

MR. SPEAKER, HONOURABLE MEMBERS

I rise to move that the Bill entitled "The Appropriation Act 2017" being an Act to authorize expenditure from the Consolidated Revenue Fund for the services of Sierra Leone for 2017 be read the first time.

I. Introduction and Objectives of the Budget

2. Mr. Speaker, Honourable Members, since Sierra Leone was declared Ebola free a year ago, our economy has been gradually recovering and showing resilience from the effects of the deadly virus and the collapse of iron ore prices. You would also recall that, about this time last year, our social and economic indicators were gloomy. In particular, the economy had contracted by 21 percent, inflationary pressures re-emerged and the exchange rate began to depreciate. Furthermore, following the closure of the two iron ore mining companies, domestic revenue dropped significantly. Revenues from iron ore, which averaged US\$60.0 million during 2013 and 2014, fell below US\$15.0 million in 2016.

3. Manufacturing, construction, tourism and trade sectors also declined. Food production, especially rice, declined significantly, as farmers abandoned their fields. The decline in agricultural production necessitated an increase in the importation of rice estimated at US\$142.0 million, putting further pressures on our limited foreign exchange resources.

Post-Ebola Developments

4. Mr. Speaker, Honourable Members, despite this gloomy picture, Government's commitment to tackling these difficulties head-on during 2016 is beginning to show results. With support from our Development Partners, the Post Ebola Recovery Programme remains on track as the first phase was successfully completed in April

2016. The second phase, which focuses on the Presidential Recovery Priorities in health, education, water, energy, social protection, private sector development and governance, will continue through June 2017.

5. Recognizing the negative impact of the shocks on incomes and welfare, our social safety net programmes were expanded. As at end September 2016, Government spent Le 137.5 billion to subsidize tuition fees for University students; Le 6.4 billion as grant to boarding homes and handicap schools; and Le 23.6 billion for the girl child education programme. Government also transferred over Le 61.0 billion to all the 19 Local Councils to cover school fee subsidies for primary schools, examination fees for BECE and WASSCE, and solid waste management services.

6. To support local production of food and reduce the pressure on foreign exchange resources, Government spent about Le 40.7 billion for the supply of seedlings, fertilizer and other agricultural tools and equipment to rural farmers; and provided rice to the security sector (Military, Police, Fire Force and Correctional Services) estimated at Le 36.8 billion as at September 2016. Government also provided about Le 25.2 billion to support the Free Health Care programme through the procurement and supply of basic drugs, malaria prevention and control, as well as immunization programmes. Overall, as at September 2016, these subsidies and transfers amounted to Le 341.4 billion.

7. Mr. Speaker, Honourable Members, due to Ebola, the implementation of our infrastructure programmes halted. However, with its easing off, these projects resumed, providing jobs and incomes to our youths. As at end September 2016, Government spent Le 367.0 billion on roads; Le18.0 billion on Water; and over Le10.0 billion on Energy. These efforts, complemented by significant donor support, increased foreign investments inflows, combined with sound economic policies, facilitated the economy's return to a projected positive growth rate of 4.9 percent in 2016 from the negative growth rate of 21 percent in 2015.

8. Mr. Speaker, as further evidence of our resilience, the performance under the Extended Credit Facility (ECF) programme with the International Monetary Fund (IMF) has been good. The sixth and final review shows that all the quantitative performance criteria and indicative targets for end June 2016 were met. Significant progress was also made in the implementation of reforms in public financial management and financial sector development. In particular, the enactment of the Public Financial Management Act, 2016 and the on-going effort to establish the Treasury Single Account (TSA) would significantly improve the management of our public finances.

9. Despite these achievements, our economy remains vulnerable, given the reliance on the mining sector which makes it prone to volatility in the global economy. This adversely impacted on our foreign reserves, and consequently, the exchange rate. Also, slow improvement in domestic revenue collection relative to our expenditure requirements negatively affected budget implementation.

10. Mr. Speaker, Honourable Members, to accelerate economic recovery and strengthen the resilience of our economy to withstand future global shocks, the 2017 Budget will, therefore, seek to:

- (i) pursue economic diversification with a focus on agriculture, fisheries and tourism to promote inclusive growth and shared prosperity;
- (ii) continue to address infrastructure bottlenecks, especially in energy and water;
- (iii) foster entrepreneurship to enable Sierra Leoneans, especially our youths, to actively participate in the economic development of our country; and
- (iv) ensure fiscal sustainability by prudent expenditure management while vigorously increasing domestic revenue collection. The resulting improved fiscal position will complement monetary policy to stabilise the exchange rate, and contain inflationary pressures.

11. Therefore, the **theme** for the 2017 Budget is, **“Recovery through Economic Diversification and Fostering Entrepreneurship”**

Mr. Speaker, I will now turn to global and regional developments.

II. Global and Regional Economic Outlook

12. Mr. Speaker, Honourable Members, the global economic recovery remains fragile, with uneven prospects among countries and regions in the world. The situation is worsened by Britain's vote to exit from the European Union (EU). The Brexit vote deepened economic and institutional uncertainties within the EU, threatening the growth momentum witnessed in early 2016. These uncertainties continue to dampen investor confidence with implications for the global financial markets. As a result, the IMF has revised downwards the initial global economic growth projections from 3.2 percent to 3.1 percent for 2016 and from 3.5 percent to 3.4 percent for 2017.

13. China's transition away from reliance on investment, industry and exports to domestic consumption poses a challenge for commodity exporting countries in Sub-Saharan Africa, including Sierra Leone. Growth in Sub-Saharan Africa is projected to decelerate from 3.4 percent in 2015 to 1.4 percent in 2016.

III. Macroeconomic and Budgetary Performance in 2016

Macroeconomic Performance

14. Mr. Speaker, Honourable Members, as I mentioned earlier, our economy is returning to positive growth following the slump in 2015. The economy is projected to grow by 4.9 percent in 2016 on account of the resumption of iron ore mining, recovery in agriculture, manufacturing, trade, other services as well as improvements in energy. Despite this positive growth, including an increase in domestic food production, the sharp depreciation of the exchange rate during the year resulted in high inflation for basic consumer goods, mainly imported food items. Consequently, inflation rose to 10.9 percent in September 2016 from 8.9 percent in December 2015.

15. The official exchange rate depreciated by 13.1 percent between December 2015 and September 2016. This was due largely to the drop in export earnings following the collapse in iron ore prices and the end of Ebola-related donor inflows. This brings the cumulative depreciation to 33 percent since 2014, when global commodity prices started falling. The cumulative depreciation compares favourably to that of other metal exporting countries. The Zambian Kwacha depreciated by 46 percent and the Namibian Dollar by 37 percent during the same period. The relatively modest depreciation of the Leone has been cushioned by the Bank of Sierra Leone's proactive policies in the foreign exchange market. This allows supply of foreign exchange to adjust to an increase in demand in a situation of declining export proceeds. However, the Bank's intervention cannot continue limitlessly because of the low level of our official foreign reserves.

Budgetary Performance

16. Mr. Speaker, Honourable Members, total domestic revenue collected during the first half of 2016 amounted to Le1.4 trillion (5.2 percent of GDP) and was broadly in line with the programme target. For the year as whole, domestic revenue is projected to reach Le 2.8 trillion (10.5 percent of GDP). Total Grants received during the period amounted to Le 293 billion, mostly project grants. Since the beginning of the year, Government received budget support of £ 5.0 million from the United Kingdom and US\$ 21.0 million from the IMF.

17. Total expenditure and net lending amounted to Le2.6 trillion (9.7 percent of GDP) during the first half of the year compared to a budgeted amount of Le 2.4 trillion. For 2016, total expenditure and net lending is projected to reach Le 4.8 trillion (18.0 percent of GDP).

18. Mr. Speaker, Honourable Members, the Government Wage bill amounted to Le 895.7 billion for the first half of the year and was within the ceiling of Le 915.0 billion. The wage bill is projected to stay within the budget of Le1.8 trillion by end 2016 due to stringent measures adopted to monitor monthly movements on the payroll, including the payment of teachers' salaries into their personal bank accounts.

19. Non-salary, non-interest recurrent expenditures amounted to Le 698.9 billion and exceeded the budgeted amount by Le156.8 billion. The overrun in expenditure reflects the procurement of emergency Cost Recovery and Free-Health Care drugs, medical supplies as well as agricultural inputs provided to farmers to boost rice production as part of the Post-Ebola Recovery Programme. Poverty expenditures amounted to Le 784.7 billion for the first half of the year.

20. Domestic funded capital expenditures amounted to Le 382.3 billion compared to the budgeted amount of Le 370.6 billion. This is on account of higher-than-budgeted expenditures on road and health sectors coupled with the depreciation of the Leone.

21. The overall budget deficit, including grants, amounted to Le 914.6 billion during the first half of 2016. The budget deficit was financed largely from domestic borrowing amounting to Le 449.9 billion. Foreign financing amounted to Le137.0 billion.

IV. Outlook of the Economy, 2017-2019

22. Mr. Speaker, Honourable Members, the economy is projected to continue to recover strongly in the medium-term. Real GDP is projected to grow by 5.4 percent in 2017; 5.8 percent in 2018; and 6.1 percent in 2019. This growth will be driven mainly by the expected increases in iron ore production, agriculture, fisheries, tourism, construction, manufacturing and energy.

23. The depreciation of the Leone is expected to moderate as both mineral and agricultural export earnings increase, combined with the implementation of prudent fiscal and monetary policies in the medium-term. Consumer price inflation is projected to decline from 11.5 percent at end 2016 to 10.5 percent in 2017, 10 percent in 2018 and further down to 9.5 percent in 2019, in line with the projected increases in domestic food production.

24. Exports are projected to recover strongly by 16.8 percent in 2017 and 23.7 percent in 2018 before stabilizing at 5 percent in 2019 when iron ore production reaches its peak. Imports will recover slightly in 2017 and grow by an average of 7 percent during 2018 and 2019. Gross foreign exchange reserves will average 3.6 months of imports over the period 2017 to 2019.

25. Mr. Speaker, Honourable Members, Government will pursue a combination of sound monetary, fiscal, exchange rate and public debt management policies to attain the macroeconomic objectives. I will now describe these policies in the following paragraphs.

Monetary and Exchange Rate Policies

26. Mr. Speaker, the implementation of monetary policy in 2016 was challenged by the continuing depreciation of the Leone with the consequent increase in inflationary pressures. In response, the Bank of Sierra Leone adopted a tight monetary policy stance by increasing the Monetary Policy Rate (MPR) from 9.5 percent to 10.5 percent in September 2016. During 2017, the Bank will remain vigilant to the potential risks posed by the depreciation of the exchange rate on domestic prices. The newly introduced Interest Rate Corridor system will facilitate the conduct of monetary policy during the period. This system provides overnight deposit and lending facilities for commercial banks to enhance liquidity management and improve the effectiveness of monetary policy.

27. Mr. Speaker, Honourable Members, the exchange rate of the Leone to the US Dollar and other international currencies will continue to be market determined. The Bank's intervention in the foreign exchange market will continue to be guided by the need to correct short-term volatility through periodic wholesale auctions.

Public Debt Management

28. Mr. Speaker, Honourable Members, as at end June 2016, our total external debt amounted to about US\$1.2 billion. Domestic debt was estimated at Le 3.3 trillion. The 2016 Debt Sustainability Analysis shows that Sierra Leone's external debt remains sustainable in the medium to long term with a moderate risk of debt distress. Going forward, to ensure debt and fiscal sustainability, Government will continue to implement prudent borrowing practices by prioritizing grants and highly concessional loans for the financing of infrastructure projects. In exceptional cases, Government will seek non-concessional financing for economically viable projects, assessed on a case-by-case basis, without compromising our debt sustainability.

29. Mr. Speaker, our domestic debt and associated interest payments pose serious challenges to fiscal sustainability. During 2016, the interest rates on Treasury Bills more than doubled across all tenures. As a consequence, interest costs are estimated to increase from about Le 180.0 billion in 2016 to about Le 474.0 billion in 2017. To minimize this interest burden and roll-over risk, Government will issue medium term Treasury Bonds during 2017.

V. Strategic Focus Areas for the 2017 Budget

30. Mr. Speaker, Honourable Members, despite laudable efforts in recent years in growing the economy and fighting poverty, unprecedented shocks to the economy have eroded some of the gains we achieved. In line with the objectives stated earlier, the 2017 budget will focus on the following strategic areas: (i) diversifying the economy to improve resilience; (ii) addressing infrastructure bottlenecks; (iii) empowering Sierra Leoneans by fostering entrepreneurship; and (iv) improving economic governance.

Diversifying the Economy and Improving Resilience

31. To minimize the dependency on one sector, consistent with the Agenda for Prosperity and attainment of the Sustainable Development Goals (SDGs), Government will continue to promote economic diversification to build resilience and insulate the economy from external shocks. The 2017 budget will provide an impetus for actualizing this strategy, by promoting public and private investment in priority growth sectors, particularly agriculture, fisheries and tourism.

32. Mr. Speaker, we will seek to improve agricultural productivity and give prominence to value-chain development by enhancing processing and marketing capabilities. To this end, my Ministry has approached the African Development Bank, to develop and implement an Integrated Agricultural Transformation Programme, focusing on input: supply and distribution system, including equipment leasing and hiring; de-risking and financing mechanism for agri-businesses; setting up an agro-industrial bank; food production and post-harvest processing and marketing; and development of aquaculture.

33. We will also connect small scale rural farmers to established agri-businesses, such as Lion Mountain in Bo District, Mountain Lion in Bombali District, Golden Mills in Port Loko District and West Africa Rice Company in Bonthe District. Government will also exploit the enormous value-addition potential in cassava for flour and bread making and export opportunities.

34. To reduce the importation of food items, especially onions, Irish potato and cooking oil, Government will operationalize the large belt for onion production in Loko Masama, Kamakwie, Kamalo, Makeni and Kabala. Support will also be provided to small-scale farmers to increase yields of groundnut and soya beans to produce cooking oil. Government, through Ministry Agriculture, Forestry and Food Security, will encourage the harvesting and processing of wild oil palm fruits found all over the country, which is God's gift to Sierra Leone. Attention will also be given to expanding activities in the cultivation of non-traditional cash crop with potential for export, including cashew and coconut.

35. In the Fisheries and Marine Sector, Government will complete the European Fish Certification process to open new markets for our fisheries products. Aquaculture activities will also be supported to promote commercial fish farming to meet the protein needs of the population. The establishment of a national fish harbour and complex to boost industrial fish production will be seriously pursued.

36. Mr. Speaker, Honourable Members, Government will continue to provide support to enhance monitoring and surveillance of our Exclusive Economic Zone. Government will also seek support to establish a national fishing fleet in order to empower Sierra Leoneans, increase the supply of fish in the domestic market and promote transparency in the export of our fisheries resources. In addition, Government will also increase its support for the transformation of artisanal fishing activities with special assistance to women fisher folk, as they provide the largest share of domestic fish supply.

37. Government will promote the development, protection and preservation of our cultural assets and tourism potential. In particular, Government will construct a National Arts Gallery and fast-track the completion of the new Cultural Village at Mabela in the Western Area. For sustainable tourism development, Government will also focus on promoting eco-tourism by supporting the development of the Tiwai Resort, Chimpanzee Sanctuary, Bunce Island as well as Monument and Relics.

Empowering the People-Fostering Entrepreneurship

38. Mr. Speaker, Honourable Members, Government is renewing its commitment to increasing the supply of goods and services produced in Sierra Leone: the "Made in Sierra Leone" brand. We will support Sierra Leoneans to open new businesses; we will also strengthen existing Sierra Leonean businesses and we will support the production of Sierra Leonean goods. I, therefore, urge every Sierra Leonean to patronise the "Made in Sierra Leone" brand.

39. Mr. Speaker, Honourable Memebbers, in this regard, Government will take the lead. Hence forth:

- (i) All MDAs will now buy furniture made in Sierra Leone.
- (ii) In general, window curtains, table cloth, chair backs in Government offices will now be made of gara.

- (iii) In all public events - trainings, seminars, workshops and meetings funded from the Consolidated Revenue Fund, "Made in Sierra Leone" alcoholic beverages, soft drinks, juices, including tombee juice, ginger beer, lemon grass tea, bissap, moringa and water processed and bottled in Sierra Leone should be served.
- (iv) My Ministry will engage the Local Content Agency in the Ministry of Trade and Industry to ensure that products processed and bottled in Sierra Leone are available for serving in hotels, restaurants and similar facilities across the country.
- (v) For a start, Government will also source out at least 10 percent of the rice required for institutional feeding from local suppliers to create a ready market for smallholder farmers. This should further boost domestic production as well as increase the incomes of Sierra Leonean farmers.

40. To achieve this, we will empower Sierra Leoneans through fostering entrepreneurship with a focus on (a) promoting SME development; (b) improving access to finance; (c) improving the business environment and (d) expanding social safety nets for the vulnerable. In particular, Government will ensure strict adherence by businesses to the Local Content Act, 2015, which promotes the supply of domestic goods and services. I will now describe the detailed activities under each of these as follows:

Support to Small and Medium-Sized Enterprises (SMEs)

41. Mr. Speaker, Honourable Members, Government recognizes that the promotion and development of SMEs, especially those engaged in the agri-business, fisheries, tourism and forestry value-chains, has the potential to contribute significantly to reduce the country's import bill; save foreign exchange; create employment opportunities; promote skills transfer; and above all, support the transition into an emerging market economy.

42. To this end, Government, with support from its Development Partners, has undertaken a situation analysis of the SME landscape in Sierra Leone. This has culminated into the development of the SME Strategy, SME Policy and the SME Act, 2016. For 2017, Government, in collaboration with Development Partners, will provide through the SME Fund, an amount of US\$ 4.9 million to support Sierra Leoneans develop their own businesses. An amount of US\$350,000 will be allocated to SMEs development activities in each of the 14 districts.

Improving Access to Finance for Sierra Leonean Businesses

43. Mr. Speaker, Honourable Members, Government recognizes that limited access to affordable finance remains a major constraint to SME development. To address this, the Bank of Sierra Leone is piloting a number of Bills, including the Securities Bill; Collective Investment Bill; and Credit Administration and Debt Recovery Bill. These Bills, when enacted, will facilitate increased access to finance for Sierra Leonean businesses, as well as deepen the financial sector.

44. In addition, a Collateral Registry is being established to enable particularly Sierra Leoneans to use moveable and immoveable properties to secure loan(s) from commercial banks. The Bank is also working with the Ministry of Finance and Economic Development for the enactment of a Finance Leasing Facility Act to facilitate lending through leasing to Sierra Leonean SMEs.

45. Plans are also underway to transform the defunct National Development Bank into a Bank for Agriculture and Industry under a new mandate and ownership structure. The proposed 'Bank for Agriculture and Industry' will provide medium-term concessional loans to Sierra Leonean businesses, including SMEs.

Improving the Business Climate

46. Government will continue to implement reforms to improve the ease of doing business. In particular, Government will implement business regulatory reforms to facilitate electronic payment of taxes and fees, and speedy clearance of goods at the Port. Ongoing reforms by the Bank of Sierra Leone, in particular, the introduction of the National Switch and the Single Window Initiative at the Port will no doubt contribute to improving the business climate.

Expanding the Social Safety Net

47. Mr. Speaker, Honourable Members, to complement the above income earning initiatives, Government will continue to provide social safety nets for the most vulnerable population. In particular, existing programmes to support tuition fees, examination fees, the free health care, the provision of seeds, seedlings and fertilizer to farmers will be expanded in 2017. In addition, Government will introduce school feeding programme in all primary schools.

48. To ease transportation problems for our people, Government will provide an additional 100 buses during 2017.

49. To support these programmes, subsidies and transfers will increase from Le 341.4 billion in 2016 to Le 514.2 billion in 2017.

Improving Economic Governance and Strengthening Public Finances

50. Mr. Speaker, Honourable Members, Government recognises that the legal framework for public financial management will provide a solid foundation for the effective and efficient use of public resources. In this regard, the Public Financial Management Act, 2016 enacted by this noble House to replace the Government Budgeting and Accountability Act, 2005 will become effective on January 1, 2017.

51. The key objective of this Act is to ensure the prudent, efficient, effective and transparent management and use of public financial resources. With support from our Development Partners, the preparation of the Regulations that will guide the implementation of this Act will be completed in 2017.

Procurement

52. Mr. Speaker, Honourable Members, ensuring transparency, accountability and value for money in the procurement of goods, services and works remains a challenge. In this regard, the National Public Procurement Authority (NPPA), Procurement Directorate and Expenditure and Contract Management Committee of in the Ministry of Finance and Economic Development (MOFED) will be strengthened to enforce the provisions in the Public Procurement Act, 2016. This process will be complemented by updating the Public Procurement Regulations and harmonising Standard Bidding Documents and Procurement Manuals to reflect the new law. All Procurement Officers and Internal Auditors should henceforth produce quarterly reports of ongoing procurement activities in their respective MDAs. It is also expected that NPPA will be more guided in issuing of "No objections" and without conditions.

53. To ensure that all MDAs adhere strictly to the provisions in the Public Procurement Act 2016, my Ministry will not issue a Contract Clearance Certificate to any MDA where any provisions of this law are breached. The NPPA will also be publishing quarterly price norms to ensure uniformity and standardized prices for common user items to ensure value for money. Price norms will also be published for specialized items. In addition, Government, in collaboration with Development Partners will also introduce E-Procurement to improve transparency and accountability in the procurement process.

Financial Accounting, Recording and Reporting

54. Mr. Speaker, Honourable Members, to improve accounting, recording and reporting on Government financial transactions, the IFMIS has been successfully rolled out to 30 MDAs and will be further rolled out to an additional 24 MDAs during 2017.

55. The establishment of a Treasury Single Account (TSA) will also enhance efficient cash planning and management with the ultimate aim of reducing the costs of Government borrowing. The TSA will apply to all MDAs, especially those whose payments are processed by the Accountant-General's Department, sub-vented agencies as well as semi-autonomous agencies and donor-funded project accounts.

56. Mr. Speaker, for stronger and effective service delivery, an Expenditure Monitoring and Accountability Unit will be created within my Ministry. The Unit will liaise with sector ministries in undertaking expenditure analysis and produce performance reports on service delivery that link inputs (tracking of expenditure) and outputs (execution of contracts, quality of deliverables). A key objective of this initiative is to institutionalize expenditure tracking, service delivery impact assessment and general accountability of public spending on a sustained basis.

Internal Audit

57. Mr. Speaker, Honourable Members, the Internal Audit unit in my Ministry has developed an Enterprise Risk Management Policy and Framework. This policy when finalized and adopted by Cabinet, will bring a systematic and disciplined approach to risk management in MDAs, as well as Local Councils. An Internal Audit Bill, for the transformation of the Internal Audit Directorate has also been drafted. This Bill, when enacted, will further strengthen the internal audit function and enhance its independence.

Public Sector reforms

58. Mr. Speaker, Honourable Members, during 2016, Government embarked on right-sizing the Civil Service to correct the mismatch between skills and functions as well as improve the integrity of the payroll. To this end, 1,036 personnel in grades 1-6, proceeded on voluntary early retirement and were paid their severance package and gratuity. This personnel also will receive their pension from NASSIT.

59. To fill critical gaps, the Human Resource Management Office and the Public Service Commission have embarked on the recruitment of personnel in the middle and senior levels of managerial, technical and professional cadres of the civil service.

Fiscal Decentralisation

60. Mr. Speaker, as part of Government's strategy to improve economic governance and strengthen public finances, a fiscal decentralization strategy is being developed to enhance local economic development through prudent management of Central Government Transfers to Local councils. The strategy will also seek to improve revenue generation by all councils. Local Councils will be required to implement the Property Cadastre system to facilitate the collection of Property Tax from 2017 onwards, to enable them gradually reduce their reliance on Central Government transfers. Government is of the view that on the issue of property tax, all the Councils, in particular, the Freetown City Council (FCC) and Western Area Rural District Council

(WARD C) are sitting on gold mines, the potential of which has not been realized. Therefore, my Ministry and the Ministry of Local Government and Rural Development will collaborate to strengthen the Councils starting with the FCC and WARD C to enhance collection of Property Tax. The lessons learnt will be adapted to other non-performing Councils across the country.

New Vehicle Policy

61. Mr. Speaker, Honourable Members, as Government expands, expenditure on the procurement, maintenance, and disposal of official vehicles increases significantly. To control this cost and the abuse of official vehicles, my Ministry, the Ministry of Transport and Aviation and the Assets and Properties Commission will develop a proposal for allocation of official vehicles for Cabinet approval.

62. The proposal will consider, among other things, pooled vehicle arrangement and vehicle loan schemes. The prime consideration is that the current system is expensive and unsustainable and therefore change is desired and necessary.

Addressing Infrastructure Bottlenecks

63. Mr. Speaker, Honourable Members, during 2017, Government will continue to invest in infrastructure, including roads, energy, water supply as well as Information and Communications Technology to support private sector investment activities and promote sustainable economic growth. In particular, ongoing programmes for the construction and rehabilitation of trunk roads across the country will be given high priority. These include the Bo - Bandajuma Road and the Pendembu to Kailahun road.

64. Mr. Speaker, I am pleased to also inform this noble House that the Islamic Development Bank (IDB) has committed to fund the construction of the Kambia - Tomparie - Kamakwie Road. In addition, Government has also requested financing for the reconstruction of the Robol Junction to Mile 91 road and Matotoka - Yele - Bo road from the same institution. Furthermore, the Kuwait Fund for Development has approved US\$20.0 million for the completion of phase II of the Hill Side By-Pass Road. Also, we are negotiating a co-financing arrangement with the Kuwait Fund for Development and the Arab Bank for Economic Development in Africa (BADEA) for the completion of the Lumley-Tokeh Road.

65. Mr. Speaker, improving our electricity supply nationwide remains another key objective of Government's agenda. With the support of our Development Partners, we will increase power generation, strengthen and expand the transmission and distribution network, particularly in Freetown and other provincial cities.

66. To this end, Government secured a loan of US\$78.0 million from the Indian Exim Bank for the construction of a transmission line from Bumbuna to Waterloo. In October this year, Government also entered into a Power Purchase Agreement with the Copperbelt Energy Cooperation Africa (CEC) for the installation of a 57 megawatt plant in Freetown, with construction work expected to start in early 2017. Furthermore, to improve electricity supply to communities nationwide, Government is committing an amount of Le375.0 billion to finance the Rural Electrification Project in the next three years, 2017-2019.

67. In addition, the Governments of Sierra Leone, Guinea, Liberia and Cote d'Ivoire, will commence the construction of 1,525 kilometers of transmission line under the West Africa Power Pool (WAPP) Project in 2017. The Provincial cities of Bo and Kenema and their environs will particularly benefit from this project. The African Development Bank and the UK's Department for International Development (DfID) have committed to provide an amount of US\$ 53.0 million for the rehabilitation of the transmission and distribution systems of these cities.

68. Mr. Speaker, Honourable Members, as part of our effort to improve access to affordable and pure drinking water in both the Provincial and Western Areas, the Three Town Water Supply Project for Bo, Kenema and Makeni cities is almost complete. In this regard, I am pleased to announce that the OPEC Fund for International Development (OFID) has committed an additional US\$ 13.5 million for the expansion of the transmission and distribution network of the current project.

69. To address the perennial water scarcity in Freetown during the dry season, Government provided the sum of Le 3.0 billion to the Guma Valley Water Company. For the 10 - 24 months Presidential Recovery Priorities Programme, Government is working collaboratively with its donor partners, including DfID, UNDP and UNICEF to provide a Dry Season Water Supply Backup plan for Freetown. This scheme will involve the construction and reconstruction of boreholes and repairing and monitoring of the network and tankering.

70. In this regard, I am pleased to announce that donor partners and Government have together committed the sum of US\$ 2.6 million towards this project. Of this, Government will provide an amount of Le 8.9 billion (equivalent to US\$1.3 million). For a more sustainable water supply system, the United States Government, through the Millennium Challenge Corporation (MCC), has provided funds to support reforms in the water sector. UK-DFID has committed the sum of £ 37.0 million for the rehabilitation of the Guma Valley Water Company infrastructure. The African Development Bank is also considering funding the Freetown Water Supply Improvement Master plan.

VI. Government Spending and Revenues for 2017

71. Mr. Speaker, Honourable Members, total projected resources (domestic revenue and grants) for the Financial Year 2017 is Le 4.8 trillion (15.8 percent of GDP) compared to Le 4.0 trillion (15.1 percent of GDP) in 2016, a net increase of about Le 780.1 billion. Of this, Domestic revenue is Le 3.6 trillion, and Grants, Le 957.0 billion.

Expenditure for 2017

72. Mr. Speaker, Honourable Members, in 2017, Total Expenditure and Net Lending is projected at Le 5.4 trillion (17.8 percent of GDP) compared to Le 4.8 trillion (17.9 percent of GDP) in 2016. It is important to note that, about 94 percent of the projected additional resources of Le 780.1 billion will be utilized to finance key statutory expenditures, including activities of the National Electoral Commission (NEC) for the 2018 General Elections; the National Civil Registration Authority; the Post-Ebola Presidential Recovery Priorities; and Debt Service payments. On this basis, the allocations for Goods and Services for all MDAs have been broadly maintained at their 2016 budget levels.

73. Thus, budgetary allocations to these statutory and key priority areas are projected at Le 3.5 trillion compared to Le 2.7 trillion in 2016, an increase of about Le 742.5 billion. Of this amount, Le 322.0 billion is allocated to the National Electoral Commission. To support the preparations for the conduct of the 2018 General Elections, Government will contribute Le 209.5 billion and Development Partners Le 112.5 billion (the equivalent of US\$15.0 million). An amount of Le 180 billion is allocated to the National Civil Registration Authority to support the implementation of the national civil registration project; Le 3.5 billion to the Political Parties Registration Commission; and Le 2.4 billion allocated to the National Commission for Democracy to support their preparatory activities for the 2018 General Elections.

74. Mr. Speaker, Honourable Members, allocations to the Security Sector are marginally increased to support preparatory activities for the 2018 General Elections. An amount of Le 90.4 billion is allocated to the Military; Le 87.9 billion to the Sierra Leone Police; Le 34.3 billion to the Sierra Leone Correctional Services; and Le 8.8 billion to the National Fire Force.

75. For the 10-24 months Post-Ebola Presidential Recovery Priorities, Le94.9 billion is allocated to the Ministry of Health and Sanitation including Le37.9 billion for the procurement of Free Health Care and Cost Recovery Drugs; and Le10.0 billion to support Public Health Sierra Leone.

76. The Ministry of Education, Science and Technology is allocated an amount of Le 275.3 billion. Of this, Le140.0 billion is allocated to support tertiary, technical and vocational education and training; and Le 55.4 billion for the nationwide school Feeding Programme. Consistent with Government's plan to reduce its tuition fee subsidy for students, effective 2017/18 academic year, this will reduce from the current 70 percent to 50 percent of total fees. As stated in last year's budget, developing the institutional framework for the introduction of the Student Loan Scheme continues.

77. The Ministry of Energy is allocated Le173.0 billion from the domestic capital budget. Of this, Le 128.0 billion is to support the rural electrification programme in 2017, while Le 42.30 billion is allocated to rebuild and improve the distribution network. An amount of Le1.0 billion is allocated to the Barefoot Solar Training Centre.

78. The sum of Le11.8 billion is allocated to the Ministry of Water Resources from the recurrent budget. Of this, Le7.0 billion is allocated as grants to SALWACO. An additional amount of Le 12.1 billion is allocated to SALWACO from the capital budget. Of this, Le 7.1 billion is to rehabilitate, reconstruct and improve water supply systems in Mile 91, Bonthe City, Mattru, Taiama, Njala, Blama, Bandawor and six other villages, as well as the expansion of the Lungi water supply system.

79. To support good governance activities, an amount of Le 39.1 billion is allocated to the Judiciary, Law Officer's Department, Parliament, Audit Service and Anti-Corruption Commission (ACC).

80. To promote Government's diversification programme, an amount of Le 63.3 billion is allocated to the Ministry of Agriculture, Forestry and Food Security, of which, Le 48.6 billion for the Food Security Programme including Le 5.0 billion for the fisheries sector. Development Partners including IFAD, IDB, World Bank and JICA have committed Le 260.1 billion to support various agricultural projects. These projects aimed at increasing the production of food crops, production and export of cash crops and promoting value-addition activities.

81. The Ministry of Fisheries and Marine Resources is allocated an amount of Le 3.0 billion from the recurrent budget to support artisanal fishing and promote fish export activities. In addition, an amount of Le 4.6 billion is allocated from the domestic capital budget to promote inland fisheries and aquaculture as well as to support activities relating to the EU fish certification project. Development Partners will disburse Le 6.3 billion for institutional support to fisheries and fish stock assessment.

82. From the recurrent budget, the Ministry of Tourism and Culture is allocated an amount of Le 5.7 billion. Of this, Le 4.2 billion is support to the National Tourist Board for the development and implementation of the Tourism Marketing Strategy. In addition, an amount of Le 2.0 billion is allocated to the National Tourist Board from the domestic capital budget for the Lumley and Peninsula Beaches Development project and the Sustainable Tourism Development and Promotion Project. An amount of Le 2.0 billion is also allocated to the Ministry for the establishment of an Arts Gallery and for the completion of the Cultural Centre at Mabela.

83. The Ministry of Trade and Industry is allocated an amount of Le10.9 billion from the recurrent budget to support export development, produce marketing and improvements to the business environment.

84. The Ministry of Social Welfare, Gender and Children's Affairs is allocated an amount of Le 9.2 billion from the recurrent budget. Of this, Le 4.8 billion is for social protection programmes and Le1.8 billion for the Children's Commission. An amount of Le 500.0 million is also allocated from the domestic capital budget for the rehabilitation of Remand Homes and Approved Schools.

85. The Ministry of Works, Housing and Infrastructure is allocated an amount of Le 66.1 billion from the domestic capital budget. Of this, Le 44.1 billion is allocated to the Sierra Leone Roads Authority for the construction and rehabilitation of trunk roads; Le10.0 billion for the rehabilitation of streets in the Western Area; and Le10.1 billion for the rehabilitation of streets in district headquarter towns and selected towns. In addition, an amount of Le 97.2 billion is allocated to the Road Maintenance Fund for the rehabilitation of roads and streets countrywide. Development Partners will contribute Le 264.4 billion for the construction and rehabilitation of trunks roads.

Wages and Salaries

86. Mr. Speaker, Honourable Members, consistent with the Government's medium term wage policy, Wages and Salaries are projected to increase marginally to Le1.81 trillion (5.9 percent of GDP) in 2017 from Le 1.79 trillion in 2016. The increase of Le10.0 billion will finance new authorised recruitments in the civil service.

87. For predictability and stability of the wage bill, no department and/or agency of Government will henceforth implement new conditions of service for their staff without the prior approval of the Ministry of Finance and Economic Development. For equity, the payment of all annual leave allowances for public sector workers is

harmonized to one-month gross salary. Annual rent allowances will also not exceed 10 percent of annual gross salary for all public sector workers including staff of all sub-vented agencies effective 2017.

88. Total public debt service payments are projected at Le 846.9 billion in 2017 compared to Le 426.5 billion in 2016.

Revenue projections

89. Mr. Speaker, Honourable Members, in 2017, domestic revenue is projected to increase to Le 3.6 trillion (11.8 percent of GDP) from Le 2.8 trillion (10.5 percent of GDP) in 2016. Income Taxes are projected at Le1.3 trillion. Of this, Corporate Tax will contribute Le 362.0 billion; and Personal Income Tax, Le 884.0 billion. Goods and Services Tax (GST) is projected at Le 829.2 billion. Of this, Domestic GST will yield Le 379.7 billion. Import GST will contribute Le 449.5 billion.

90. Customs and Excise collection is projected at Le 994.0 billion. Of this, import duties will contribute Le 487.4 billion. Excise Duty on petroleum products is projected at Le 490.2 billion. Other excises are projected at Le 41.1 billion.

91. Mining royalties and licenses are projected at Le 167.6 billion. Other Ministries, Departments and Agencies will contribute Le 173.1 billion. These include royalties on fisheries at Le 62.0 billion and parastatal dividends at Le 39.0 billion. Road User Charges are projected at Le 128.1 billion.

92. For 2017, total grants from Development Partners are projected at Le 956.9 billion (3.1 percent of GDP) compared to Le 755.5 billion in 2016. Of this, budget support will amount to Le 464.4 billion and project grants at Le 380.0 billion.

Revenue Proposals

93. Mr. Speaker, Honourable Members, the Finance Bill 2017 which will soon be submitted to this Honourable House outlines the proposed changes to the following: (i) the Income Tax Act 2000; (ii) the Goods and Services Tax Act 2009; (iii) the Payroll Tax Act 1972; (iv) the Control of Gaming and Lottery Act 1969; (v) the Excise Act 1982; (vi) the Customs Act 2011; (vii) the Customs Tariff Act 1978; and (viii) other amendments to various Finance Acts. The provisions amended are in line with best practice with the objective to enhance revenues as well as strengthen administrative efficiency. The proposed revenue measures will yield about Le 40.0 billion in 2017.

94. Specifically, Mr. Speaker, the 2017 Finance Bill will:

- (i) Increase tariff rate on imports of cigarettes and tobacco products from 10 percent to 20 percent on Cost, Insurance and Freight (CIF) value;
- (ii) Re-introduce an excise tax on cigarette and tobacco products at 35 percent;
- (iii) Introduce a royalty charge of 0.5 percent on turnover of every company or taxable person providing telecommunication services;
- (iv) Revise the presumptive income tax rates for commercial vehicles and motor bikes operators;
- (v) Revise the presumptive income tax regime for alluvial gold and diamond mining activities;
- (vi) Increase the payroll tax for ECOWAS citizens from Le 500,000 to Le1.5 million and non-ECOWAS citizens from Le 3 million to Le 5 million;
- (vii) Increase the annual license fees for all businesses engaged in gaming and betting activities from US\$ 30,000 to US\$ 50,000;
- (viii) Introduce an excise duty of 20 percent on sales of gaming and betting tickets and stakes;
- (ix) Increase the tariff rate on import of water from 20 percent to 35 percent on CIF value;
- (x) Increase the tariff rate on import of soft drinks, juices and juice drinks to 35 percent on CIF value;
- (xi) Increase the tariff rate on imported wheat flour from 10 percent to 35 percent;
- (xii) Revise customs tariff rate for raw and packaging materials to 3 percent
- (xiii) Introduce an Africa Union levy of 0.2 percent on CIF value of all imports;

- (xiv) Implement fully the ECOWAS Common External Tariff (CET) rates
- (xv) Remittance of PAYE of expatriate staff in foreign currency to the Consolidated Revenue Fund;
- (xvi) All Non-Governmental Organisations (NGOs) are required to pay import duty on their imports into an Escrow Account which can be reclaimed;

95. Mr. Speaker, to strengthen compliance and administrative efficiency, the 2017 Finance Bill also addresses the following:

- (i) It limits income tax loss carry forward to 10 years;
- (ii) It clarifies and broaden the definition of chargeable assets for purposes of determining when and how Capital Gains Tax applies;
- (iii) It strengthens and removes inconsistencies from procedures relating to filing of income tax returns;
- (iv) It clarifies and streamlines procedures for distress proceedings and installment of income tax;
- (v) It provides more specific definitions of GST exempt supplies for ease of administration; and
- (vi) It strengthens procedures for customs control zones.

96. Mr. Speaker, Honourable Members, with support from development partners, our efforts to reform the National Revenue Authority to improve its efficiency and effectiveness in revenue mobilization will be expanded. The reform programmes include the Revenue for Prosperity (R4P) programme funded by DfID; the Tax Administration Improvement Programme supported by the IMF; and the Revenue Administration Systems supported by the Multi-Donor funded Public Financial Management Improvement and Consolidation Project (PFMICP).

97. Key reforms include: (i) the establishment of a centralised debt management and compliance unit; (ii) Migration from ASYCUDA++ to ASYCUDA World; (iii) Development of a revenue accounting and reconciliation system; (iv) Improvement in customs valuation by updating the Price Reference Database (PRD) with original price data from the Cargo Tracking Company; (v) Full utilisation of mobile scanners for non-intrusive methods of import examination; (vi) Establishment and operationalisation of an Integrated Tax Administration System (ITAS); and (vii) Procurement and installation of electronic cash registers for GST administration.

The Challenges of Financing Infrastructure Projects

98. Mr. Speaker, Honourable Members, traditional and concessional sources of financing for infrastructure are inadequate to close our huge infrastructure deficit. Also financing from non-traditional sources, whose terms and conditions are usually less concessional is constrained by the need to maintain debt sustainability. Advanced economies are also experiencing fiscal difficulties.

99. In this situation, we must, therefore, look for innovative ways of financing our infrastructure projects from domestic sources. To this end, Government hereby establishes an **Infrastructure Development and Investment Fund**. This will be funded from levies, fees and other charges. In the meantime, Government has allocated Le 21.00 billion to kick-start the Fund.

The Challenges of Retail Fuel Prices

100. Mr. Speaker, Honourable Members, in recent years, Government adopted a two-tier pricing formula for fuel - a retail formula and a commercial formula. The commercial formula sets the price of fuel to reflect fully the movements in international oil prices and exchange rate. The price of imported refined petroleum products is quoted in US dollars. Hence, any depreciation in the exchange rate affects the domestic price of these products. Also, because the quantity of fuel imported is small, consumers do not benefit from economies of scale.

101. The commercial pricing formula is only applicable to large-scale businesses that buy in bulk. The retail formula, however, is set in such a way that the excise duty is regularly adjusted in order to keep the retail price low and constant for the majority of users, the general public. As a result of the continuing adjustment of the excise duty, our price for retail fuel is by far the lowest in the Sub-Region.

102. Mr. Speaker, an unintended consequence of this policy is the smuggling of significant quantities of our retail fuel to neighbouring countries. Also, due to the continuing adjustment of the excise duty referred to above, Government also lost significant revenue over the years including in 2016. As international price for crude oil continues to rise, the excise duty has steadily reduced reaching zero in May.

103. Mr. Speaker, Honourable Members, it is estimated that, in order to execute the functions of the State and provide services to its population, a country is required to mobilise revenue of at least 20 percent of GDP. At 10.5 percent of GDP, our revenues are just over half that level. Given our low revenue base, the budget cannot afford to

continue to lose revenue and make direct payments to oil companies. Total subsidy on petroleum products in the form of revenue lost is estimated at Le 200 billion during January to October 2016.

104. Paying these subsidies will create difficulties for Government to pay wages and salaries and other priority expenditures. It will also lead to the accumulation of huge arrears to suppliers as well as increased borrowing. This situation has, therefore, become untenable. Hence, Government has taken a decision to discontinue subsidies on petroleum products.

105. Mr. Speaker, Honourable Members, to ease the burden of this change in policy on the most vulnerable, as already announced, the 2017 budget provides for a substantial expansion of the existing social safety net schemes. These include, the school feeding programme and the procurement of additional buses.

VII. Risks to the implementation of the 2017 Budget

106. Mr. Speaker, Honourable Members, like any enterprise, the 2017 budget faces a number of risks which may reduce the projected fiscal space and adversely affect the implementation of the budget. These risks are described in detail in the Fiscal Strategy Statement (FSS), which, I now lay in the House. In general, these risks relate to the decline in international prices of iron ore; continued depreciation of the Leone; further rise in domestic interest rates; unsustainable external debt; contingent liabilities; and natural disasters and epidemics.

Mitigation Measures and Contingency Plans

107. Mr. Speaker, Honourable Members, to mitigate macroeconomic risks, relating to any further drop in iron ore prices, we adopted a conservative approach to budgeting assuming the lowest possible price for iron ore so as to avoid any possible shocks to the budget. In the unlikely event prices of iron ore fall below this assumed price, the Government will review expenditures and identify possible areas of savings. With regard to exchange rate and interest rate changes, Government will implement sound macroeconomic policies to maintain macroeconomic stability.

108. For contingent liabilities, the new PFM Act, 2016 and the Public Debt Act, 2011, mandate financial reporting requiring State Owned Enterprises (SOEs) to disclose fully their financial operations, including guarantees, debts contracted, arrears owed including tax obligations to the Ministry of Finance and Economic Development. In addition, we will ensure MDAs adhere strictly to their budgeted programmes.

109. In respect of natural disasters, Government will institute appropriate mitigating measures even before their occurrence, including a timely and adequate response. In this regard, Government will support the Office of National Security (ONS) to develop the capacity for early warning signals and to enhance sensitization and awareness on the adverse impact of disasters, especially for disaster prone areas.

Conclusion

110. Mr. Speaker Honourable Members, in concluding this statement, I will start by thanking especially my colleague Ministers for their invaluable contributions in shaping the policies and measures I have just announced. The Ministers of State and the Deputy Minister in MoFED, the Financial Secretary and staff of MoFED also deserve special mention. The Governor, Management and staff of the Bank of Sierra Leone are recognized for their collaboration and cooperation in the coordination of fiscal and monetary policies. The Commissioner-General, Management and staff of the National Revenue Authority also supported this effort.

111. Mr. Speaker, Honourable Members, let me also thank wholeheartedly the Chairpersons of the Finance and Transparency Committees of Parliament, and our Development Partners, who continue to support us. The District Budget Oversight Committee Members, the Non-State Actors and members of the electronic and print media that participated in our open budget discussions require special mention as well. As usual, the Government Printer and staff rose to the occasion and produced the printed Statement and Estimates on time.

112. Mr. Speaker, Honourable Members, I have today reported on an economy that is back to a positive growth trajectory. The economy is improving because we confronted the problems and took the difficult decisions, including the recently announced economic measures. Our economy is also resilient as we have held to the course we set out. Our challenge is to diversify our economy to reduce our reliance on one major export given the fragile outlook of the global economy. In this budget, we set out in detail the actions we will take to diversify our economy; empower our people; expand our safety net programmes; and enhance our domestic revenue to ensure fiscal sustainability.

113. Our 'Made in Sierra Leone' empowerment programme will reduce our dependence on imports by growing and packaging rice, adding value to tomato to get tomato puree; processing soya beans and groundnut to produce cooking oil; and packaging our Mina fish to produce sardines.

114. Fellow Sierra Leoneans, the World is at a threshold of huge challenges, be it frequent occurrence of natural disasters, civil wars or economic recessions, thereby, making life difficult across all nations. What Sierra Leone needs is nationhood to engender great sacrifices, commitment to doing the right thing, respect for the rule of law, and strong entrepreneurial spirit. We Sierra Leoneans must collectively take our destiny into our hands; we must make Sierra Leone our own. We must take control of our economy. This the Dream. This is the future for Sierra Leone.

115. Mr. Speaker, Honourable Members, this is our budget and I commend it to the House.

116. I thank you for your attention and wish you a blessed and peaceful Christmas and a Happy New Year.

BUDGET PROFILE



GOVERNMENT OF SIERRA LEONE

GOVERNMENT BUDGET

and

STATEMENT OF ECONOMIC AND FINANCIAL POLICIES

For the Financial Year, 2017

*Theme: "Recovery through Economic Diversification and
Fostering Entrepreneurship"*

DELIVERED BY

MOMODU L. KARGBO

Minister of Finance and Economic Development

in the Chamber of Parliament

TOWER HILL, FREETOWN

ON

Friday, 11th November 2016

at

10:00 a.m.