the end of December 2018.

The Stock of total Public Debt (external plus domestic) stood at Le18.99 trillion (USD2.24 billion) at end December 2018 representing 60.8 percent of GDP. External debt amounted to Le13.35 trillion (US$1.57 billion) accounting for 70.3 percent of total public debt and 38.6 percent of GDP. Domestic debt amounted to Le 5.64 trillion (US$665.57 million) accounting for 29.8 percent of total public debt and 22.2 percent of GDP.

2.3 MEDIUM-TERM MACROECONOMIC FORECASTS, 2020-2022

The Macro-Fiscal Working Group produced forecasts of key macroeconomic aggregates using the Sierra Leone Integrated Macroeconomic Model (SLIMM) in late March/early April as part of the preparations for the first review of the Extended Credit Facility (ECF) as well as to inform the preparation of the 2020 FSS. These projections were discussed with the IMF during the technical discussions on the medium-term outlook of the economy in April 2019.

The macroeconomic projections presented in this Fiscal Strategy Statement are the final figures agreed with the IMF following the discussions. The original forecasts produced by the Macro-Fiscal Working Group are also presented in Table 2.3.3 below.

Real Gross Domestic Product (GDP)

Real GDP growth is projected at 5.1 percent in 2019 following the resumption of higher-grade iron ore mining at the Marampa Mines by S L Mining Company. Economic growth is forecast to average 4.8 percent over the medium term (2020-2022). The expected increase in public and private investments in agriculture, fisheries and tourism will increase output in these sectors. This will be supported by the implementation of sectoral reforms to improve the productivity of the sectors as part of Government’s efforts to diversify the economy. The scaling up public construction activities and investments in energy combined with improvements in business regulatory reforms will improve the business environment and boost private investment in manufacturing and services sectors. The planned increased investments in diamond, rutile and gold mining activities will also contribute positively to the growth prospects of the economy.

Agriculture sector growth will average around 4.4 percent during 2020 to 2022 from 4.1 percent in 2019. Industry growth will average 8.8 percent following the recommencement of iron ore mining in 2019 as well as the expansion in other mining activities, manufacturing and construction. Services sector is projected to grow by an average of 5.1 percent over the medium term from 4.8 percent during 2019 with increased activities in tourism, telecommunications and transport.

Table 2.3.1 Sector GDP Growth Projections in the Medium Term (2019-2022)

Gross Domestic Product by Sector (2006 Price)	2018	2019	2020	2021	2022
Agriculture, Forestry and Fishing	**3.91**	4.1	4.3	4.4	4.4
Crops	4.1	4.6	4.9	5.0	5.0
Livestock	2.6	3.0	3.2	3.2	3.2
Forestry	4.7	3.5	3.0	2.4	2.4
Fishery	2.8	2.2	2.4	2.4	2.4
Industry	-2.5	13.5	6.2	7.0	5.4
Mining and Quarrying	-4.0	22.4	7.4	8.8	5.8
Iron Ore	-100.0	0.0	50.0	33.3	25.0
Other Minerals	5.3	7.3	1.4	3.7	0.7
Manufacturing and Handicrafts	3.2	4.3	4.2	4.0	4.2
Electricity and Water Supply	4.8	4.6	4.8	4.7	4.7
Construction	-6.5	5.0	5.5	5.8	5.4
Services	**4.1**	4.8	5.1	5.1	5.1
Trade and Tourism	1.9	4.0	5.0	5.0	5.0
Transport, Storage and Communication	4.0	4.8	5.0	5.0	5.0
Finance, Insurance and Real Estate	4.0	4.2	4.2	4.2	4.2
Administration of Public Services	5.4	6.2	6.2	6.2	6.2
Other Services	4.7	5.0	5.0	5.0	5.0
Imputed Financial Services	3.4	2.3	2.3	2.3	2.3
Indirect Taxes (Net)	5.5	2.3	2.3	2.3	2.3
Real GDP at Market Prices	**3.5**	**5.1**	**4.7**	**4.8**	**4.7**

Source: Sierra Leonean Authorities and IMF Staff Estimates and Projections

Inflation

Inflationary pressures are projected to moderate over the medium term with end of period inflation declining to single digit of 9.0 percent in 2022. Over the same period, annual average will trend downwards from 15.7 percent in 2019 to 9.6 percent in 2022. The decline in inflation will be driven by the expected stability in the exchange rate as exports expand; increased domestic food production that will assist in dampening food inflation; and tight monetary policy stance of the Bank of Sierra Leone supported by fiscal consolidation. The table below shows projection of inflation over the medium term.

Table 2.3.2: Projection of Inflation

	2019	2020	2021	2022

End of Period	14.0	12.0	10.2	9.0
Annual Average	15.7	13.0	11.1	9.6

External Sector

Exports

Following the drop in 2018, exports will recover strongly, growing by 38.7 percent in 2019 following the resumption of iron ore mining at the Marampa Mines. Exports are projected to increase further by 21.6 percent in 2020 and 10.2 percent in 2021 before moderating to 9.0 percent in 2022. The growth in export will be driven by increased investments to expand the production of diamonds, rutile and bauxite as well as in the production of cash crops including oil palm, cocoa, coffee, cashew, fish and timber.

Imports

Imports are projected to grow by an average of 5.4 percent in 2019 and by an average of 5.8 percent during 2020 and 2021 before moderating to 2.3 percent in 2022, reflecting largely the increase in economic activities as mining, construction and agricultural activities expand.

Current Account

The current account deficit (including official transfers) is projected to narrow to 11.7 percent of GDP in 2019 mainly due to the projected increase in exports. The current account deficit will narrow down to an average of 9.5 percent of GDP during 2020-2022. The improvement in the current account will be supported mainly by improvement in the trade balance and the inflow in private transfers.

Balance of Payments

The overall balance of payments deficit will narrow to 0.3 percent of GDP in 2019. The BOP position will turn surplus (averaging 0.5 percent of GDP) during 2020-2022 as the trade deficit narrows due to faster growth in exports; higher FDI inflows as well as increased inflows from multilateral and bilateral donors to support the implementation of capital projects.

Gross Foreign Reserves

Gross foreign reserves are projected to average 3.5 months of import cover during 2020-2022 from 3.4 months of imports in 2019. Reserves accumulation will be supported by increased foreign exchange inflows from export proceeds official and private inflows.

Money Supply

Broad Money is projected to grow by 18.4 percent at end 2019 and 18.6 percent in 2020 reflecting the higher domestic bank financing of the budget deficit during the period. Thereafter, money supply growth will decline gradually to 13.6 percent by end 2022 as bank financing of the budget deficit falls to 1.4 percent of GDP.

Exchange rate

The exchange rate will continue to be determined by the forces of the market (demand and supply). Accordingly, the exchange rate is projected to stabilize over the medium term as exports, FDI and donor inflows increase.

Box 2.3.1: Assumptions underpinning the Medium-Term Macroeconomic Forecasts

Economic growth: The medium-term growth prospects will be underpinned by i) resumption of high-grade iron ore mining at Marampa; ii) increase in other mining activities; iii) increased investments in agriculture, fisheries and tourism iv) increased investments in infrastructure projects; v) improvements in the business regulatory environment.

Inflation: Inflation will moderate to single digit reflecting the i) stabilization of the exchange rate; improved domestic food supply; iii) fiscal consolidation efforts by the Government; and iv) tight monetary policy stance that will be adopted by the Bank of Sierra Leone.

Balance of Payments: The **trade deficit** will narrow due to i) increased mineral and agricultural exports; Imports growth is projected to mirror growth in economic activities. Combined with increased private transfers will reduce the **current account deficit**; the improvement in business climate will attract Foreign Direct Investments leading to an increase in the surplus in the **capital and financial accounts** and hence improve the overall **balance of payments.**

Exchange rate: The exchange rate is expected to remain market determined and move in line with the differential between domestic and the foreign inflation.

Gross foreign exchange reserves: Increased exports, FDI and donor inflows improve the gross foreign reserves position over the medium term.

Money Supply: Money supply growth will decline as domestic bank financing decreases with fiscal consolidation.

Methodology used for forecasting Macro-fiscal Aggregates

Government established a Macro-Fiscal Strategy Group responsible for macroeconomic modeling and forecasting section (Part III, section 7 of the Public Financial Management

Regulations, 2017). The group comprises technical staff of the Ministry of Finance, Bank of Sierra Leone, National Revenue Authority (NRA), Statistics Sierra Leone (Stat-SL), and the National Minerals Agency (NMA). Occasionally, other sector representatives are invited to the join the working group.

First, a nation-wide Economic Prospects Survey was carried out to collect the relevant data from both the public (MDAs) and enterprises operating in various sectors including agriculture, mining, manufacturing, construction, and services. In the past three years, the MOF has focused on collection of data from the non-mining sectors while the NMA spearheaded data collection from the mining sector. The objective of the survey is to validate the output data for the most recent year and assess prospects in each sector for the medium-term. The data/information collected from this exercise forms the basis of the assumptions underpinning the macroeconomic and fiscal forecasts

Second, the Macro-Fiscal Working Group hold a Macro-Fiscal Working Session to discuss the data and assumptions. These data and assumptions are fed into the Sierra Leone Integrated Macroeconomic Model (SLIMM) and the Mineral Revenue Forecasting Model built with assistance from the Overseas Development Institute (ODI) and the International Monetary Fund (IMF), respectively to produce forecasts of macroeconomic and fiscal aggregates. The forecasts are subsequently discussed with the International Monetary Fund during periodic review of performance under the Extended Credit Facility arrangement.

Table 2.2.3 Comparison of IMF and GoSL Agreed Forecasts and Macro-Fiscal Working Group Forecasts (SLIMM forecasts)

	IMF Staff & GOSL Projections				SLIMM PROJECTIONS			
Income & Expenditure	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**
Real GDP	5.1	4.7	4.8	4.7	6.1	5.0	4.4	6.0
Excluding Iron ore	4.5	4.4	4.6	4.5	4.6	4.2	3.7	4.6
Consumer prices (end of period)	14	12	10.2	9	14.0	11.0	8.5	8.0
Consumer prices (annual average)	15.7	13	11.1	9.6	15.6	11.7	8.8	8.1
Money & Credit								
Broad Money	18.4	14.5	12.8	11.7	16.5	13.2	11.7	10.3
Reserve Money	25.2	14.5	12.8	11.7	21.4	13.0	11.3	10.2
External Sector								
Official Exports (U.S. dollars)	38.7	21.6	10.2	7.8	25.5	21.5	8.4	17.9
Official Imports (U.S. dollars)	5.4	5.9	5.8	2.3	6.6	3.8	3.5	4.9
	% of GDP unless otherwise indicated				% of GDP unless otherwise indicated			
Current Account Balance								
Including Official Transfers	-11.6	-10.1	-9.2	-8.8	(10.7)	(8.0)	(8.4)	(7.4)
Excluding Official Transfers	-15.2	-12.9	-11.7	-11.5	(13.4)	(9.5)	(9.8)	(8.7)
Overall Balance of Payments	-0.3	0.7	0.3	1.2	0.2	0.7	0.6	1.5
Fiscal Sector								
Government Income	17.9	17.3	17.7	18.5	17.2	17.8	18.6	19.6
Domestic Revenue	14.1	14.8	15.6	16.4	14.2	15.0	16.0	17.2
Grants	3.8	2.5	2.1	2.1	3.0	2.8	2.6	2.4
Total expenditure	21.5	21.5	21.6	21.6	21.2	21.2	21.0	21.6
Overall fiscal balance								
(including grants)	-3.6	-4.2	-3.9	-3.2	(3.8)	(3.3)	(3.2)	(2.6)
(excluding grants)	-7.4	-6.7	-6	-5.3	(6.9)	(6.0)	(5.6)	(4.7)
Outstanding debt (domestic and extern	62.6	63.9	65	64.5	54.3	53.3	51.5	48.8
Memorandum Items								
Gross International Reserves ($ m)	500	598	623	610	500.0	560.0	591.1	637.3
(in months of imports)	3.4	3.5	3.5	3.5	3.4	4.1	4.0	3.8
Nominal GDP ($ m)	3,945	4,118	4,298	4,533	3,159	3,686	4,099	4,477
Nominal GDP (Le bn)	38,539	42,849	46,594	50,249	38,106	42,273	45,705	49,537
Nominal GDP Excl Iron ore (Le bn)	37,574	43,944	50,642	57,658	37,306	43,673	49,705	56,537

Source: IMF staff and GOSL Projections and SLIM Model

How the Forecasts of Macroeconomic Aggregates included in the previous FSS compare with actual outcomes and explanation of the reasons for significant differences between them, if any

Real GDP growth was projected at 3.7 percent for 2018 in the 2019 FSS. Preliminary estimate of GDP growth rate for 2018 is 3.5 percent. The lower GDP growth is due to the lower than projected output of rutile and the contraction in the construction sector.

Inflation forecast in the 2019 FSS for 2018 was 10.8 percent. End of period inflation was

17.5 percent in December 2018. The depreciation of the exchange rate, liberalization of fuel prices and lower than anticipated food production contributed to the higher inflationary pressures

Export was projected to decline by 11 percent in 2018 because of the closure of iron ore mining and the lull in diamond mining during the transition to underground mining. However, exports grew by 7.7 percent in 2018, reflecting the sharp increase in diamond exports and non-traditional exports such as oil palm, fish and timber.

The original domestic revenue target for 2018 was 14.3 percent of GDP based on the GDP projections in September 2018. Actual revenue collected amounted to 13.7 percent of GDP. The slight difference was due to the delay in the liberalization of fuel prices.

Total expenditure and net lending were projected at 23.8 percent of GDP for 2019. Actual outturn was 21.5 percent of GDP due to the scale back in domestic capital spending and several recurrent expenditure control measures introduced during the year.

Table 2.3.4 Comparison of Actual Outturn 2018, Revised Projections for 2019 and Projections from 2019 FSS

	Actual	SLIMM Proj	IMF/GoSL	Actual So far	2019 FSS Proj	
	2018	2019	2019	2019	2018	2019
Income & Expenditure						
Real GDP	3.5	6.1	5.1		3.7	5.5
Excluding Iron ore	5.4	4.6	4.5		5.7	4.5
Consumer prices (end of period)	17.5	14.0	14.0	17.46 (Marc	10.8	5.2
Consumer prices (annual average)	16.4	15.6	15.7	17.46 (Marc	15.8	13.2
Money & Credit						
Broad Money	14.5	16.5	18.4	15.6 (May)	15.8	14.8
Reserve Money	6.5	21.4	25.2	11.6 (May)	23.8	8.7
External Sector						
Official Exports (U.S. dollars)	7.7	25.5	38.7		(11.0)	22.9
Official Imports (U.S. dollars)	0.6	6.6	5.4		11.6	4.2
		% of GDP				
Current Account Balance						
Including Official Transfers	(13.8)	(10.7)	(11.6)		(15.1)	(12.1)
Excluding Official Transfers	(20.1)	(13.4)	(15.2)		(16.8)	(13.6)
Overall Balance of Payments						
Financing gap						
Fiscal Sector						
Government Income	15.8	17.0	18.8		17.9	19.6
Domestic Revenue	13.7	14.2	15.0		14.3	15.7
Grants	*2.1*	3.0	3.8		2.9	2.8
Total expenditure	21.5	21.2	21.5		23.8	21.3
Overall fiscal balance						
(including grants)	(5.8)	(3.2)	(3.6)		-7.3	-4.4
(excluding grants)	(7.9)	(6.2)	(7.4)		-10.2	-7.2
Financing gap						
Outstanding debt (domestic and external)	60.8	54.3	62.6		62.3	62.9
Memorandum Items						
Gross International Reserves ($ m)	483.0	500.0	500.0		482	501.5
(in months of imports)	3.6	3.4	3.4		3	3
Nominal GDP ($ m)	3,897.0	3,159	4,190		4047	4394
Nominal GDP (Le bn)	32,402.0	38,106	38,015			
Nominal GDP Excl Iron ore (Le bn)	32,402.0	37,306	37,574		31,066	35,108

Source: SLIMM & GOSL and IMF Staff estimates and Projections

3. FISCAL POLICY

3.1 Recent Fiscal Developments 2017-2019 and the First Half of 2019

Domestic revenues increased dramatically to Le4.43 trillion (13.7 percent of GDP) in 2018 from Le3.34 trillion (12.3 percent of GDP) in 2017 as the performance of both tax and non-tax revenues improved. Tax revenues increased from 10.6 percent of GDP in 2017 to 11.1 percent of GDP 2018 on account of the improved performance in corporate income tax, Goods and Services Tax and import duties. The improved performance in tax revenues could be attributed to the implementation of policy reforms including the rationalization of tax and duty waivers, liberalization of the petroleum prices, adoption of the ECOWAS Common External tariff, audit of GST credits, special audits informed by data matching, field audit of large businesses, and stricter enforcement of tax legislations. Non-tax revenues (including mining royalties and licenses) increased from 1.6 percent of GDP to 2.6 percent of GDP mainly due to the operationalization of the Treasury Single Account (TSA) and the upward revision of fees and charges collected by MDAs as per revised Finance Act 2018.

Total expenditures and net lending amounted to Le6.97 trillion 21.5 percent of GDP in 2018 compared to the budget amount of Le 7.50 trillion (23.6 percent of GDP) and the amount spent in 2017 Le6.41 trillion (23.5 percent of GDP). Both recurrent and capital expenditures were lower than-budgeted. As a percentage of GDP, wages and salaries, goods and services and subsidies and transfers were lower in 2018 compared to 2017. These categories of recurrent expenditures were also lower-than budgeted. Wages and salaries decreased to 6.3 percent of GDP in 2018 from 6.9 percent in 2017 and were within the budgeted amount for 2018 as efforts to clean the payroll were intensified during the year including the computerization of the payroll of subvented agencies, removing from the payroll employees above the retirement age, matching of PIN codes, BBAN and NASSIT numbers and the biometric verification of public sector workers. Expenditure saving measures for goods and services including the use of price norms and cutting down on travels and the size of delegations were also implemented.

Capital expenditure were lower than the 2017 levels and the amount budgeted for 2018 due to significant under-spending on domestic funded projects pending the financial audit of arrears and the technical audit of key sectors including roads.

Reflecting the above measures, the overall budget deficit, including grants narrowed down to 5.8 percent of GDP in 2018 from 8.8 percent of GDP in 2017. Excluding grants, the deficit decreased from 11.3 percent of GDP to 7.9 percent of GDP. Net domestic financing declined to 2.6 percent of GDP in 2018 from 4.4 percent of GDP in 2017. Similarly, external financing decreased to 2.2 percent of GDP from 2.18 percent, respectively over the same period.

Total Grants received declined slightly to Le673 billion (2.1 percent of GDP) in 2018 from Le683 billion (2.5 percent of GDP) in 2017 mainly due to the fall in project grants to 1.4 percent of GDP in 2018 from 2.0 percent of GDP in 2017. Budget support grants increased slightly to Le218 billion (0.7 percent of GDP) from Le137 billion (0.5 percent of GDP).

Table 3.1 Government Revenue and Grants, 2017-2019

In Billions of Leones	Actual 2017	% of Non-Iron Ore GDP	Actual 2018	% of Non-Iron Ore GDP	Jan-Jun 2019 Actual	% of Non-Iron Ore GDP
Total Revenue and Grants	4,023	15.1	5,108	15.8	3,344	
Domestic Revenue	3,339	12.3	4,428	13.7	2,763	
Income Taxes	1,188	4.5	1,595	4.9	977	
GST	713	2.7	886	2.7	503	
Customs and Excise	909	3.4	1,008	3.1	636	
Mines department	149	0.6	222	0.7	116	
Other Departments	237	0.9	660	2.0	479	
Road User Charge	140	0.5	54	0.2	49	
Grants	683	2.6	680	2.1	580	
Programme (including budget support)	163	0.6	294	0.9	547	

Projects	519	2.0	386	1.2	3	3

Source: Government of Sierra Leone

Table 3.2 Government Expenditure and Net Lending, 2017-2018

In Billions of Leones	Actual 2017	% of Non-Iron Ore GDP	Budget 2018	% of Non-Iron Ore GDP	Actual 2018	% of Non-Iron Ore GDP
Total Expenditure & Net Lending	6,405	24.1	7,383	22.8	6,884	21.2
Recurrent Expenditure	4,120	15.5	5,173	16	4,801	14.8
Wages and Salaries	1,890	7.1	2,067	6.4	2,056	6.3
Goods and Services	1,079	4.1	1,300	4.0	1,155	3.6
Subsidies and Transfers	549	2.1	854	2.6	629	1.9
Interest Payments	602	2.3	951	2.9	960	3.0
Capital Expenditure & Net Lending	2,284	8.6	2,209	6.8	2,083	6.4
Foreign Financed	766	2.9	670	2.1	714	2.2
Domestic Financed	1,286	4.8	1,320	4.1	989	3.1

Net Lending	(23)	0.1

Source: Government of Sierra Leone

During the first half of 2019, total domestic revenue collections amounted to Le2.78 trillion, exceeding the programme target by Le213 billion. The improved performance is due to the better-than-expected collections of Income taxes, Goods and Services Tax, import duties, mineral royalties and licenses, and other non-tax collected by MDAs, TSA agencies and timber royalty. Excise duty on petroleum products, royalty on fisheries and Road User Charges were less than projected.

Total grants received during the first half of 2019 amounted to Le752 billion comprising budget support grants of Le540.3 billion (the equivalent of US$39.67 million and US$20.7 million disbursed by the World Bank and the African Development Bank, respectively. Project grants amounted to Le205 billion.

Total Expenditures and Net Lending in the first-half of 2019 amounted to Le3.58 trillion compared to the budgeted of Le3.77 trillion indicating an under-spending of Le197 billion mainly due to lower-than-budgeted capital spending as recurrent expenditure exceeded the budgeted amount. Recurrent expenditures amounted to Le2.78 trillion, exceeding the budgeted amount by Le67.7 billion. Wages and salaries recorded an overrun of Le23.8 billion due to the payment of gratuities to the political class, which was not budgeted. Goods and services recorded an under-spending of Le57.8 billion due to lower spending on the social and economic sectors, which more-than outweigh the overspending on General and economic sectors (though spending on the Free quality education for secondary schools exceeded the budgeted amount).

Subsidies and transfers exceeded the budgeted amount by Le73.4 billion due to overrun on transfers to local councils of Le21.2 billion and energy subsidies of Le48.9 billion. Total interest payments amounted to Le550.1 billion, within the budgeted amount.

Capital expenditure and net lending amounted to Le794.3 billion, which was Le264.7 billion below the budgeted amount due to less than expected disbursement of loans and grants as well less than budgeted spending on domestic funded capital projects.

The overall budget deficit is estimated at Le42.7 billion compared to the ceiling of LeL388.2 billion. Excluding grants, the deficit Le794.7 billion compared to the ceiling of Le1.20 trillion for the first half of 2019.

3.2 Medium-Term Fiscal Forecasts, 2019-

Domestic Revenue Projections - 2020-2022

Domestic revenue is projected to increase from Le 5.3 trillion (14.1 percent of GDP) in 2019 to Le6.5 trillion (14.8 percent of GDP) in 2020 and to Le 9.4 trillion (16.4 percent of GDP) in 2022.

Personal Income Tax: Personal income tax is projected to increase from Le 1.4 trillion (3.7 percent of GDP) during 2019 to Le 2.5 trillion (4.3 percent of GDP) in 2022.

Corporate Tax: Corporate tax is projected to increase from Le 463.0 billion (1.2 percent of GDP) in 2019 to Le 939 billion (1.6 percent of GDP) in 2022.

Goods and Services Tax (GST): GST is expected to increase from Le 992 billion (2.6 percent of GDP) in 2019 to Le 1.24 trillion (2.6 percent of GDP) in 2020 and to Le 1.94 trillion (3.4 percent of GDP) by 2022. Both Domestic GST and Import GST are projected to rise significantly during the period.

Import Duties are expected to increase from Le 750.0 billion (2.0 percent of GDP) in 2019 to Le879 billion in 2020 to Le 1.34 trillion in 2022;

Minerals royalties and licenses are projected to increase from Le 240 billion (0.6 percent of GDP) in 2019 to Le 331 billion in 2020 to Le 407 billion (0.7 percent of GDP) in 2022.

Fisheries royalty and licenses will generate Le140 billion in 2019, Le185 billion in 2020 and to increase to Le 320 billion in 2022.

Non-Tax including TSA agencies and timber royalties will increase from Le 790 billion (2.1 percent of GDP) in 2019 to Le910 billion in 2020 and further to Le 1.21 billion in 2022.

Grants

Grants from Development Partners are projected to decline over the medium term from Le 1.4 trillion (3.8 percent of GDP) during 2019 to Le1.09 trillion (2.5 percent of GDP) in 2020 and further down to Le 1.19 trillion (2.1 percent of GDP) in 2022. Budget support will average 1.1 percent of GDP during 2020-2022 while project grants will decline to 0.9 percent of GDP in 2022 from1.3 percent of GDP in 2020.

Table 3.2.1: Domestic Revenue Projections (Le billion)

Domestic Revenue (Le billion)	2018	2019	2020	2021	2022
Revenue and Grants	5,101.0	6,717.0	7,582.0	8,921.0	10,625.0
Domestic Revenue	**4,428.0**	**5,302.0**	**6,488.0**	**7,880.0**	**9,433.0**
Tax Revenue	**3,809.0**	**4,512.0**	**5,578.0**	**6,844.0**	**8,224.0**
Personal Income Tax:	1,158.0	1,405.0	1,729.0	2,119.0	2,470.0
Corporate Income Tax	438.0	463.0	596.0	737.0	939.0
Goods and Services Tax (GST)	**886**	**992**	**1,246**	**1,556**	**1,936**
Excises	358	522	612.0	709.0	810.0
Import Duties	**650.0**	**750.0**	**879.00**	**1,130.00**	**1,342.00**
Mining Royalties and Licenses	223.0	240.0	331.0	367.0	407.0
Other taxes	95	140	185	229	320
Non-Tax	620	**790**	**910**	**1,035**	**1,209**
Grants	673	1,414	1,094	1,041	1,192
Budget Support	**218**	**758**	**545**	**484**	**673**
Project Grants	454	655	549	557	519
Non- Iron Ore GDP	**32,402.0**	**37,574.0**	**43,944.0**	**50,642.0**	**57,658.0**

Source: GOSL and IMF Staff estimates and Projections

Table 3.2.2: Domestic Revenue and Grants Projections (% of GDP)

Domestic Revenue (% of GDP)	2018	2019	2020	2021	2022
Revenue and Grants	**15.7**	**17.9**	**17.3**	**17.6**	**18.4**
Domestic Revenue	**13.7**	**14.1**	**14.8**	**15.6**	**16.4**
Tax Revenue	**11.8**	**12.0**	**12.7**	**13.5**	**14.3**
Personal Income Tax:	**3.6**	**3.7**	**3.9**	**4.2**	**4.3**
Corporate Income Tax	**1.4**	**1.2**	**1.4**	**1.5**	**1.6**
Goods and Services Tax (GST)	**2.7**	**2.6**	**2.8**	**3.1**	**3.4**
Excises	**1.1**	**1.4**	**1.4**	**1.4**	**1.4**
Import Duties	**2.0**	**2.0**	**2.0**	**2.2**	**2.3**
Mining Royalties and Licenses	**0.7**	**0.6**	**0.8**	**0.7**	**0.7**
Other taxes	**0.3**	**0.4**	**0.4**	**0.5**	**0.6**
Non-Tax	**1.9**	**2.1**	**2.1**	**2.0**	**2.1**
Grants	**2.1**	**3.8**	**2.5**	**2.1**	**2.1**
Budget Support	**0.7**	**2.0**	**1.2**	**1.0**	**1.2**
Project Grants	**1.4**	**1.7**	**1.2**	**1.1**	**0.9**

Source: GOSL and IMF Staff Estimates and Projections

Expenditure Forecasts including Public Debt

Total Government expenditure and net Lending is projected to increase from Le 8.1 trillion (21.5 percent of GDP) in 2019 to Le9.43 trillion (21.5 percent of GDP) in 2020 and further to Le 12.5 trillion (21.6 percent of GDP) in 2022. On average, total expenditure will be kept at 21.5 percent of GDP over the medium-term.

Of the total Government expenditures, recurrent expenditures are projected to increase from Le 5.7 trillion (15.3 of GDP) in 2019 to Le6.4 trillion (14.6 percent) in 2020 and further to Le 8.2 trillion (14.2 percent of GDP) in 2022.

Wages and Salaries (in nominal terms) will increase from Le 2.5 trillion in 2019 to Le 2.75 trillion in 2020 and further to Le 3.5 trillion in 2022. However, as percent of GDP, Wages and Salaries will decline from 6.3 percent in 2020 to 6.0 percent by 2020 in line with the Medium-term Payroll Reform Strategy to ensure sustainability of the wage bill.

Good and Services expenditures will increase in nominal terms from Le 1.37 trillion in 2019 to Le 1.5 trillion in 2020 and further to Le 1.75 trillion in 2022 in line with the movements in consumer prices. In percent of GDP, Goods and Services spending will decline from 3.6 percent to 3.4 percent of GDP in 2024 and further down to 3.0 percent in 2022.

Interest payment will increase from Le 1.14 trillion in 2019 to Le1.15 trillion in 2020 and further to Le 1.43 trillion in 2022. Interest payments will average 2.5 percent of GDP during 2020-2022.. Of the total interest payment, domestic interest payments will average 2.3 percent while foreign interest payment will average 0.2 percent of GDP during the period.

Capital expenditures will increase from Le 2.2 trillion (6.1 percent of GDP) in 2019 to Le2.9 trillion (6.6 percent of GDP) and further to Le 4.16 trillion (7.2 percent of GDP) in 2022. Of this, Domestically Financed Capital spending will increase from 2.4 percent of GDP in 2019 to 2.9 percent of GDP in 2019 and further to 3.6 percent of GDP in 2022 reflecting Government's priority to invest in infrastructure including roads, energy and water supply.

The fiscal deficit, including grants, is projected to decline from 3.6 percent of GDP in 2019 to 4.2 percent of GDP in 2020 and further down to 3.2 percent of GDP by 2022. Excluding grants, the fiscal deficit will fall from 7.4 percent of GDP to 6.7 percent of GDP in 2020 to 5.3 percent in 2022.

Foreign financing of the deficit is projected to average 1.4 percent of GDP while domestic financing will average 2.2 percent of GDP over the medium term.

Public debt is projected to average 64.5 percent of GDP over the medium term rising only from 62.5 percent of GDP in 2019 to 63.9 percent of GDP in 2020 and further to 64.5 percent of GDP in 2022.

Table 3.2.3: Expenditure Projections (Le billion)

(Le billion)	2018	2019	2020	2021	2022
Total Expenditure & Net Lending	6,974	8,079	9,435	10,921	12,463
Recurrent Expenditure	4,802	5,746	6,431	7,275	8,215
Wages & Salaries	2,057	2,510	2,746	3,039	3,459
Goods and Services	1,155	1,371	1,503	1,640	1,747
Subsidies and Transfers	629	727	1,032	1,339	1,580
Total Interest Payments	961	1,138	1,149	1,251	1,429
Domestic Interest	866	1,027	1,050	1,143	1,309
Foreign Interest	95	111	99	114	120
Development Expenditure	2,083	2,293	2,914	3,556	4,158
Foreign Financed	1,409	1,391	1,648	1,924	2,105
Domestic Financed	674	901	1,267	1,632	2,054
Net Lending	-	-	-	-	-
Contingent Expenditure	89	40	90	90	90
Overall Balance					
Balance on Commitment Basis Including Grants	(1,873)	(1,362)	(1,853)	(2,000)	(1,838)
Balance on Commitment Basis Excluding Grants	(2,546)	(2,776)	(2,947)	(3,041)	(3,030)
Total Financing	1,873	1,362	1,853	2,000	1,838
Foreign (net)	714	277	567	880	1,015
Domestic (net)	1,159	1,085	1,285	1,120	823
Bank	792	958	1,400	1,339	1,205
Non- Iron Ore GDP	**32,402**	**37,574**	**43,944**	**50,642**	**57,657**

Source: GOSL and IMF Staff estimates and Projections

Table 3.2.4: Expenditure Projections (% of GDP)

(% of GDP)	2018	2019	2020	2021	2022
Total Expenditure & Net Lending	21.5	21.5	21.5	21.6	21.6
Recurrent Expenditure	14.8	15.3	14.6	14.4	14.2
Wages & Salaries	6.3	6.7	6.2	6.0	6.0
Goods and Services	3.6	3.6	3.4	3.2	3.0
Subsidies and Transfers	1.9	1.9	2.3	2.6	2.7
Total Interest Payments	3.0	3.0	2.6	2.5	2.5
Domestic Interest	2.7	2.7	2.4	2.3	2.3
Foreign Interest	0.3	0.3	0.2	0.2	0.2
Development Expenditure	6.4	6.1	6.6	7.0	7.2
Foreign Financed	4.3	3.7	3.8	3.8	3.7
Domestic Financed	2.1	2.4	2.9	3.2	3.6
Net Lending	-	-	-	-	-
Contingent Expenditure	0.3	0.1	0.2	0.2	0.2
Overall Balance					
Balance on Commitment Basis Including Grants	(5.8)	(3.6)	(4.2)	(3.9)	(3.2)
Balance on Commitment Basis Excluding Grants	(7.9)	(7.4)	(6.7)	(6.0)	(5.3)
Total Financing	5.8	3.6	4.2	3.9	3.2
Foreign (net)	2.2	0.7	1.3	1.7	1.8
Domestic (net)	3.6	2.9	2.9	2.2	1.4
Bank	2.4	2.5	3.2	2.6	2.1

Source: GOSL and IMF Staff estimates and Projections

Box 3.2.1: Assumptions Underlying Revenue and Expenditure Projections

Corporate Tax: Projection of Corporate tax is based on the expansion in economic activities; in particular the non-iron ore and non-agricultural GDP. The iron ore and agricultural sector sectors are excluded from the tax base because they are mostly exempt from payment of corporate tax.

Personal Income Tax: PAYE taxes for the private sector are assumed to grow in line with GDP, excluding the agriculture sector. For Government employees, PAYE is based on the projected Government Wage bill (excluding pensions, gratuities and social security payments) for the subsequent year and the related effective tax rate of the current year. Tax on Rental Income is assumed to increase in line with nominal GDP growth.

Domestic GST: projected to grow in line with the projected increase in domestic consumption. Efficiency gains will arise from increase in audit capacity and the introduction of electronic cash registers.

Import GST: projected to increase in line with the increase in dutiable import of goods and services. Efficiency gains will arise from the Government policy of reducing duty and GST waivers on imports.

Import duties: Import duty is forecast to increase in accordance with projected growth in dutiable imports. Efficiency will arise from reduction of duty waivers on imports. .

Petroleum Excise duty: this is based on the projected increase in imported volumes of petroleum products and current excise duty rate as specified in the petroleum pricing formula.

Minerals royalties are based on the export values of minerals and the prescribed royalty rate

Mineral Licenses are projected to grow in line with the growth of mining sector in real terms.

Revenue from TSA Agencies is assumed to grow in line with economic activities (real GDP growth).

Royalty on Timber exports: based on projected volume of exports and the royalty rate.

Revenue from Other MDAs (fees, levies, charges) will increase in line with real GDP growth.

Road User Charges and Vehicles Licenses: Projections of Road User Charges (RUC) are based on volume of petroleum sales and Road User Fee specified in the Petroleum pricing formula.

Wages and Salaries will be maintained at 6.0 percent of GDP in the medium-term in line with Government's policy to ensure the sustainability of the Wage bill.

Goods and Services expenditure is projected to increase in line with changes in consumer prices. Government will also introduce several expenditure control measures.

Subsidies and Transfers are based on increase in economic activities.

Domestic Interest payments will be determined by the TB rates, which are expected to decline as domestic financing of lower budget deficits decreases with fiscal consolidation.

Domestic capital expenditure will increase in line with the expansion of the economy.

Public debt will stabilize as fiscal consolidation is sustained

3.3 Fiscal Policy Measures for the Medium-Term, 2020-2022.

In the medium-term, Government will implement the following tax policy and administrative reforms to achieve the targeted revenue-GDP ratio of 16.4 percent by 2020 paving the way for reaching the ambitious target of 20 percent of GDP by 2023. These measures include:

(i) Developing a policy on duty and tax waivers to rationalize the granting of duty and tax waivers;

(ii) Continue the implementation of the liberalized formula for domestic petroleum pricing;

(iii) Automate tax processes and procedures through the introduction of electronic cash registers for GST administration; Integrated Tax Administration System and Revenue Reconciliation Gateway,

(iv) Introduction of Electronic Single Window to streamline clearance of goods at the Quay

(v) Carry out the re-registration of businesses; intensify the on-going data matching project by signing MOUs with key MDAs for data sharing;

(vi) Continue to broaden the coverage of and implement phase II of the TSA;

(vii) Implement the new Extractive Industry Revenue Act (2008) to all new Mining and Petroleum projects and existing Mining Lease Agreements that come for renewal or review;

(viii) Intensify monitoring and enforcement through stricter enforcement of tax legislation and enhance intelligence and investigations;

(ix) Undertake specialized Tax audits and more field audits making use of IDEAs licenses to uncover unreported taxable transactions;

(x) Strengthen voluntary compliance by implementing an aggressive taxpayer sensitization and education programme including the development and implementation of a taxpayer communication strategy, holding taxpayer workshops, publishing relevant taxpayer education materials, and implementing a National Taxpayer Day;

(xi) Undertake a rented property census in the major cities of the country and collaborate with the Freetown City Council (FCC) in their current rented property identification and valuation in the Freetown municipality to establish a reliable and complete Rental income database and more revenues therefrom;

(xii) Implement the Domestic Tax Preparer Scheme to aid reporting and formalization of SMEs leading to increased revenue collection therefrom; and

(xiii) Operationalise the Excise stamp duty regime to reduce smuggling from imported alcoholic and tobacco products and hence improve collection through the manned customs routes.

Expenditure Management/control measures

In the medium-term, expenditure management will focus on improving the quality and efficiency of public expenditure to create the fiscal space for the implementation of Government's priority programmes such as the Free Quality Education, improving health services including the Free Health care Initiative and scaling up infrastructure investment. To this end, Government will embark on reforms to improve the integrity of the Payroll, improve the quality and efficiency of non-salary, non-interest recurrent and capital expenditures. Total Government spending will be maintained at 21.5 percent of GDP in the medium-term.

Managing the Government Wages Bill

The strategies articulated in the Payroll Reform Strategy (2017-2019) and the PFM Reform Strategy (2018-2021) continue to guide the payroll reform efforts of Government. Reform efforts have mainly been geared towards improving the integrity of the payroll while trying to achieve a sustainable wage bill. Some of the reforms implemented so far include the cleaning up of NASSIT and BBAN numbers; automation of the payroll of sub-vented agencies and public universities and teacher training colleges; removal from the payroll of workers above the retirement age, nationwide biometric verification of all public sector employees; and introducing Quality Assurance of the Payroll at the Accountant-General's Department by conducting regular pre-pay run checks. These reforms have to some extent improved the integrity of the payroll as well as its sustainability. The Government wage has declined from 6.7 percent of GDP in 2017 to 6.3 percent of GDP in 2018. The objective is to maintain it at the sustainable level of 6.0 percent of GDP in the medium to long term.

To achieve this, Government will continue to implement measures to consolidate the gains made so far while continuing to improve the transparency, probity and sustainability of the Government payroll as described below:

Continue with Payroll Automation: Payroll automation has also increased the control and oversight of the payroll numbers and improved on the transparency of the payroll. Following the automation of the payroll of sub-vented agencies, the Ministry of Finance continues to automate parts of the payroll that are currently being processed manually. Currently, the Ministry is in the process of completing the automation of the payroll for all public universities and teacher training colleges. The next category of the payroll that will be automated is that of Foreign Missions.

Develop and Implement a Comprehensive Strategy for minimising Manual Voucher payments

About 28 percent of payroll payments are processed manually instead of going through the central CSM Payroll system. With support from donors, an assessment of the types of payments that are processed manually has been produced.

While the automation process continues, there is need for a strategic plan to determine when and how Government will discontinue manual voucher payments or at the very least minimize it. The Ministry of Finance has sought technical assistance for the development of this strategy. Minimising manual voucher payments will improve comprehensiveness of the payroll and also makes it easier to ascertain the wage bill position at any time. Thus, making it possible to take prompt action to address anomalies.

No new employee will be added to the Payroll without a Valid National Identification (NI) Number

This policy was first introduced during the process of automating the payroll of the public universities and teacher training colleges. This policy helped identify several anomalies on the payroll of these institutions including dual employment. Given the effectiveness of this measure, the Ministry intends to make this standard practice for not adding any new employee on the Government payroll without a valid NASSIT, BBAN and NI numbers.

In the long-term, the objective is to use the National Civil Registration Number (including biometric data) as the unique identifier for all public sector employees.

The Ministry is also working towards ending the practice of making NASSIT contributions for employees in the Army and Police manually.

In the interim, MoF is also exploring the possibility of matching biometric data recently collected with NASSIT biometric records.

Date of Birth Clean-up exercise

The Accountant-General's Department (AGD) has started engaging all employing authorities on how to take forward a DOB clean-up exercise. This is on the back off the findings of the NCRA biometric verification exercise, where mismatch between DOBs on the payroll and DOBs embedded in the NASSIT Numbers of employees. Thus far, 16,000 out of about 33,000 employee records that were found to have DOB mismatches have been cleaned-up.

Payment of all public sector pensioners (prior to the establishment of NASSIT) direct into their bank accounts

The leadership of the Ministry has given directives to the Accountant General that pension payments to pensioners before the establishment of NASSIT scheme to be made directly into their bank accounts. Currently, NASSIT make these payments to pensioners on behalf of Government and charges a fee. In the interest of improving the transparency of pension payments and to control the wage bill, direct payments will now be made to pensioners' bank accounts.

Proper deactivation of payroll records when assignments are ended

Investigations into the contributing factors of dual employment also reveal that the system of ending assignments needs to be strengthened for employees who leave the public service (retirements, suspensions, etc) or as they move from one category of the payroll to another. In this regard, systems and manual controls are being put in place such as developing clear workflows to be followed to update both the employee's assignment file (containing all the information relating to the employee's job e.g. position, pay scale, etc) and the employee personal file (containing personal information of the employee e.g. DOB, address, etc) when ending an assignment.

Establishing the Wages and Compensation Commission

Plans are at an advanced stage for the establishment of a Wages and Compensation Commission. The Bill establishing the Commission has been drafted and the Public Sector Reform Unit has completed nation-wide consultations. The Wages and Compensation Commission will take forward some of the reform efforts identified in the payroll strategy. These include aligning the multiple pensions laws and harmonizing pay and remuneration across the public sector.

Institutionlising Payroll Quality Assurance

In recent months, the Accountant General's Department has strengthened its payroll quality assurance function. This includes conducting regular pre-pay run checks on the payroll before it is finalized each month. As a way of institutionilising the use of the reports from the pre-pay run checks, the Financial Secretary has requested that the reports and the main findings are presented to senior management to inform cash management discussions on the wage bill.

Aligning Manpower and Budget Planning Processes

During the preparation of the 2019 Budget, progress was made in capturing the manpower planning figures as best as possible. Efforts will continue to build on this during the preparation of the 2020.

Developing a follow-up Payroll Strategy

It is no doubt that the current Payroll Strategy has been the blueprint for payroll reforms undertaken recently. The Strategies proposed were for up on till 2019. However, in order to continue to take a strategic and holistic approach to payroll reforms, the Ministry plans to have a follow up strategy. The strategy will propose future reform measures that are needed to address emerging payroll challenges.

Managing Goods and Services Expenditure

To effectively manage expenditures on goods and services, Government will continue to improve public procurement by regularly publishing price norms; update the public procurement manual; strictly adhere to the requirements for competitive bidding. In the medium-term, Government will introduce electronic public procurement system and develop a national Strategy for Public Procurement.

At the same time, Government will continue to strengthen commitment control systems to minimize the accumulation of arrears; extend the coverage of the IFMIS to the remaining MDAs, establish active budget committees in all MDAs and strictly adhere to the provisions of the Pubic Financial Management Act, 2016.

Managing Domestic Capital expenditures

To improve the efficiency of capital expenditure, Government will ensure that domestically funded capital expenditures are negotiated in local currency to limit the exchange rate risk.

Noting the challenges faced by Government in its quest to reduce the infrastructural deficit and build the necessary efficiency in the public investment process, technical assistance has been requested from the Fiscal Affairs Department of the International Monetary Fund (IMF) to conduct a Public Investment Management Assessment (PIMA). This assessment will highlight the strengths and weaknesses of our public investment system and proffer recommendations for improving public investment decision-making process.

In addition, Government is working to conclude and adopt the National Public Investment Policy to enhance the effective planning and efficient execution of the public investment activities and guide capital expenditure rationalization.

Government has established the National Monitoring and Evaluation Department (NaMED) in the Ministry of Planning and Economic Development to monitor progress in the implementation of donor and Government funded projects. The disbursement of quarterly budgetary allocations to projects will henceforth be linked to the submission of progress monitoring reports by NAMED.

4.0 Medium-Term Expenditure Framework

Government's expenditure priorities remain Human Capital Development with a focus on Free Quality Education Programme in the education sector; Free Health Care Initiative in the health sector and social protection services. Other Government priorities include economic diversification through increased investment in agriculture, fisheries the tourism sectors with increased private sector participation as well as scaling up infrastructure to improve the competitiveness of the economy to promote sustainable economic growth and job creation. This is reflected in the allocations for recurrent and domestic capital expenditures.

Expenditure Ceilings for Non-Salary, Non interest Recurrent Expenditure, 2020-2022

NON SALARY, NON INTEREST RECURRENT BUDGETARY ALLOCATIONS FY2019 - 2023
In millions of Leones

	Details	FY2019 Revised Budget	% of Total Non Int/Sal Recurr Exp	FY2020 Budget Ceiling	% of Total Non Int/Sal Recurr Exp	FY2021 Indicative	% of Total Non Int/Sal Recurr Exp	FY2022 Indicative	% of Total Non Int/Sal Recurr Exp	FY2023 Indicative	% of Total Non Int/Sal Recurr Exp
		Le' m		Le' m		Le' m		Le' m		Le' m	
1	**GENERAL SERVICES**	**419,294.6**	**17.4%**	**491,927.8**	**21.1%**	**686,802.3**	**28.2%**	**738,416.4**	**31.9%**	**786,483.8**	**33.1%**
105	Ministry of Political and Public Affairs	**2,050.2**	0.1%	2,050.2	0.1%	2,255.2	0.1%	2,480.7	0.1%	2,604.7	0.1%
	of which: African Peer Review Mechanism (APRM)	**594.0**	0.0%	594.0	0.0%	653.4	0.0%	718.8	0.0%	754.7	0.0%
106	Office of the Chief Minister	**10,499.3**	0.3%	**10,499.3**	0.3%	**11,549.2**	0.3%	**12,704.1**	0.4%	**13,339.4**	0.4%
	Administrative and Operating Costs	**4,845.2**	0.2%	4,845.2	0.2%	5,329.7	0.2%	5,862.7	0.3%	6,155.8	0.3%
	Communications Unit	**434.9**	0.0%	434.9	0.0%	478.4	0.0%	526.2	0.0%	552.5	0.0%
	Presidential Infrastructure Initiative	**869.9**	0.0%	869.9	0.0%	956.9	0.0%	1,052.6	0.0%	1,105.2	0.0%
	Directorate of Science, Technology and Innovation	**4,349.3**	0.2%	4,349.3	0.2%	4,784.2	0.2%	5,262.7	0.2%	5,525.8	0.2%
107	Ministry of Local Government & Rural Development	**14,729.6**	0.7%	14,729.6	0.7%	16,202.5	0.7%	17,822.8	0.8%	18,713.9	0.8%
	Administrative and Operating Costs	**4,056.0**	0.2%	4,056.0	0.2%	4,461.6	0.2%	4,907.8	0.2%	5,153.2	0.2%
	o/w: Social Capital Approaches Development in Sierra Leone (SCARDSIL)	**359.7**	0.0%	359.7	0.0%	395.7	0.0%	435.2	0.0%	457.0	0.0%
	o/w: Decentralisation Secretariat	**1,742.2**	0.1%	1,742.2	0.1%	1,916.5	0.1%	2,108.1	0.1%	2,213.5	0.1%
	Southern Province	**3,179.2**	0.1%	3,179.2	0.1%	3,497.1	0.2%	3,846.8	0.2%	4,039.1	0.2%
	o/w: District Offices (Bo, Moyamba, Pujehun, Bonthe)	**2,613.1**	0.1%	2,613.1	0.1%	2,874.4	0.1%	3,161.8	0.1%	3,319.9	0.1%
	Eastern Province	**2,265.2**	0.1%	2,265.2	0.1%	2,491.7	0.1%	2,740.9	0.1%	2,877.9	0.1%
	o/w: District Offices (Kenema, Kono, Kailahun)	**1,699.1**	0.1%	1,699.1	0.1%	1,869.0	0.1%	2,055.9	0.1%	2,158.7	0.1%
	Northern Province	**3,077.3**	0.1%	3,077.3	0.1%	3,385.1	0.2%	3,723.6	0.2%	3,909.7	0.2%
	o/w: District Offices (Bombali, Tonkolili, Koinadugu,Falaba)	**2,511.2**	0.1%	2,511.2	0.1%	2,762.4	0.1%	3,038.6	0.1%	3,190.5	0.1%
	North West Province	**2,151.9**	0.1%	2,151.9	0.1%	2,367.1	0.1%	2,603.8	0.1%	2,734.0	0.1%
	o/w: District Offices (Port Loko, Kambia, Karene)	**1,585.8**	0.1%	1,585.8	0.1%	1,744.4	0.1%	1,918.8	0.1%	2,014.7	0.1%
108	Sierra Leone Small Arms Commission	**786.2**	0.0%	864.8	0.0%	951.3	0.0%	1,046.4	0.0%	1,098.7	0.0%
110	Office of the President	**30,780.5**	1.4%	30,780.5	1.4%	33,836.6	1.5%	37,220.2	1.7%	39,081.2	1.7%
	Office of the Secretary to the President	**17,640.2**	0.8%	17,640.2	0.8%	19,404.2	0.9%	21,344.6	0.9%	22,411.8	1.0%
	o/w: Commission of Enquiry	**257.5**	0.0%	257.5	0.0%	283.3	0.0%	311.6	0.0%	327.2	0.0%
	National Assets and Government Property Commission	**1,051.4**	0.0%	1,051.4	0.0%	1,156.6	0.1%	1,272.2	0.1%	1,335.8	0.1%
	Public Sector Reform Unit (PSRU)	**1,830.3**	0.1%	1,830.3	0.1%	2,013.3	0.1%	2,214.7	0.1%	2,325.4	0.1%
	Anti-Corruption Commission (ACC)	**5,331.0**	0.2%	5,331.0	0.2%	5,864.7	0.3%	6,451.1	0.3%	6,773.7	0.3%
	Office of the Ombudsman	**1,469.1**	0.1%	1,469.1	0.1%	1,616.0	0.1%	1,777.6	0.1%	1,866.4	0.1%
	Independent Media Commission (IMC)	**559.3**	0.0%	559.3	0.0%	615.2	0.0%	676.8	0.0%	710.6	0.0%
	Political Parties Registration Commission (PPRC)	**1,165.1**	0.1%	1,165.1	0.1%	1,281.6	0.1%	1,409.8	0.1%	1,480.3	0.1%
	Law Reform Commission	**473.8**	0.0%	473.8	0.0%	521.2	0.0%	573.3	0.0%	601.9	0.0%
	Corporate Affairs Commission	**419.8**	0.0%	419.8	0.0%	461.9	0.0%	508.1	0.0%	533.5	0.0%
	Sierra Leone Insurance Commission	**508.5**	0.0%	508.5	0.0%	559.3	0.0%	615.3	0.0%	646.0	0.0%
	Local Government Service Commission	**311.4**	0.0%	311.4	0.0%	342.5	0.0%	376.8	0.0%	395.6	0.0%
112	Office of the Vice President	**15,114.3**	0.7%	15,114.3	0.7%	16,625.8	0.7%	20,814.2	0.9%	21,855.0	1.0%
	Office of the Secretary to the Vice President	**13,650.9**	0.6%	13,650.9	0.6%	15,016.0	0.7%	18,798.9	0.8%	19,738.8	0.9%
	Millennium Challenge Compact Secretariat	**531.3**	0.0%	531.3	0.0%	584.4	0.0%	731.6	0.0%	768.2	0.0%
	Extractive Industry Transparency Initiative Secretariat	**634.6**	0.0%	634.6	0.0%	698.0	0.0%	873.9	0.0%	917.6	0.0%
	Public Private Partnership Unit	**297.6**	0.0%	297.6	0.0%	327.4	0.0%	409.9	0.0%	430.4	0.0%
116	Parliament	**14,014.4**	0.6%	14,715.1	0.7%	16,186.6	0.7%	17,805.3	0.8%	18,695.5	0.8%
	Parliamentary Service Commission	**2,218.0**	0.1%	2,328.9	0.1%	2,561.8	0.1%	2,818.0	0.1%	2,958.9	0.1%
117	Cabinet Secretariat	**2,224.8**	0.1%	2,224.8	0.1%	2,447.3	0.1%	2,692.0	0.1%	2,826.6	0.1%
	o/w: Cabinet Oversight and Monitoring Unit	**604.9**	0.0%	604.9	0.0%	665.4	0.0%	731.9	0.0%	768.5	0.0%
118	The Judiciary	**13,946.6**	0.6%	13,946.6	0.6%	15,341.2	0.7%	16,875.3	0.8%	17,719.1	0.8%
121	Audit Service Sierra Leone	**6,347.6**	0.3%	6,665.0	0.3%	7,331.4	0.3%	8,064.6	0.4%	8,467.8	0.4%
122	Human Resource Management Office	**2,684.3**	0.1%	2,684.3	0.1%	2,952.7	0.1%	3,248.0	0.1%	3,410.4	0.2%
123	Public Service Commission	**2,218.2**	0.1%	2,218.2	0.1%	2,440.0	0.1%	2,684.0	0.1%	2,818.2	0.1%
124	Law Officers' Department	**11,644.9**	0.5%	11,644.9	0.5%	12,809.4	0.6%	14,090.3	0.6%	14,794.8	0.7%
	Office of the Solicitor General	**3,564.7**	0.2%	3,564.7	0.2%	3,921.1	0.2%	4,313.2	0.2%	4,528.9	0.2%
	Justice Sector Coordinating Office	**585.4**	0.0%	585.4	0.0%	644.0	0.0%	708.4	0.0%	743.8	0.0%
	Sierra Leone Law School	**966.5**	0.0%	966.5	0.0%	1,063.2	0.0%	1,169.5	0.1%	1,227.9	0.1%
	Legal Aid Board	**5,866.4**	0.3%	5,866.4	0.3%	6,453.1	0.3%	7,098.4	0.3%	7,453.3	0.3%
	Administrator and Registrar General	**661.9**	0.0%	661.9	0.0%	728.0	0.0%	800.8	0.0%	840.9	0.0%
125	Local Courts	**667.0**	0.0%	667.0	0.0%	733.7	0.0%	807.1	0.0%	847.4	0.0%
126	Independent Police Complaints Board	**926.4**	0.0%	926.4	0.0%	1,019.0	0.0%	1,120.9	0.0%	1,177.0	0.1%
127	Ministry of Planning and Economic Development	**13,876.3**	0.6%	13,876.3	0.6%	15,264.0	0.7%	16,790.4	0.7%	17,629.9	0.8%
	Office of the Development Secretary	**12,426.5**	0.6%	12,426.5	0.6%	13,669.2	0.6%	15,036.1	0.7%	15,787.9	0.7%
	National Authorising Office	**1,449.8**	0.1%	1,449.8	0.1%	1,594.8	0.1%	1,754.3	0.1%	1,842.0	0.1%
128	Ministry of Foreign Affairs & International Co-operation	**42,287.1**	1.8%	50,819.6	2.3%	55,881.7	2.5%	56,249.9	2.5%	59,062.4	2.6%
	Administrative and Operating Costs	**18,753.0**	0.8%	18,753.0	0.8%	20,628.1	0.9%	17,692.0	0.8%	18,576.6	0.8%
	o/w Postings of New Ambassadors and Diplomats	**2,131.1**	0.1%	2,131.1	0.1%	2,344.2	0.1%	2,578.6	0.1%	2,707.6	0.1%
	o/w Rent for Foreign Missions	**4,926.3**	0.2%	4,926.3	0.2%	5,418.9	0.2%	5,960.8	0.3%	6,258.8	0.3%
	High Commission, London	**1,566.5**	0.1%	2,193.2	0.1%	2,412.5	0.1%	2,653.7	0.1%	2,786.4	0.1%
	U.N. Delegation	**2,516.8**	0.1%	3,526.3	0.2%	3,878.9	0.2%	4,266.8	0.2%	4,480.1	0.2%
	High Commission, Abuja	**1,103.1**	0.0%	1,544.4	0.1%	1,698.9	0.1%	1,868.7	0.1%	1,962.1	0.1%
	Embassy, Monrovia	**1,153.4**	0.1%	1,614.8	0.1%	1,776.3	0.1%	1,953.9	0.1%	2,051.6	0.1%
	Embassy, Conakry	**1,005.4**	0.0%	1,407.5	0.1%	1,548.3	0.1%	1,703.1	0.1%	1,788.2	0.1%
	Embassy, Washington	**1,154.6**	0.1%	1,616.4	0.1%	1,778.1	0.1%	1,955.9	0.1%	2,053.7	0.1%
	Embassy, Moscow	**983.3**	0.0%	1,376.7	0.1%	1,514.3	0.1%	1,665.8	0.1%	1,749.0	0.1%
	Embassy, Addis Ababa	**1,152.1**	0.1%	1,613.0	0.1%	1,774.3	0.1%	1,951.7	0.1%	2,049.3	0.1%
	Embassy, Beijing	**1,005.4**	0.0%	1,407.5	0.1%	1,548.3	0.1%	1,703.1	0.1%	1,788.2	0.1%
	High Commission, Banjul	**955.7**	0.0%	1,338.0	0.1%	1,471.8	0.1%	1,619.0	0.1%	1,699.9	0.1%
	Embassy, Brussels	**898.1**	0.0%	1,257.3	0.1%	1,383.0	0.1%	1,521.3	0.1%	1,597.4	0.1%
	Embassy, Saudi Arabia	**937.7**	0.0%	1,312.7	0.1%	1,444.0	0.1%	1,588.4	0.1%	1,667.8	0.1%
	Embassy, Berlin	**688.0**	0.0%	963.4	0.0%	1,059.5	0.0%	1,162.1	0.1%	1,220.2	0.1%
	Embassy, Iran	**895.4**	0.0%	1,253.6	0.1%	1,379.0	0.1%	1,516.9	0.1%	1,592.7	0.1%
	High Commission, Accra	**1,166.4**	0.1%	1,633.0	0.1%	1,796.3	0.1%	1,942.1	0.1%	2,039.2	0.1%
	Embassy, Egypt	**871.6**	0.0%	1,220.2	0.1%	1,342.2	0.1%	1,476.4	0.1%	1,550.3	0.1%
	Embassy, Dakar	**981.6**	0.0%	1,374.3	0.1%	1,511.7	0.1%	1,662.9	0.1%	1,746.0	0.1%
	Embassy, Dubai	**606.6**	0.0%	849.3	0.0%	934.2	0.0%	1,027.6	0.0%	1,079.0	0.0%
	Embassy, Kenya	**772.0**	0.0%	1,080.7	0.0%	1,188.8	0.1%	1,307.7	0.1%	1,373.1	0.1%
	Sierra Leone Mission, Geneva	**805.7**	0.0%	1,128.0	0.1%	1,240.8	0.1%	1,364.9	0.1%	1,433.2	0.1%
	Embassy, Kuwait	**1,051.9**	0.0%	1,472.7	0.1%	1,620.0	0.1%	1,782.0	0.1%	1,871.1	0.1%
	Embassy, Seoul	**1,281.9**	0.1%	1,794.7	0.1%	1,974.2	0.1%	2,171.6	0.1%	2,280.2	0.1%
129	Ministry of Finance	**56,076.5**	2.5%	56,880.3	2.6%	64,766.3	2.9%	71,245.2	3.2%	74,807.4	3.3%
	Office of the Financial Secretary	**16,720.7**	0.7%	17,662.0	0.8%	19,318.2	0.9%	21,250.0	0.9%	22,312.5	1.0%
	Subscriptions to International Organisations	**37,693.9**	1.7%	38,278.6	1.8%	43,536.5	1.9%	47,890.2	2.1%	50,284.7	2.2%
	Financial Intelligence Unit	**1,656.8**	0.1%	1,739.7	0.1%	1,913.6	0.1%	2,105.0	0.1%	2,210.3	0.1%
130	National Revenue Authority (NRA)	**94,717.6**	4.2%	164,094.5	7.3%	182,003.3	8.0%	193,372.4	8.6%	194,041.0	8.6%
131	Revenue Appellate Board	**631.2**	0.0%	694.3	0.0%	763.7	0.0%	840.1	0.0%	924.1	0.0%
132	Accountant General's Department	**32,110.0**	1.4%	32,110.0	1.4%	33,715.5	1.5%	34,087.0	1.5%	35,791.4	1.6%
133	Ministry of Information and Communication	**3,919.7**	0.2%	3,919.7	0.2%	4,311.7	0.2%	4,742.8	0.2%	4,980.0	0.2%
	o/w Outreach Coordination Unit	**431.0**	0.0%	431.0	0.0%	474.1	0.0%	521.5	0.0%	547.6	0.0%
134	National Electoral Commission (NEC)	**18,000.0**	0.8%	18,000.0	0.8%	77,387.9	3.4%	177,387.9	7.9%	186,257.3	8.3%
137	National Commission for Democracy	**824.8**	0.0%	824.8	0.0%	907.3	0.0%	998.0	0.0%	1,047.9	0.0%
138	Statistics - Sierra Leone	**7,278.2**	0.3%	7,278.2	0.3%	8,006.0	0.4%	8,806.6	0.4%	9,246.9	0.4%
139	National Commission for Privatisation (NCP)	**1,964.0**	0.1%	1,964.0	0.1%	2,160.4	0.1%	2,376.5	0.1%	2,495.3	0.1%
140	Mass Media Services	**1,535.8**	0.1%	1,535.8	0.1%	1,689.4	0.1%	1,858.4	0.1%	2,044.2	0.1%
141	Government Printing Department	**2,948.6**	0.1%	2,948.6	0.1%	3,243.4	0.1%	3,567.8	0.2%	3,746.1	0.2%
142	National Public Procurement Authority (NPPA)	**3,100.1**	0.1%	3,100.1	0.1%	3,410.1	0.2%	3,751.1	0.2%	3,938.7	0.2%
143	Justice and Legal Service Commission	**159.1**	0.0%	159.1	0.0%	175.0	0.0%	192.5	0.0%	211.7	0.0%
144	Human Rights Commission Sierra Leone	**1,221.0**	0.1%	1,221.0	0.1%	1,343.1	0.1%	1,477.4	0.1%	1,551.3	0.1%
145	Rights to Access Information Commission	**990.4**	0.0%	990.4	0.0%	1,089.4	0.0%	1,198.4	0.1%	1,258.3	0.1%

7 TRANSFERS TO LOCAL COUNCILS	**224,122.0**	**10.0%**	**378,711.4**	**16.5%**	**422,611.0**	**18.8%**	**464,175.3**	**20.0%**	**548,057.8**	**24.4%**
Grants for General Administrative Expenses	31,703.4	1.4%	66,253.2	2.9%	75,528.6	3.4%	83,081.5	3.7%	91,388.8	4.1%
Local Government Grants	**31,703.4**	1.4%	66,253.2	2.9%	75,528.6	3.4%	83,081.5	3.7%	91,388.8	4.1%
Grants for Devolved Functions	192,418.5	8.6%	304,458.3	13.5%	347,082.4	15.4%	381,093.9	17.0%	456,667.4	20.3%
Sensitisation on Fire Prevention Services	**939.9**	0.0%	1,033.9	0.0%	1,178.6	0.1%	1,296.5	0.1%	1,426.1	0.1%
Education Services	100,941.6	4.5%	204,144.0	9.1%	232,724.2	10.4%	255,996.6	11.4%	306,880.2	13.6%
Administration	**3,738.5**	0.2%	4,112.1	0.2%	4,687.8	0.2%	5,156.6	0.2%	5,672.2	0.3%
Pre-primary and Primary Education	57,502.0	2.6%	107,099.7	4.8%	122,048.1	5.4%	134,252.9	6.0%	161,103.4	7.2%
of which: Examination Fees to WAEC for NPSE	**5,941.8**	0.3%	8,808.5	0.4%	10,041.7	0.4%	11,045.9	0.5%	13,255.1	0.6%
of which: Govt. and Govt. Assisted Schools	51,620.1	2.3%	98,251.2	4.4%	112,006.5	5.0%	123,207.0	5.5%	147,848.4	6.6%
Free Education Programme for Primary Education	**23,313.0**	1.0%	33,873.1	1.5%	38,615.3	1.7%	42,476.8	1.9%	50,972.3	2.3%
Textbooks	**24,920.7**	1.1%	30,876.0	1.4%	35,196.6	1.6%	38,718.5	1.7%	46,462.2	2.1%
Teaching and Learning Materials	**3,386.3**	0.2%	33,502.1	1.5%	38,192.4	1.7%	42,011.6	1.9%	50,413.9	2.2%
Secondary Education	**32,488.7**	1.4%	88,104.2	3.8%	87,018.8	4.3%	106,720.7	4.7%	128,064.9	5.7%
of which: Examination Fees to WAEC for BECE	**10,027.5**	0.4%	14,000.0	0.6%	15,960.0	0.7%	17,556.0	0.8%	21,067.2	0.9%
of which: Free Education Programme for Junior Secondary Education	**13,789.4**	0.6%	45,383.1	2.0%	51,736.7	2.3%	56,910.4	2.5%	68,292.5	3.0%
of which: Textbooks	**6,695.8**	0.3%	23,547.8	1.0%	26,844.3	1.2%	29,528.7	1.3%	35,434.4	1.6%
of which: Science Equipments	**1,975.6**	0.1%	2,173.5	0.1%	2,477.8	0.1%	2,725.6	0.1%	3,270.7	0.1%
Government Libraries	**2,198.8**	0.1%	2,418.4	0.1%	2,753.6	0.1%	3,028.9	0.1%	3,634.7	0.2%
Education Development	**4,956.9**	0.2%	5,452.6	0.2%	6,215.9	0.3%	6,837.5	0.3%	8,205.0	0.4%
Youths and Sports Services	**2,779.7**	0.1%	3,057.7	0.1%	3,485.8	0.2%	3,834.3	0.2%	4,601.2	0.2%
Sports Equipment	**1,623.7**	0.1%	1,786.1	0.1%	2,036.1	0.1%	2,239.7	0.1%	2,687.7	0.1%
Youths Division	**1,156.0**	0.1%	1,271.6	0.1%	1,449.7	0.1%	1,594.6	0.1%	1,913.5	0.1%
Solid Waste Management Services	**5,443.7**	0.2%	5,988.1	0.3%	6,826.4	0.3%	7,509.1	0.3%	9,010.9	0.4%
Health Care Services	**45,558.0**	2.0%	50,113.8	2.2%	57,129.7	2.5%	62,842.7	2.8%	75,411.3	3.4%
District Peripheral Health Care Services (PHCs)	**20,629.3**	0.9%	22,692.2	1.0%	25,869.1	1.2%	28,456.0	1.3%	34,147.2	1.5%
Secondary Health Services (District Hospitals except, Bo, Kenema & Makeni)	**24,928.8**	1.1%	27,421.6	1.2%	31,260.7	1.4%	34,386.7	1.5%	41,264.1	1.8%
Social Welfare, Gender and Children's Affairs	**4,137.2**	0.2%	4,550.9	0.2%	5,188.0	0.2%	5,706.8	0.3%	6,848.2	0.3%
Social Welfare Division	**1,850.7**	0.1%	2,035.7	0.1%	2,320.7	0.1%	2,552.8	0.1%	3,063.4	0.1%
Gender and Children's Affairs Division	**2,286.5**	0.1%	2,515.2	0.1%	2,867.3	0.1%	3,154.0	0.1%	3,784.8	0.2%
Agriculture and Food Security Services	**28,729.2**	1.3%	31,602.1	1.4%	36,026.4	1.6%	38,932.2	1.7%	46,718.7	2.1%
Fisheries and Marine Resources	**776.6**	0.0%	854.2	0.0%	973.8	0.0%	1,071.2	0.0%	1,285.4	0.1%
Water services	**3,113.6**	0.1%	3,113.6	0.1%	3,549.6	0.2%	3,904.5	0.2%	4,685.4	0.2%
Rural Water Services	**3,113.6**	0.1%	3,113.6	0.1%	3,549.6	0.2%	3,904.5	0.2%	4,685.4	0.2%
Total Non Salary, Non Interest Recurrent Expenditure Provisions	**2,248,241.0**	**100.0%**	**2,635,612.0**	**100.0%**	**3,069,709.6**	**100.0%**	**3,417,899.2**	**100.0%**	**3,727,097.7**	**100.0%**
Goods & Services	**1,371,712.7**	**61.0%**	**1,502,999.4**	**57.3%**	**1,639,632.4**	**53.4%**	**1,746,896.0**	**51.1%**	**1,817,098.2**	**48.8%**
Social and Economic	**792,725.9**	**31.3%**	**751,587.8**	**28.6%**	**883,097.9**	**28.2%**	**879,379.4**	**25.7%**	**926,201.2**	**24.9%**
o/w Free Education Programme	**124,380.3**	**5.5%**	146,440.5	**5.6%**	166,942.1	**5.4%**	165,150.9	**5.4%**	194,406.3	**5.2%**
General and Others	**432,876.5**	**19.3%**	515,381.1	**19.6%**	576,813.0	**18.8%**	606,509.0	**17.8%**	620,163.5	**16.9%**
o/w National Revenue Authority	**94,717.8**	**4.2%**	164,094.5	**6.3%**	192,003.3	**6.3%**	193,372.4	**5.7%**	194,041.0	**5.2%**
Statistics - Sierra Leone	**7,278.2**	**0.3%**	7,278.2	**0.3%**	8,000.0	**0.3%**	8,800.0	**0.3%**	8,288.8	**0.2%**
Defence Expenditure	**96,018.1**	**4.3%**	96,018.1	**3.7%**	105,619.9	**3.4%**	104,993.9	**3.1%**	104,911.4	**2.8%**
Police	**87,722.6**	**3.9%**	87,722.6	**3.3%**	96,494.9	**3.1%**	96,319.7	**2.8%**	96,329.3	**2.6%**
Correctional Services	**52,389.7**	**2.3%**	52,389.7	**2.0%**	57,606.7	**1.9%**	58,487.0	**1.7%**	58,402.9	**1.6%**
Subsidies and Transfers	**836,896.2**	**37.2%**	**1,032,612.0**	**39.3%**	**1,339,077.2**	**43.6%**	**1,586,610.2**	**46.2%**	**1,809,999.5**	**48.6%**
Transfers to Local Councils	**224,122.0**	**10.0%**	**378,711.4**	**14.1%**	**422,611.0**	**13.8%**	**464,175.3**	**13.6%**	**548,057.8**	**14.7%**
Grants for Admin. Expenses	**31,703.4**	**1.4%**	66,253.2	**2.5%**	75,528.6	**2.5%**	83,081.5	**2.4%**	91,388.8	**2.5%**
Grants for Devolved Functions	**192,419.5**	**8.6%**	304,458.3	**11.6%**	347,082.4	**11.3%**	381,093.9	**11.2%**	456,667.4	**12.3%**
o/w Free Education Programme	**90,050.7**	**4.0%**	192,183.9	**7.3%**	219,086.9	**7.1%**	240,973.6	**7.1%**	289,168.3	**7.8%**
Grants to Tertiary Educational Institutions	**185,000.0**	**8.2%**	51,112.9	**1.9%**	53,723.9	**1.8%**	59,096.3	**1.7%**	65,006.0	**1.7%**
Transfer to Road Maintenance Fund	**141,330.0**	**6.3%**	168,471.6	**6.9%**	285,497.6	**9.3%**	338,588.1	**9.9%**	431,119.0	**11.6%**
Transfers to Other Agencies	**169,435.5**	**7.5%**	**194,070.0**	**7.4%**	**223,933.9**	**7.3%**	**237,327.3**	**6.9%**	**245,693.7**	**6.6%**
Energy Subsidies(incl. Fuel)	**100,000.0**	**4.4%**	**242,037.6**	**9.2%**	**275,922.9**	**9.0%**	**303,515.2**	**8.9%**	**333,866.7**	**9.0%**
o/w Karpower Energy	**57,920.0**	**2.6%**	132,620.6	**5.1%**	151,197.7	**4.9%**	166,317.5	**4.9%**	182,949.3	**4.9%**
Other Independent Power Supply	**24,000.0**	**1.1%**	62,600.0	**2.4%**	71,373.1	**2.3%**	78,510.4	**2.3%**	86,361.5	**2.3%**
Fuel For EGTC	**18,000.0**	**0.8%**	46,800.0	**1.8%**	53,352.0	**1.7%**	58,687.2	**1.7%**	64,555.9	**1.7%**
Elections and Democratisation - National Electoral Commission	**18,000.0**	**0.8%**	**18,000.0**	**0.7%**	**77,387.0**	**2.5%**	**177,387.9**	**5.2%**	**186,257.3**	**5.0%**
Contingency Expenditure	**39,632.0**	**1.8%**	**90,000.0**	**3.4%**	**90,000.0**	**2.9%**	**96,000.0**	**2.8%**	**100,000.0**	**2.7%**

Public Investment Programme,2020-2022

Domestic Capital Projections for Fiscal Strategy Statement (FSS): 2020 to 2022			
Medium Term National Development Plan Cluster/ Ministries, Department and Agency (MDAs)			
Policy Cluster/Year	**2020**	**2021**	**2022**
GRAND TOTAL	**1,267,000**	**1,632,000**	**2,054,000**
Cluster One (1): Human Capital Development	**128,670**	**144,718**	**182,139**
Free Quality Basic and Senior Secondary Education	30,750	44,000	55,377
Strengthening Tertiary and Higher Education	10,500	11,500	14,474
Health Care Improvement, Hygience and Sanitation	53,970	38,218	48,100
Social Protection	30,500	43,000	54,119
Lands and Housing	2,950	8,000	10,069
Cluster Two (2): Diversifying the Economy and Promoting Grow	**63,450**	**92,455**	**116,362**
Improving Productivity and Commercialization of Agricutural	33,200	42,350	53,301
Improving Productivity and Sustainable Management of Fish	7,050	8,150	10,257
Revitalizing the Tourism Sector	17,050	32,955	41,476
Manufactuirng and Services	6,150	9,000	11,327
Cluster Three (3): Infrastructure and Economic Competititivene	**693,950**	**874,076**	**1,100,093**
Energy	115,076	116,617	146,772
Transforming Transportation System	16,609	17,609	22,162
Improving Roads and Public Structures	356,950	524,450	660,061
Improving Water Infrastructure System	197,565	205,200	258,260
Information and Communication Technology	6,550	9,000	11,327
Fostering Private Sector Growth and Manufacturing	1,200	1,200	1,510
Cluster Four (4): Governance and Accontability for Results	**309,171**	**324,251**	**408,095**
Political Development for National Cohesion	21,400	16,100	20,263
Fighting Corruption and Illicit Financial Flows	2,500	3,500	4,405
Strengthening Public Financial Management	57,359	82,326	103,614
Strengthening Audit Services	6,000	3,542	4,458
Promoting Inclusive and Accountable Justice Institutions	94,815	102,500	129,004
Strengthening Public Service Delivery	9,643	11,843	14,905
Strengthening Decentralization, Local Governance and Rural	1,500	500	629
Strenthening Security Institutions	108,454	93,440	117,602
Strengthening External Relations for Integration	7,500	10,500	13,215
Cluster Five (5): Empowering Women, Children and Persons wi	**3,000**	**7,000**	**8,810**
Ministry of Social Welfare, Gender and Children Affairs	3,000	7,000	8,810
Cluster Six (6): Youth Employment, Sports and Migration	**12,000**	**40,550**	**51,035**
Youth Entrepreneurship (Employment and Empowerment)	12,000	40,550	51,035
Cluster Seven (7): Addressing Vulnerability and Building Resilie	**5,650**	**10,900**	**13,719**
Building National Environmental Resilence	3,000	5,000	6,293
Forestry Management and Wetland Conservation	650	900	1,133
Improving Diasater Management Governance	2,000	5,000	6,293
Cluster Eight (8): Plan Implementation	**51,109**	**138,050**	**173,747**
Minstry of Planning and Economic Development	50,359	137,050	172,488
Strengthening Statistics Systems	750	1,000	1,259
GRAND TOTAL	**1,267,000**	**1,632,000**	**2,054,000**

The Public Investment Programme for the period 2020 to 2022 is drawn from the Medium-Term National Development Plan (2019 – 2023). The domestic capital budget component of the Public Investment Programme comprised of projects and programmes within the eight policy clusters defined in the Medium Term National Development Plan: (i) Human Capital Development, (ii) Diversifying the Economy and Promoting Growth, (iii) Infrastructure and Economic Competitiveness, (iv) Governance and Accountability for Results, (v) Empowering Women, Children, and Persons with Disability, (vi) Youth Employment, Sports and Migration; (vii) Addressing Vulnerability and Building Resilience; and (viii) Plan Implementation.

The priority of Government is Education for Development under the Human Development Cluster, which is the flagship project for the Medium Term under the New Direction. The emphasis is on programmes and projects that support Free Quality Education. Other priorities include the provision of health care and critical social protection services. This is followed by projects and programmes geared towards diversifying the economy and promoting sustainable economic growth; scaling up infrastructural development to improve the competitiveness of the economy as well as promoting good governance.

The allocation of domestic capital expenditure allocation is based on the following criteria: (i) projects and programmes must be aligned to the aspirations of the Medium-Term National Development Plan with emphasis on human capital development; (ii) rationalized ongoing projects and programmes that have gone through the technical audits (where applicable) and for which funds are available; (iii) project and programmes that are critical to the statutory functioning of the Ministry Department or Agency with official approval; and (iv) reference made to the previous year allocation of the domestic capital.

5. **Fiscal Risk Statement**

Given the adverse impact of fiscal risks to budget execution and its threat to fiscal and debt sustainability, Government has established the Department of Fiscal Risk Management and Fiduciary Oversight of State-owned Enterprises in the Ministry of Finance. This department has been mandated to produce regular report on fiscal risks, identifying specific shocks or pressures that could push the public finances away from medium-term forecast or threaten fiscal sustainability over the longer term. The report takes a broad view of fiscal risks, ranging from macroeconomic and financial sector risks to specific risks such as those emanating from contingent liabilities, state-owned enterprises, policy risks and natural disasters.

5.1 Macroeconomic Risks

Macroeconomic shocks can be positive or negative in nature, and arise from both external and domestic sources. The emphasis however, is on the negative shocks, which could derail the implementation of the budget and the achievement of the fiscal objectives specified in this FSS. Lower-than expected economic growth, adverse terms of trade characterized by an increase in the price of our key imports (fuel and rice) and or a fall in the price of our key export commodities such as iron ore; high inflation and unexpected movement in interest and exchange rates are the most important macroeconomic risks that could prevent the attainment of fiscal objectives specified in the Fiscal Strategy Statement.

Lower-than-projected GDP Growth

Sierra Leone economic growth has been volatile and in most cases lower-than projected due to its reliance on mining. Low economic growth could result to the contraction of the tax base and hence, lower revenue collection. This will complicate budget execution as expenditures would have to be cut down with adverse impact on service delivery. If expenditures are not adjusted correspondingly, the budget deficit will widen leading to higher domestic borrowing and increased debt.

Fall in the International price of Iron Ore

Sierra Leone is highly dependent on the international price of its major commodity exports, particularly iron ore, for growth, revenue and foreign exchange earnings.

Lower iron ore prices would have negative impacts on the economy in general and the budget in particular, although the exact impact would depend on the extent and duration of any fall. The international iron ore price is increasingly sensitive to changes in demand from China, which has seen exceptionally strong demand for construction and this had pushed the international price for iron ore and coal well above historical levels. A slowdown in the Chinese economy or construction sector may lead to a sharp fall in the price of iron ore. This in turn would lead to slower growth in exports and GDP, through lower mining activity.

This would have a cumulative negative impact on domestic revenue collection as royalty payments, personal income tax, corporate tax from mining contractors would drop. At the same time, the low level of exports would reduce the supply of foreign exchange in the economy, which will trigger depreciation of the Leone with attendant inflationary pressures. The resulting increase in consumer prices would increase the cost of goods and services purchased by Government.

Under this scenario, the budget will be adversely affected through weaker revenues and increased expenditures, making it difficult to achieve the fiscal objectives specified in section II of the FSS.

The lower iron ore prices during 2015, 2017 and 2018 is an example of this scenario, which saw iron ore production shutting down resulting in slow GDP growth, lower revenues and employment as well as continuous depreciation in the exchange rate.

Higher international price of Petroleum Products

An increase in the international price of fuel will increase the demand for foreign exchange as fuel imports account for a significant proportion of Sierra Leone import bill, second only to food imports. Given the limited supply of foreign exchange, the Leone will depreciate resulting in higher inflationary pressures. This in turn will increase consumer prices given the strong correlation between fuel prices and the price of other goods and services. Higher fuel prices will also increase Government expenditure as Government is a major consumer of fuel. Higher Government expenditures will lead to a higher budget deficit.

Exchange Rate Depreciation and High Inflation

As a small open economy, Sierra Leone has limited influence on its exchange rate. The exchange rate is influenced not only by developments in the domestic economy, but also by international developments over which the country has little or no control.

The exchange rate of the Leone to the US Dollar and other international currencies has depreciated sharply in recent months due mainly to the low level of exports as well as speculative behavior by the business community. Sierra Leone has huge stock of external public debt, estimated at US$ 1.57 billion at end December 2018 all of which are denominated in foreign currencies, mainly United States dollar. The depreciation of the Leone would increase debt service payments with an adverse effect on the budget.

In addition, the depreciation of the exchange rate can lead to increase in the prices of imported goods, which may be of concern especially for some commodities such as rice and fuel. Government purchases a large proportion of these goods (rice for the security forces and fuel for all MDAs) and also undertakes several infrastructure projects with high import content. Under this scenario, the depreciation in the exchange rate would increase Government expenditure on goods and services and give rise to cost overruns on infrastructure projects, which in turn would widen the budget deficit or lead to the accumulation of arrears. The increase in interest payment, domestic capital spending and goods and services expenditure will worsen the budget deficit.

However, the depreciation of the exchange rate may have a positive impact on public finances through an increase in the CIF value of imports on which import and excise duties are levied. Moreover, some of the revenue streams such as royalties and licenses on minerals and fisheries are paid in US dollars. Overall, the increase in expenditure as a result of exchange rate depreciation is believed to outweigh the increase in domestic revenues, thereby worsening the fiscal situation.

Weak Revenue Collection

Lower than projected revenue collection due to challenges in sustaining the domestic revenue mobilization drive will adversely affect budget implementation and the attainment of Government's fiscal objective of 20 percent of domestic revenue to GDP ratio. In the midst of higher expenditures, especially the implementation of the Medium-Term National Development Plan in general and Government's flag ship Free Quality Education Programme in particular, this may lead to higher-than-programmed budget deficit. This in turn will lead to increased borrowing and/ or accumulation of arrears to suppliers and contractors and eventually increased debt burden.

High Public Debt Stock

Sierra Leone has a substantial stock of foreign debt, estimated at US$2.0 billion (over 40 percent of GDP). Used productively, borrowing can be used to fund investment in essential infrastructure, helping to boost future growth potential, or to manage temporary downturns in revenues over the macroeconomic cycle.

The current stock of debt poses a significant fiscal risk given its associated debt service payments (interest and amortization), which stood at Le 1.2 trillion as at end 2018 in the midst of low domestic revenues. Further increase in the debt stock would increase debt service payments, which would further reduce funds available for other Government priority spending or lead to increasing deficits and further borrowing.

Rise in Domestic Interest Rates

Sierra Leone also has a substantial stock of domestic debt in the form of marketable and non-marketable securities. As at June 2019 these amounted to Le 6 trillion with debt service payments amounting to Le 854 billion or 16.5 per cent of recurrent expenditure.

Interest rates have remained high averaging at around 25 percent as of June 2019, reflecting the increasing Government borrowing and rising inflation. Further increases in domestic interest rates would increase government spending on debt service payments, weakening the budget position.

Interest rate rises would have spillover effects on private sector activity through high cost of borrowing from the commercial banks. This will reduce private investment activities and slower growth, which will have an adverse impact on Government revenues.

Unpredictability/Delays in the Disbursement of Budget Support

Less-than-expected donor financing may complicate fiscal management and limit the ability to reorient spending toward social priorities and infrastructure.

5.2 Central Government Contingent Liabilities

Public Private Partnerships (PPPs)

In recent years, the Government of Sierra Leone has entered into Public Private Partnerships for the delivery of infrastructure projects in energy, roads, ports, etc. Total PPP transactions entered into by Government to date amounted to US$116.1 million (see annex 6). While PPPs provides efficient delivery, effective and timely completion of infrastructure projects, and better fiscal control of infrastructure and public services, there are inherent fiscal risks in the form of contingent liabilities that may adversely impact the fiscal position of Government, if they materialize; for example, early termination of contracts, minimum revenue guarantees.

Operations of State-Owned Enterprises

The financial position of most of the state-owned enterprises is weak. Most of them are operating at loss due to high administrative costs, below market charges for their services as well as inefficient management and poor governance. The state-owned banks are saddled with high levels of non-performing loans, whose provision has eroded their capital base over the years. The utility companies (EGTC, EDSA, GUMA and SIERRATEL) and the Sierra Leone Road Transport Corporation cannot cover their respective costs of production due to inefficient management and poor business models.

Some of them owe debts to the domestic banking system and external private and public creditors. Most of them cannot service the external debts on-lend to them by the Central Government (SALCAB and SIERRATEL). Thus, these SOEs are not financially and operationally sustainable, resulting in poor service delivery. They have not been able to pay dividends to Government; instead they rely on subsidies from the Government. The banks, in particular, require bailout in the form of recapitalization by the Government.

The continued weak financial operations of these SOEs poses a major fiscal risk to Government in the form of subsidies and or transfers as in the case of EDSA, EGTC, SLRTC and GUMA and recapitalization in the case of the state-owned banks. The amounts involved are high and could derail the implementation of the Government budget.

5.3 Policy Risks

Policy risks can also weaken the state of public finances. The weak implementation of policy reforms or budget support disbursement triggers by MDAs including the Ministry of Finance is one the greatest risks to the implementation of the budget. In most cases, contracts for the supply of goods and services are entered into by MDAs and approved by the Ministry on the basis of the expected disbursement of budget support by development partners. In the event, where the triggers are not implemented, development partners will not disburse budget support and this complicates budget execution. Government would have to resort to increased domestic borrowing and or accumulate arrears with attendant macroeconomic consequences.

Policy risks in the form of difficulty in maintaining reform momentum for fiscal consolidation will lead to lower-than- projected revenues and higher-than-budgeted expenditures, resulting in wider fiscal deficits and increased borrowing.

5.4 Natural Disasters and Epidemics

Natural disasters and epidemics such as the Ebola outbreak, flooding, mud slides can derail budget implementation given the unexpected expenditures requirements in the midst of declining revenues that accompany the disruptions to economic activity.

5.5 Mitigation Measures and Contingency Plans

5.5.1 Mitigating macroeconomic risks

To mitigate the macroeconomic risks, Government is pursuing fiscal consolidation with emphasis on intensifying domestic revenue mobilization and expenditure rationalization measures. The implementation of the Domestic Revenue Mobilisation Strategy and other revenue enhancing measures will enable Government to attain the revenue to GDP target of 20 percent of GDP in the medium-term. In addition, the expenditure management and control measures including implementation of the Payroll Reform Strategy, improving public procurement systems, strengthening the commitment control systems, automating the budget execution processes, rolling out of IFMIS to all MDAs and improving the efficiency of public investment combined with prudent public debt management and supported by pro-active monetary policy will promote fiscal and debt sustainability to restore and sustain macroeconomic stability.

To consolidate these efforts, Government has entered into an economic programme with the IMF–the Extended Credit Facility (ECF) Arrangement. This programme supports the implementation of prudent fiscal and monetary policies. It also facilitates the disbursement of external budget and balance of payment support, which provides additional fiscal space, contribute to the building of foreign exchange reserves, thereby stabilising the exchange rate.

Moreover, Government will pursue the diversification of the economy as articulated in the National Development Plan (2019-2023) to reduce the reliance of the economy on one or few sectors. In this respect, Government will seek to increase public and private investment in agriculture, fisheries and the tourism sectors to improve productivity and value-addition.

5.5.2 Mitigating Measures for Contingent Liabilities

Given the complexity of PPP transactions compared to traditional procurement of projects, there is need to build capacity in PPP negotiations, structuring, assessing costs, benefits and risks in the selection of projects. The selected projects should be chosen for good reasons and be fiscally sustainable in the medium-to long term. The contractual risk should also be adequately allocated between public and private partners.

There is therefore the need to improve the governance of PPP transactions for infrastructure projects. Government can seek technical support for the application of tools developed by the IMF and the World Bank such as the Public Investment Management Assessment (PIMA) for the evaluation of Public Infrastructure governance and management and the PPP Fiscal Risk Assessment Model (PFRAM) for the assessment of PPP fiscal costs and risks. Government has sought technical assistance from the IMF Fiscal Affairs Department for the conduct of a PIMA.

To address the issue of contingent liabilities, including those emanating from the operations of state-owned enterprises, the Ministry of Finance has established a dedicated Fiscal Risk and SoE Oversight Division charged with the responsibility for fiscal risk analysis and management.

5.5.3 Mitigating Measures and Contingency Plans for Natural Disasters

To mitigate the impact of natural disasters, Government should be pro-active in strengthening its Disaster preparedness, response and management capabilities. In this regard, Government has established a Disease Surveillance, Monitoring and Control Unit within the Ministry of Health and Sanitation to provide early warning signals for potential epidemics and design measures to contain them. Government is also in the process of establishing a Disaster Control and Management Agency, separate from the Office of National Security to provide prompt response to and manage the aftermath of natural disasters.