BUDGET CREDIBILITY REPORT

2017-2019

HOW CREDIBLE IS THE SIERRA LEONE GOVERNMENT BUDGET?

Acknowledgement

We are pleased to present the Budget Credibility report which covers the period 2017-2019. This analysis was undertaken by the Consortium of Non-Governmental Organizations (NGOs), led by Christian Aid under the DFID supported Public Financial Management (PFM) Project titled "Strengthening Public Financial Management, Anti-Corruption and Accountability Institutions in Sierra Leone".

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We are excited to publish this report and hope the findings contribute to improvements in the budget credibility of Sierra Leone.

Acronyms

AfDB	African Development Bank
APC	All People's Congress
ASYCUDA	Automated System for Customs Data
CIT	Corporate Income Tax
COVID	Corona Virus Disease
DFID	Department for International Development
ECF	Extended Credit Facility
ECOWAS	Economic Committee of West Africa States
ESW	Electronic Single Window
GDP	Gross Domestic Product
GoSL	Government of Sierra Leone
GPFS	General Purpose and Financial Statement
GPFS	General Purpose Financial Statements
GST	Goods and Service Tax
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
LTO	Large Tax Office
MAF	Ministry of Agriculture and Forestry
MBSSE	Ministry of Basic and Senior Secondary Education
MDA	Ministries, Departments and Agencies
MEST	Ministry of Education Science and Technology
MoF	Ministry of Finance
MoHS	Ministry of Health and Sanitation
MTHE	Ministry of Tertiary and Higher Education
MTO	Medium Tax Office
NMA	National Mineral Agency
NRA	National Revenue Authority
PAYE	Pay As You Earn
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Surveys
PIT	Personal Income Tax
QAERP	Quick Action Economic Response Programme
SALPOST	Sierra Leone Postal Services
SLPP	Sierra Leone People's Party
SMEs	Small and Medium Enterprises
TSA	Treasury Single Account
UNCTAD	The United Nations Conference on Trade and Development

TABLE OF CONTENT

FIGURES AND TABLES

Executive Summary.

Budgets are one of the key tools that governments use to turn policy intentions into concrete interventions to achieve their objectives. Once approved, we expect the government's budget to function as a roadmap, guiding spending toward effective delivery of public services and progress on sustainable development. If the budget veers off course, it raises concerns around why this happened and what the consequences will be. Repeated deviations from this roadmap can diminish confidence in government and elicit skepticism about the seriousness of the development commitments made.

This revenue and expenditure credibility analysis is designed to provide Sierra Leoneans, the Government of Sierra Leone (GoSL), development partners and other stakeholders with a full picture of revenue and expenditure in 2017, 2018 and 2019. Various Public Expenditure and Financial Accountability (PEFA) assessment reports (2010, 2014, and 2018) have highlighted the challenges in implementing a credible budget in Sierra Leone. The aim is to highlight performance against the budget at the total and sector level, to draw out some of the reasons behind this, and identify the impacts on public service delivery. The assessment will assist government in addressing some of the challenges that are adversely affecting budget credibility. It will also provide a basis for dialogue between civil society, Parliament, development partners and the GoSL regarding its public financial management reform strategy (2018 – 2021) and delivery of the National Development Plan.

The assessment findings show that overall revenue forecasts have improved over the period, whilst the performance on the expenditure side is more mixed.

THE VARIATION BETWEEN REVENUE FORECASTS CONTAINED IN THE BUDGET AND ACTUAL REVENUE HAS NARROWED FROM LE 256 BILLION IN 2017 TO LE 20 BILLION IN 2019.

The GoSL policy pronouncements in the statement of economic and financial policies and the various Finance Acts have had a positive impact on domestic revenue mobilization, which has increased from 12.3 percent of GDP in 2017 to 14.3 percent of GDP in 2019. [1]

IN 2017, TOTAL EXPENDITURE WAS CLOSELY IN LINE WITH THE BUDGET (JUST 2% BELOW THE BUDGETED), WHILST IN 2018 AND 2019 ACTUAL EXPENDITURE WAS 6-7% LOWER THAN BUDGETED.

1 2019 Annual statement of government account

POOR BUDGET CREDIBILITY HAS HINDERED THE WAY MDAS ARE ABLE TO DELIVER PUBLIC SERVICES AND HAS LED TO SIGNIFICANT UNPREDICTABILITY IN OVERALL BUDGET EXECUTION.

IN 2017, THE MINISTRY OF ENERGY, THE MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT, THE NATIONAL ELECTORAL COMMISSION HAD MORE RESOURCES ALLOCATED TO THEM THAN THEIR APPROVED BUDGET.

IN 2019, THE OFFICE OF THE PRESIDENT, PENSION PAYMENTS, MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL COOPERATION AND THE MINISTRY OF WORKS, HOUSING AND INFRASTRUCTURE WERE THE MAIN MDAS THAT HAD MORE RESOURCES THAN THEIR APPROVED BUDGET.

Expenditure rationalization has resulted in the expenditure-to-GDP ratio declining from 23.5 percent in 2017 to 20.6 percent in 2019. Budget credibility and reliability continues to be an ongoing challenge.

In recent years, the implementation of a credible budget has been challenging due to the variation between approved and actual revenue and expenditures. Poor budget credibility has hindered the way MDAs are able to deliver public services and has led to significant unpredictability in overall budget execution. The current budget credibility assessment illustrates the persistent Public Financial Management (PFM) challenges. Significant issues are identified in the execution of the budget including unpredictable and untimely allocation, some MDAs getting more than their approved budget, some programmes within an MDA getting more resources, and the implementation of new programmes in-year.

Equally important as aggregate level performance is the credibility of the budget in terms of allocations given to individual Ministries, Departments and Agencies. This provides an indication of whether the MDAs are able to deliver on their key objectives. Although in 2018 and 2019 the Government underspent slightly on aggregate, some Ministries, Departments and Agencies received far more than their approved budget, drawing funds away from other MDAs. For example, in 2017, the Ministry of Energy, the Ministry of Finance and Economic Development, the National Electoral Commission had more resources allocated to them than their approved budget. In 2018, allocations to the Office of the President, Correctional Services, pension payments and the Ministry of Works, Housing and Infrastructure exceeded their approved budget. In 2019, the Office of the President, Pension payments, Ministry of Foreign Affairs and International Cooperation and the Ministry of Works, Housing and Infrastructure were the main MDAs that had more resources than their approved budget.

Allocations to the Office of the President, pension payments and the Ministry of Works, Housing and Infrastructure exceeded their approved budgets, owing to increase in overseas travel (Office of the President) and payment to contractors for road works (Ministry of Housing and Infrastructure). In addition, allocations are not released on time and this has the tendency to affect the implementation of activities.

Assessments of budget credibility are undertaken within the Public Expenditure and Financial Accountability (PEFA) assessment framework. The most recent PEFA assessment in Sierra Leone was undertaken in 2018 based on 2014-2016 data. This report provides an informal assessment of the Government's performance against the PEFA indicators relating to budget credibility to indicate direction of travel prior to the next formal PEFA, due in 2021. Since the 2018 PEFA assessment, the GoSL has made positive strides in domestic revenue mobilization and expenditure rationalization which has seen an improvement in the budget deficit. However, there are still huge variances between the approved budget and actual allocations made to MDAs.

The government's macroeconomic framework under the Extended Credit Facility Arrangement with the International Monetary Fund was on track prior to COVID-19, and the second review was completed in April 2020.

The PEFA 2018 report gave an overall rating of D for PI-1, D for PI-2 and C+ for PI-3. The analysis for this assessment shows the overall rating for PI-1 is D, PI-2 is D and PI-3 as C+ as shown below;

THE AVAILABILITY OF EXTERNALLY FUNDED DATA AND THE CATEGORIZATION OF REVENUE ACCORDING TO GOVERNMENT FINANCIAL STATISTICS MIGHT IMPROVE THE SCORES OF THESE INDICATORS.

THE NEW GOVERNMENT HAS DISPLAYED COMMITMENT IN THE IMPLEMENTATION OF MEASURES TO INCREASE REVENUE AND RATIONALIZE EXPENDITURE. THIS HAS RESULTED IN LOWER BUDGET DEFICITS IN 2018 AND 2019.

Budget Reliability Indicators		Scoring Method	Dimension Rating, 2017 – 19 (2014-16 in parenthesis)			Overall Rating
PI-1	Aggregate expenditure outturn		D*(D*)			D*(D)
PI-2	Expenditure composition outturn	M1	D*(D*)	D*(D*)	D*(D*)	D(D)
PI-3	Revenue outturn		A(A)	D*(D*)		C+(C+)

This reflected no change from the PEFA 2018 assessment. The availability of externally funded data and the categorization of revenue according to government financial statistics might improve the scores of these indicators.

Improving budget credibility entails much more than keeping within the appropriation approved by Parliament. It also involves ensuring MDAs are able to get a significant portion of their approved budget on time. It is imperative that the forecasting of revenues and expenditures over the medium term is improved in order to minimize the in-year adjustments, which have been a regular occurrence over the years. Strict adherence to the PFM Act, 2016, and PFM Regulations, 2018, will also contribute towards the implementation of a credible and transparent budget throughout the year. The new government has displayed commitment in the implementation of measures to increase revenue and rationalize expenditure. This has resulted in lower budget deficits in 2018 and 2019. However, there are major problems in the allocation of resources to MDAs with some getting more than their approved allocation.

An evolving challenge that will impact on budget credibility for the 2020 budget is the outbreak of the COVID-19 pandemic. Given the fiscal constraint of government, additional resources will be reallocated to the Health sector given that this was an unforeseen situation. Despite this evolving challenge, government should ensure the process of allocating expenditure is done within the ambit of the Public Financial Management Act (PFM, 2016), which requires the submission of a supplementary budget to Parliament.

1

1.0 Introduction

Be it a household, business or public institution, all entities use budgets – estimates of income and expenditure covering a set period of time in the future – to maximize their gains from spending. A budget compels decision-makers to consider the costs and trade-offs of various spending choices, helps to coordinate action among dispersed actors, and supports the evaluation of performance. In this way, a budget serves as a key management tool to help organizations deliver specific outcomes.

However, budgets can also serve a second purpose: that is to act as a contract between parties. Whether in a private or public setting, one party agrees to make funds available on the condition that the recipients spend the funds in accordance with an agreed budget. For nation states, the idea of a budget as a 'social contract' lies at the heart of the democratic process. The credibility of the national budget is thus important both for the efficiency of public spending and for democratic legitimacy.

1.1 Rational and purpose

This revenue and expenditure credibility analysis is designed to provide Sierra Leoneans, the Government of Sierra Leone (GoSL), development partners and other stakeholders with a full picture of revenue and expenditure in 2017, 2018 and 2019. Various PEFA assessment reports (2010, 2014, and 2018) have highlighted the challenges in implementing a credible budget in Sierra Leone.

The rationale of this report is to highlight performance against the budget at the total and sector levels, to draw out some of the reasons behind this, and identify the impacts on public service delivery. The assessment will assist government in addressing some of the challenges that are adversely affecting budget credibility. It will also provide a basis for dialogue between civil society, Parliament, development partners and the GoSL regarding its Public Financial Management Reform Strategy (2018 – 2021).

THE RATIONALE OF THIS REPORT IS TO HIGHLIGHT PERFORMANCE AGAINST THE BUDGET AT THE TOTAL AND SECTOR LEVELS, TO DRAW OUT SOME OF THE REASONS BEHIND THIS, AND IDENTIFY THE IMPACTS ON PUBLIC SERVICE DELIVERY.

In a well-functioning system, budgets should reflect national development plans and priorities, be based on realistic estimates of revenue, and be designed to take into account the long-term sustainability of government finances. Once the budget has been approved, Ministries, Departments and Agencies should have a clear understanding of the resources available to execute their plans and these should be made available in a timely manner. Delays or shortfalls have real impacts on service delivery and implementation of longer-term investments for development. If total revenue or total spending differ from that in the budget, it can undermine development plans and service delivery and/or result in unsustainable levels of borrowing and inflation. For these reasons, it is important that the budget is realistic to begin with and executed as planned, in other words, that it is "credible".

This budget credibility report is undertaken using the Public Expenditure and Financial Accountability (PEFA) assessment framework of 2016. PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important Public Financial Management institutions, systems, and processes.

The report outlines the various revenue policies and tax administration measures implemented by government, analyze budget credibility in 2017, 2018 and 2019, analyze revenue performance over the same period, and provides sectoral analysis of disbursements made to MDAs with an overview of the context of fiscal management in Sierra Leone.

This report is put together by the civil society of Sierra Leone. It is independent from government.

IF TOTAL REVENUE OR TOTAL SPENDING DIFFER FROM THAT IN THE BUDGET, IT CAN UNDERMINE DEVELOPMENT PLANS AND SERVICE DELIVERY AND/OR RESULT IN UNSUSTAINABLE LEVELS OF BORROWING AND INFLATION.

1.2 Assessment Methodology

1.2.1 Coverage of the assessment

The overall purpose of this report is to provide analysis of revenue and budget credibility in Sierra Leone. This has been carried out at a macro level, as well as doing some analysis of key sector ministries (health, agriculture and basic/tertiary education). The macro analysis is focused largely on an update of selected indicators in the Sierra Leone PEFA assessment 2018. Assessment of the PEFA Indicators (PI) 1, 2 and 3 has been based on the 2016 PEFA framework, with data for 2017, 2018 and 2019. Comparisons are made to the 2018 PEFA assessment, which used data from 2014-2016. The unavailability of data on externally-funded projects makes it impossible to rate some indicators on budget credibility in line with the PEFA definitions. Beyond the macro assessment, analysis has also been carried out on several service delivery ministries to analyze their budget against actual allocation and disbursement. Analysis is also provided on the Government's implementation of revenue measures contained in the 2019 budget.

1.2 Assessment Methodology

The assessment relied on several methods for data collection. The assessment has utilized the most recent available data from the annexes of the government statement of economic and financial policies, the financial management Acts, the fiscal tables and the General-Purpose Financial Statements (GPFS) of the consolidated fund in 2017, 2018 and 2019. Interviews were also conducted with some officials in the Ministry of Finance and the National Revenue Authority. The assessment covers only the central government, which includes extra-budgetary agencies (sub-vented agencies and semi-autonomous agencies) but not local councils or state-owned enterprises.

2

2.0 Revenue credibility

Since 2018, there has been tremendous improvements in fiscal performance through the implementation of revenue policies as contained in the Executive Order 1, a statement of economic and financial policies by the New Direction government, and the Finance Act, 2019. These policies are also part of the fiscal framework under the Extended Credit Facility (ECF) arrangement with the International Monetary Fund and budget support triggered under the European Union State Building Contract project.

The National Revenue Authority (NRA) implemented a number of administrative measures to boost revenue collection in 2019. These included:

- *Intensified audits of taxpayers, including desk audits*
- *Close tracking of PAYE and GST Compliance of the LTO and MTO taxpayers*
- *Engagement with taxpayers as a first step before enforcement*
- *Aggressive and extensive taxpayer education programmes (NRA Hour, other Radio and TV discussions, social media articles, tax guide, print media, and sending taxpayer reminders)*
- *Enforcement actions (Garnishee operation, and seldom sealing of defaulter premises as last resort)*
- *Liberalization of fuel prices.*
- *Tracking system of NTR payments including TSA, mines and Fisheries obligations.*
- *Collaboration with Ministry of Finance and revenue collecting MDAs including Treasury Single Account (TSA) agencies, NMA, Ministry of Fisheries and the Timber agent.*
- *Increased Data analysis and investigations of taxpayers.*
- *Conduct of conference examination of taxpayer accounts, with the advantage of speeding up the number of accounts examined and introducing transparency in the assessment process.*
- *Implemented key policy provisions in the Finance Act 2019 including the increased coverage of the Financial Management and Control Acts for TSA agencies*

The NRA is automating the tax processes and procedures through the adoption of an Integrated Tax Administration System (ITAS) for domestic taxes. ITAS will automate and integrate domestic tax transactions and ensure taxpayers can now file their tax returns and pay their taxes online. With funding from the World Bank, the government of Sierra Leone signed a contract with the vendor in October 2018. The plan was to go live with the implementation of core modules registration, returns filing and assessment and payments) of the core taxes (CIT, PIT and GST) in March, 2020. However, the COVID-19 pandemic has put a halt on the implementation process.

In addition, the NRA implemented the following revenue measures:

- *Revenue from cargo tracking paid into the Consolidated Revenue Fund.*
- *Enhancing the taxpayer register.*
- *Continued liberalization of the fuel pump prices.*
- *Intensify tax education measures.*
- *Continued liberalisation of fuel pump prices.*
- *Tracking tax obligations/arrears and applying enforcement measures.*
- *Went live with ASTCUDA World at the Queen Elizabeth II Quay and roll-out ASYCUDA World at Kissy Terminal, SALPOST, Lungi Airport and Gbalamuya customs post.*

Other revenue reforms include:

- *The implementation of an electronic cash register to capture sales data of businesses to improve compliance in domestic GST collection: A pilot survey on the technical needs and readiness of the pilot taxpayers has been completed. Also, public awareness campaigns through TV and radio as well as meetings with taxpayers have started. The Project Implementation Team has drafted a plan for the education and sensitization of NRA management and staff; other MDAs; Private sector (Commercial banks, Contractors, Professionals); informal associations and groups; universities & colleges and civil societies.*
- *Customs Single Window Implementation: Part of the contract signed with UNCTAD for the delivery of the ASYCUDA World has to do with implementation of Customs Electronic Single Window (ESW) for 8 MDAs. Whilst the AW implementation is completed and rolled out to targeted borders (except Jendema), the ESW portion is still under development and yet to be implemented. The NRA is working with the UNCTAD and MOF to implement the ESW. UNCTAD have agreed to a no-cost extension for implementation of this phase of the signed contract.*
- *Enhancing Tax Compliance project: The government recently signed a contract with AfDB for implementation of the $1.4 million project to the NRA to enhance tax compliance through the implementation of three components: TA in implementation of ECR, institution of a National Taxpayer Day, and implementation of a Domestic Tax Preparer Scheme for the SMEs taxpayers.*

Although the government had made progress in implementing policies that has resulted in the improvement of the revenue-GDP ratio from 12.3 percent in 2017 to 14.3 percent in 2019, achieving the 20 percent revenue-GDP ratio by 2023 will be very challenging. The outbreak of COVID-19 has made that target even more difficult to achieve. The COVID-19 pandemic will pose significant macroeconomic and fiscal risks to the government over the short to medium term. Current revenue forecasts have been revised downwards to reflect the change in the external environment.

ALTHOUGH THE GOVERNMENT HAD MADE PROGRESS IN IMPLEMENTING POLICIES THAT HAS RESULTED IN THE IMPROVEMENT OF THE REVENUE-GDP RATIO FROM 12.3 PERCENT IN 2017 TO 14.3 PERCENT IN 2019, ACHIEVING THE 20 PERCENT REVENUE-GDP RATIO BY 2023 WILL BE VERY CHALLENGING.

2.1 PI-3Revenue out-turn

A good and realistic revenue forecasts is a key input to the preparation of a credible budget. The revenue generated allows the government to finance expenditures and deliver services in its development strategy. Overly optimistic revenue forecasts result in in-year adjustments in spending or an unplanned increase in borrowing to sustain the spending level. On the other hand, poor revenue forecast can result in the overachievement of targets and can result in spending that has not been subjected to the scrutiny of the budget process.

The main responsibility for the preparation of revenue projections is assigned to the Macro Fiscal Policy Division of the Ministry of Finance. The forecast in done in collaboration with the Bank of Sierra Leone, National Revenue Authority, Statistics Sierra Leone. Other MDAs are invited to provide specific information relating to their sectors.

The revenue outturn indicator measures the differences between the revenue projections included in the budget approved by Parliament and actual revenue collection at the end of the fiscal year, both at the aggregate level and disaggregated by the different categories or types of revenue, not including external financing (borrowing). The revenue data for the assessment, of both aggregate and disaggregated by type of revenue, was obtained from the various budget annexes and GPFS of 2017, 2018 and 2019. The values for the approved budget are consistent with the amounts approved by Parliament for the last three completed fiscal years. The values for actual revenue collection (cash basis) have been taken from the GPFS for each of these fiscal years.

2.2 Aggregate revenue out-turn

This indicator is intended to assess the quality of revenue forecasting by comparing revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non-tax revenues and grants. Domestic revenue increased by 37.2 percent to Le 4,582 billion (13.7 percent of GDP) in 2018 from Le 3,340 billion (12. 3 percent) in 2017. In 2019, domestic revenue increased to Le 5,643 billion (14.3 percent of GDP), an increase of 23.2 percent from Le 4,582 billion in 2018. Aggregate revenue was 85.3% of budget in 2017, 100.9% in 2018 and 99% in 2019 (see Annex I). Aggregate revenue includes donor grants, so the variance calculation is consistent with the 2016 PEFA Framework. Although 2017 was an outlier when actual revenue was well below the revenue estimates, the variance in two of the three years (2018 and 2019) was between 97% and 106% of budget in two out of three years. As a result, the indicator is rated at A.

DOMESTIC REVENUE INCREASED BY 37.2 PERCENT TO LE 4,582 BILLION (13.7 PERCENT OF GDP) IN 2018 FROM LE 3,340 BILLION (12. 3 PERCENT) IN 2017. IN 2019, DOMESTIC REVENUE INCREASED TO LE 5,643 BILLION (14.3 PERCENT OF GDP), AN INCREASE OF 23.2 PERCENT FROM LE 4,582 BILLION IN 2018.

2.3 Revenue composition out-turn

This dimension is new to the 2016 PEFA Framework and is based on a GFS 2014 categorization of revenue at level 3 or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. It includes disaggregation of revenue into taxes (taxes on income profits, taxes on payroll, taxes on property, taxes on goods and services, taxes on international trade, other taxes), social contribution, grants (from foreign government, from international organizations) and other revenue (property income, sales of goods and services, fine, penalties and forfeiture, transfers not elsewhere classified) and not just tax, non-tax, and grants.

This method of compiling revenue data is not currently operational in Sierra Leone, so the score is D*. The NRA classification over six revenue sources, plus grants, is used for this computation. Revenue composition variance is calculated at 14.9%, 23.1% and 10.5% for 2017 to 2019 respectively (lower receipts from customs and excise department and grants), 2018 (lower receipts from goods and services tax and customs and excise department) and 2019 (lower receipts from income tax and customs and excise department) respectively; indicating that the variance is less than 15 percent in two of the three years. Such a score will be rated as C+.

Comparing actual collections with original budgets, most revenue sources show high variance in both directions, especially mineral revenues and grants. Receipt of goods and services, on the other hand, have been grossly under-budgeted, and road user charges were over-budgeted in each year.

Score	Minimum requirements for scores
3.1. Aggregate revenue outturn	
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
D	Performance is less than required for a C score.
3.2. Revenue composition outturn	
A	Variance in revenue composition was less than 5% in two of the last three years.
B	Variance in revenue composition was less than 10% in two of the last three years.
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.

Indicator/Dimension	Score	Brief Justification for Score
PI -3 Revenue out-turn	C+	M2 method of combining dimension scores
3.1 Aggregate revenue out - turn	C	Revenue was between 97% and 106% of budget in 2014 and 2016
3.2 Revenue composition out-turn	D*	Variance was more than 15% in all years but was not calculated on a GFS classification.

3

3.0 Budget Reliability

Budget reliability assesses whether the government budget was realistic and was implemented as approved by Parliament. Realism and reliability underpin good fiscal management and are essential for long-term fiscal sustainability. When the budget is executed as approved by Parliament, it will ensure that the activities and programmes are being implemented. This pillar assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviated from the original budget for the last three years of available data (including expenditures financed externally by grants reported in the budget, contingency votes, and interest payments).

PI-1 Aggregate expenditure out-turn

Dimension to be assessed: The difference between actual expenditure and originally budgeted expenditure[2]

This indicator measures the extent to which aggregate budget expenditure out-turn reflects the amount originally approved by Parliament, as defined in the annexes of the government statement of economic and financial policies and the recurrent and development expenditure estimates for each of the fiscal years under consideration (2017, 2018 and 2019).

In previous assessment, data on externally funded development expenditure were not included in the assessment of this indicator, and as such, information was not published in the GDFS. The exclusion of donor funded data in the government accounts has not changed this assessment from the PEFA assessment in 2018. This made it impossible to assess this indicator, and hence is rated as D.

The percentage deviation between aggregate expenditure out-turn and amount approved by Parliament for 2017, 2018 and 2019 are shown in the table below (Calculations are shown in Annex I). As with the PEFA report 2017, the omission of significant donor expenditure means that data is not available to score this indicator in accordance with PEFA 2016 requirements, so the score is D*.

In the absence of donor funded data, the evidence provided show that actual expenditure was between 90% and 110% of budget in 2017 and 2019, and would have been scored B, which is an improvement on the last PEFA assessment (which would have scored a C on expenditure excluding donor funding), but for the

[2] The data for assessing this indicator is the general purpose financial statements (GPFS) of the consolidated fund published by the Accountant General's Department. It covers total expenditure, including contingency, interest payments but excludes externally funded development expenditure.

lack of data on total expenditure. Actual expenditure was lower than the amount approved in the budget by less than 10 percent in two of the last three completed fiscal years (6.7 percent and 6.3 percent lower than approved expenditure in 2018 and 2019 respectively). However, in 2017 actual expenditure was higher than the approved budget by less than one percentage point.

Table 1: Budgeted and Actual expenditure for 2017, 2018 and 2019 (Le Billions)

Fiscal Year	Original Budget (A)	Actual Expenditure (B)	B/A (Percent)
2017	4,175,000	4,201,570	100.6%
2018	6,263,119	5,843,336	93.3%
2019	5,098,666	4,779,152	93.7%

Source: Annual Public Accounts and Budget Annex I

These levels of deviation can be accounted for, according to a Ministry of Finance official, by the expenditure rationalization measures that were implemented in 2018 and 2019, especially the expenditure measures outlined in Executive Order number 2. However, many of the factors behind budget credibility challenges highlighted in the 2018 PEFA assessment persist, including politically directed re-allocation, poor planning and in-year policy changes.

Score	Minimum requirements for scores
1.1. Aggregate expenditure outturn	
A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
B	Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.
C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.
D	Performance is less than required for a C score.

Indicator/Dimension	Score	Brief Justification for Score (with cardinal data used)
PI -1 Aggregate expenditure out-turn compared to original approved budget	D*	Actual expenditure was between 90% and 110% of budget in two of the last three years and would have been scored B except that no data was available on total expenditure including donor projects.

PI-2: Expenditure composition out-turn by function

This indicator measures the extent to which re-allocations between the main categories of the original budget during execution contribute to variance in actual expenditure composition beyond the variance resulting from changes in the overall level of expenditure. It is an indicator that shows how the budget policy was adhered to over the period under review.

3.1 Expenditure composition out-turn by function

This measures the difference between the originally approved budget and actual out-turns. As a full functional analysis of expenditure is not provided, the classification by administrative head (Ministry/Department/Agency) that are included in the approved budget is used for this analysis. Expenditure is taken excluding contingency items and interest on debt. As donor-funded project expenditure is not brought into IFMIS in Sierra Leone, though it is included in the budget, it is hereby omitted from both budget and actual expenditure, and the same reservation applies as in PI-1 above.

It is also important to note that the budget heads have changed since the last PEFA assessment. For instance, there were 75 budget heads in 2017, 83 budget heads in 2018 and 87 budget heads in 2019. In 2017, the 20 largest administrative budget heads accounted for 87 percent of actual expenditure. In 2018, the 20 largest administrative budget heads accounted for 80.4 percent of actual expenditure. For 2019, the 20 largest administrative budget heads accounted for 74.2 percent of actual expenditure. The importance of this is that budgetary resources could have been better rationalized, thereby enabling MDAs to implement their programmes as approved in the budget. This analysis in Annex I, based on the standard PEFA methodology, shows that composition variance was 40.1 percent, 21.4 percent and 28.2 percent in 2017, 2018 and 2019 respectively. This will be rated D, as in the previous assessment, as a higher rating would require variance to have been less than 15 percent in at least two of the three years under review. Furthermore, the absence of donor funded data will also prevent the indicator from getting a higher score. The very high variance appears to be due to a number of reasons;

- *Over the review period, although some MDAs continue to get more than their approved budget, the Office of the President, pension payments and the Ministry of Works, Housing and Infrastructure have been constantly receiving more resources than their approved budget.*

- *The implementation of new programmes in-year which often results in the re-allocation of resources within the MDA.*

- *Poor budget preparation on the part of MDAs - according to an official from the Ministry of Health and Sanitation, budget preparation has become a routine exercise, as MDAs no longer commit themselves to properly cost their programmes. Thus, allocations have hardly matched the approved budget over the years. For example, the Ministry of Energy underbudgeted for fuel supplies in the provinces, especially Bo City, given the political importance of the City.*

- *Furthermore, the in-year execution of new activities diverts resources away from other activities which had already received Parliamentary approval. For example, in 2018, the purchase of teaching and learning materials resulted in substantial re-allocation of resources within the Ministry of Basic and Secondary Education, which resulted in some programmes, like teacher supervision and training, not being implemented.*

3.2 Expenditure composition out-turn by economic type

This dimension measures the difference between the originally approved budget and end-of-year out-turn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

Variance in expenditure according to economic type is calculated in accordance with PEFA 2016 framework. It is based on total expenditure excluding contingency and donor-funded project expenditure but including interest. The composition of the budget by economic classification is important for showing the movements between different categories of inputs—for example, capital and recurrent expenditures.

Table 2: Composition of variance of economic classification of the budget for 2017, 2018 and 2019 (%)

Table 3.2: Results Matrix	
Year	Composition Variance (Economic Classification) (%)
2017	29.2
2018	44.8
2019	46

Source: General Purpose Financial Statements

The composition of variance for the review period was 29.2%, 44.8% and 46.0%, which shows that the variance in expenditure composition by economic classification ranged between 29.2 percent and 44.8 percent during 2017, 2018 and 2019 respectively, as shown in table 2. Hence, the score for the present dimension is D. In 2017, goods and services, transfers and grants and capital expenditure were responsible for the variance of 29 percent. In 2018 and 2019, the variance of 44.8 percent and 46.0 percent was driven by goods and services and capital expenditures. The weak score is a cause for concern as it shows the actual expenditure on goods and services economic classification, which is essential for supporting the activities of Ministries, Departments and Agencies.

It is under the goods and services budget that MDAs provide estimates for their programmes to be implemented. For example, in 2019, the Ministry of Health and Sanitation's Primary Health Care Division received only Le 740 million from a budget of Le 20.4 billion (4% execution rate). This means that health service delivery at the primary level will be reduced, hence citizens will not receive adequate healthcare. Similarly, capital expenditures have been below the approved budget over the review period. The Ministry of Health only received Le 3.2 billion of their capital budgets from an approved amount of Le 52 billion (6 percent execution rate). The completed working table on expenditure classification variance for each of the last three completed fiscal years is in Annex I.

3.3 Expenditure from contingency reserves

This dimension recognizes that it is prudent to include an amount to allow for unforeseen events in the form of a contingency vote, although this should not be so large as to undermine the credibility of the budget.

Sections 36 (1) and (2) of the Public Financial Management (PFM) Act, 2016, prescribe a more formal arrangement for a Contingencies Fund. Any Appropriation Bill for any Financial Year should make provision(s) for contingencies and should not exceed 2% of non-extractive revenue for that year. There are three contingency votes under the PFM Act, 2016. These are contingencies fund (601), Special Warrant of the President (611) and unallocated head of expenditures (612). However, budgetary allocations are also made to Miscellaneous Services (501) and is regularly used without any detail.

The percentage of total expenditure in the last three years has been 2.0%, 2.3% and 0.8%, an average of 1.7% of total original budget. This would be rated A. The overall rating for this indicator, using the M1 method in the PEFA 2016 assessment framework of combining the dimensional scores, is D.

Score	Minimum requirements for scores
2.1. Expenditure composition outturn by function	
A	Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
2.2. Expenditure composition outturn by economic type	
A	Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
2.3. Expenditure from contingency reserves	
A	Act ual expenditure charged to a contingency vote was on average less than 3% of
B	Actual expenditure charged to a contingency vote was on average more than 3% but less than 6% of the original budget.
C	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
D	Performance is less than required for a C score.

Indicator/Dimension		Brief Justification for Score
PI -2 Expenditure composition out-turn	D	M1 method of combining dimension scores
2.1 Expenditure composition out -turn by function	D*	Variance was below 15% in only one of the last three years
2.2 Expenditure composition out -turn by economic type	D*	Variance was at or below 15% in two of the last three years
2.3 Expenditure from contingency reserves	A	Average spending from the contingency vote was slightly over 3% over the last 3 years

Section 43 of the Public Financial Management (PFM) Act, 2016, stipulates that any amount of provision under the Estimates may not be re-allocated between different heads of expenditures without approval of Parliament through a Supplementary Estimate. Even though the actual expenditure over the period under review has not exceeded the amount in the Appropriation Act for the various years, there should have been a supplementary budget to Parliament to explain the deviations. This was not the case as the originally approved budget of MDAs was maintained even though some MDAs received additional allocations beyond their approved budgets; whilst others did not receive up to 50 percent of their approved budget allocations. For example, in 2017, the actual transfers to the Ministry of Youth, the Local Councils and the National Fire Force were significantly lower than their approved budgets. In 2018, the allocation to Statistics Sierra Leone, Ministry of Labour and Social Security and Ministry of Fisheries and Marine Resources was significantly lower than their approved budget. In 2019, the Ministry of Planning and Economic Development, Accountant General's Department and Statistics Sierra Leone were among those that received significantly lower disbursements than their approved budget.

Over the period, the Office of the President, pension payments and the Ministry of Works and Infrastructure continued to receive more allocations than their approved budget. In contrast, service delivery MDAs like the Ministry of Health and Sanitation, Ministry of Basic Senior Secondary Education, Ministry of Technical and Higher Education and the Ministry of Agriculture continued to have budgets execution rate of less than 70 percent. In the Ministry of Health and Sanitation, the expectation would be that primary healthcare department should be prioritized for resource allocation as critical department for improving the health status of citizens. However, though the division had an approved budget of Le 20.4 billion in 2019, only Le 749 million was disbursed. In contrast, the administrative division had an approved budget of Le 10.3 billion but it went on to receive and spend Le 20.3 billion.

Under section 56 of the PFM Act, 2016, the Minister may require the head of an MDA to submit for approval monthly forecasts under the Estimates approved by Parliament in the Appropriation Act for such period as specified by the Minister. Ideally, this means that allocations to MDAs are to be made on a monthly basis.

However, allocations are unreliable and unpredictable as some Ministries, Departments and Agencies receive only one allocation, some will receive two or three allocations in a particular year. In some instances, allocations made to some MDAs are received in the next financial year. Allocations to MDAs does not mean automatic access to funds. The respective MDAs have to go through the process of completing Public Expenditure Tracking Surveys (PETS) forms I & II. When MDAs receive their allocation, the Accountant prepares the PETS Form I, which is initiated by the programme manager, endorsed by vote controller and approved by the Minister/Head of the Agency. The PETS Form I is then sent to the Ministry of Finance to ensure that the activities to be implemented and the budget are the same as in the approved budget by Parliament. When this is completed, the MDA then prepares PETS Form 2, with all the supporting documentation and send to the Accountant General's Department. The documents attached to the PETS Form II are then checked before send to the Minister of Finance for approval and signing of the cheque. The signed cheque is sent to the Bank of Sierra Leone for payment to the respective MDA. However, when the documentation is incomplete or incorrect, the PETS Form II is returned to the MDA for correction.

It is only when payments are sent to the Bank of Sierra Leone that the process can be regarded as complete. For example, Local Councils received only one allocation in 2019. Their second allocation was only processed in the second quarter of 2020. The unreliability and unpredictability of allocation significantly affect the implementation of activities. Furthermore, the practice of giving previous year's allocation in the current year reduces the resources available for that particular year.

Furthermore, the allocation of additional resources to MDAs outside the allocated budget is still prevalent and hinders the effective execution of the approved budget. This is mainly because of in-year implementation of new programmes and political prioritization of certain programmes including the allocation of more resources beyond the approved budget value. In 2019, budgetary outturn data for the Ministry of Health and Sanitation shows that the budget execution rate was 46 percent and 6 percent for recurrent and capital expenditure respectively. The Ministry of Basic and Senior Secondary budget execution rate was 63 percent for recurrent expenditure with no allocation for capital expenditure. Even within a particular Ministry, some programmes get more resources than others. For example, in 2018, procurement of text books and teaching and learning material diverted substantial resources away from other programmes like teacher supervision and training in the Ministry of Basic and Senior Secondary Education. This has the tendency to adversely affect the implementation of activities that were approved by Parliament.

The analysis also revealed that both actual revenue and expenditure were lower than the budget profile for the period under review, although there are signs of improvement as domestic revenue mobilization increases from Le 3,340 billion (12.3 percent of non-iron ore GDP) in 2017 to Le 5.643 billion (14.3 percent of non-iron ore GDP) in 2019. In terms of performance against the macro-economic framework, actual domestic revenue was Le 3,340 billion against a target of Le 3,596 billion (variance of Le 256 billion). In 2018, actual domestic revenue was Le 4,582 billion against a revenue target of Le 4,645 billion (variance of Le 63 billion); and in 2019, Similarly, total expenditure and net lending increased from Le 5,291 billion (23.5 percent of non-iron ore GDP) in 2017 to Le 6,242 billion (20.6 percent of non-iron ore GDP in 2019. In terms of performance, in 2017, actual total expenditure was Le 5,291 billion against approved total expenditure of Le 5,444 billion (variance of Le 153 billion). In 2018, approved total expenditure was Le 7,384 billion but actual expenditure was Le 5,546 billion (variance of Le 1,838 billion). In 2019, actual total expenditure was Le 6,425 billion against the approved total expenditure of Le 7,679 billion (variance of Le 1, 254 billion).

As a result, the overall balance excluding grants improved from 8.8 percent of non-iron ore GDP in 2017 to 2.9 percent of non-iron GDP in 2019. The improvement in budget deficit was largely because of the huge underspending in 2018 and 2019.

The improved revenue performance from 2018 continued into 2019 with all revenue streams growing. The ratio of domestic revenue to non-iron ore GDP increased from 13.7 percent in 2018 to 14.3 percent in 2019, mainly as a result of increase in tax revenues, especially corporate income taxes and import duties (as a result of growth in imports) as well as recent measures taken by the government to reduce tax exemptions and duty waivers. Grants, especially budget support continues to be an important component of total revenue. Grants increased by 50 percent in 2019 and represented 3.4 percent of non-iron ore GDP. On the expenditure side, total expenditures to non-iron ore GDP declined slightly from 21.4 percent in 2018 to 20.6 percent in 2019 due primarily to better prioritization of capital expenditures (while recurrent expenditures to non-iron ore GDP increased by only 0.3 percentage point between 2018-19). Domestically financed capital expenditure was particularly affected by the cuts. The Ministry of Basic and Senior Secondary Education did not undertake any capital expenditure in 2019, while the Ministry of Health and Sanitation had a capital expenditure execution rate of only 6 percent.

An official in the Ministry of Agriculture Forestry and Food Security said despite policy pronouncements about the importance of Agriculture, the Ministry received only 40 percent of the approved budget for 2019; most of which was received in the fourth quarter of the year. The official also lamented about the time-bound nature of agricultural activities and that late disbursement of funds adversely impacted on the implementation of agricultural policies.

An official in the Ministry of Agriculture Forestry and Food Security said despite policy pronouncements about the importance of Agriculture, the Ministry received only 40 percent of the approved budget for 2019; most of which was received in the fourth quarter of the year. The official also lamented about the time-bound nature of agricultural activities and that late disbursement of funds adversely impacted on the implementation of agricultural policies.

4

4.0 Analysis of revenue performance and the impact of revenue proposals or changes through the Finance Act

Revenue performance continued to improve over the review period as a result of the implementation of policy and administrative reforms including the operationalization of the Treasury Single Account, liberalization of domestic fuel prices and enforcement of upfront payment of fuel taxes and duties; rationalization of duty and tax waivers, implementing the ECOWAS Common External tariff; data matching and special tax audits; field audits; implementation of the 2019 Finance Act, which includes upward revision of rates and fees collected by MDAs including royalty rate on timber exports, as well as strict enforcement of tax provisions. The revenue data shows domestic revenue increased by 37.2 percent in 2018 and further by 23.2 percent in 2019.

Income taxes increased by 35.7 percent in 2018, from Le 1,188 billion in 2017 to Le 1,613 billion in 2018. The improved performance continued in 2019 as income tax receipts increased by 15 percent to Le 1,855 billion. Over the review period, income tax grew by 56.1 percent from Le 1,188 billion in 2017 to Le 1,855 billion in 2019.

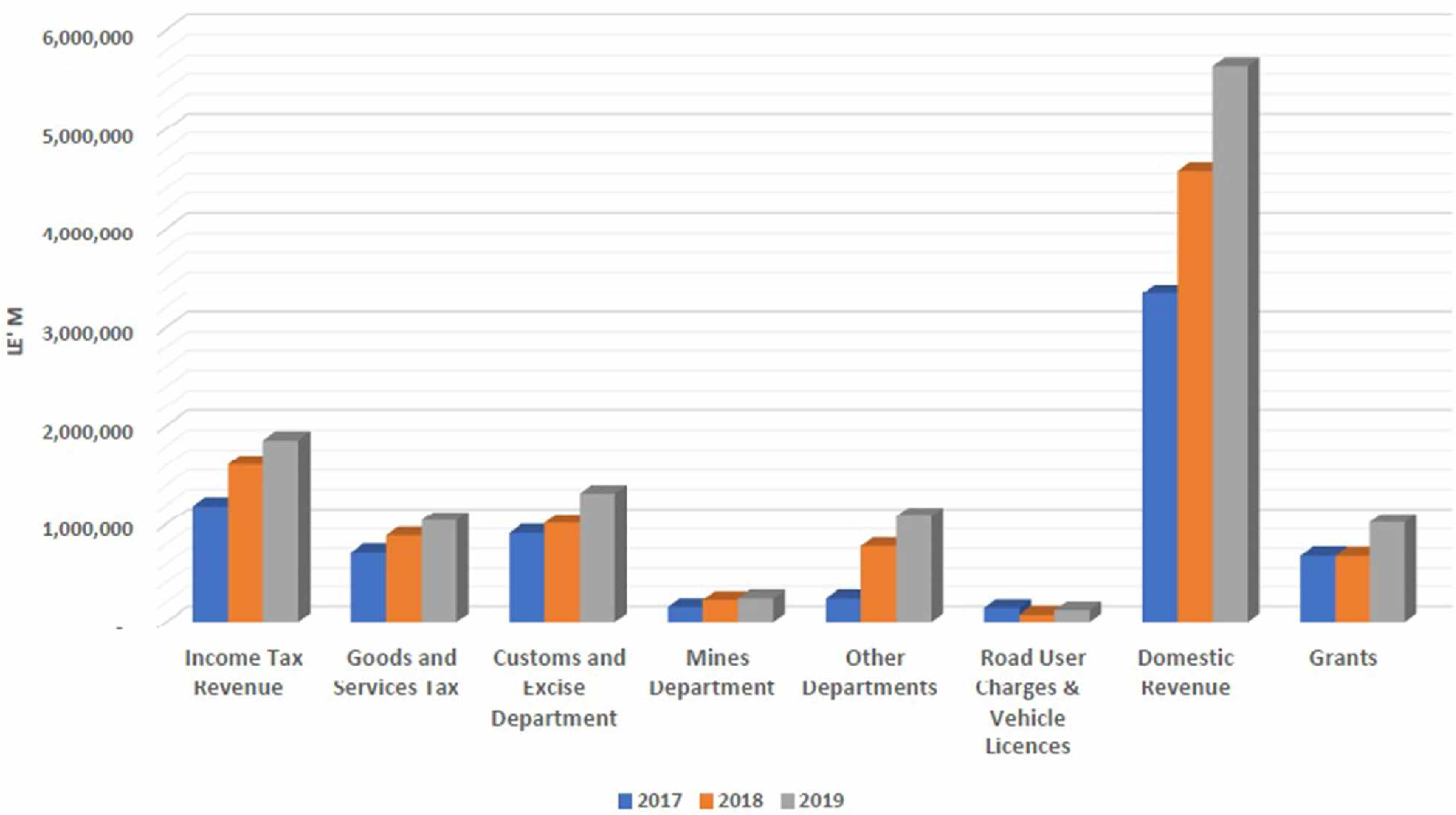
Goods and Services Tax increased from Le 713 billion in 2017 to Le 886 billion in 2018 and further to Le 1,037 billion in 2019, an increase of 45.3 percent over the review period. Similarly, Customs and excise duties increased from Le 910 billion in 2017 to Le 1,008 billion in 2018 and further to Le 1,313 billion in 2019, an increase of 44.3 percent over the review period.

Revenue from the mineral sector grew by only 6 percent in 2019 compared to the growth of 49.5 percent in 2018. Mineral revenue increased from Le 149 billion in 2017 to Le 22 billion in 2018 and further to Le 236 billion in 2019.

There was a huge increase in revenue from other departments in 2018, mainly resulting from the operationalization of the Treasury Single Account (TSA) and proceeds from timber exports. Revenue from other departments (including TSA Agencies) increased from Le 236 billion in 2017 to Le 776 billion in 2018, an increase of over 220 percent. There was a further increase of 40 percent in 2019. Road User Charges recorded significant jump to Le 116 billion in 2019 compared to Le 74 billion in 2018, which was a significant drop from the Le 141 billion collected in 2017. Figure 1 shows revenue performance by revenue streams.

Grants, mainly in the form of budget support, also saw a significant increase in 2019. Grants fell by 0.4 percent in 2018 to Le 680 billion from Le 683 billion in 2017. However, grants increased by 50 percent to Le 1,017 billion in 2019 from the 2018 level.

Figure 1: Domestic revenue performance - 2017 to 2019 (Le millions)



Source: General Purpose Financial Statements

The institutional coordination between the Ministry of Finance and the National Revenue Authority has improved tremendously, although systemic issues remain, such as delays in the preparation of certain policies, including the duty waiver and exemption bill that will boost domestic revenue mobilization.

5

5.0 Sector level analysis of disbursement made to Agriculture, Health, and Education

The goods and services budget for 2017, 2018 and 2019 amounted to Le 1,292 billion, Le 1,886 billion and Le 2,130 billion respectively (Table 3). It must be noted that 2018 had two budgets presented to Parliament – one in November 2017 under the All People's Congress (APC) party and a supplementary budget in July 2018 under the Sierra Leone People's Party (SLPP) following its election victory in March 2018. The analysis for 2018 is based on the supplementary budget.

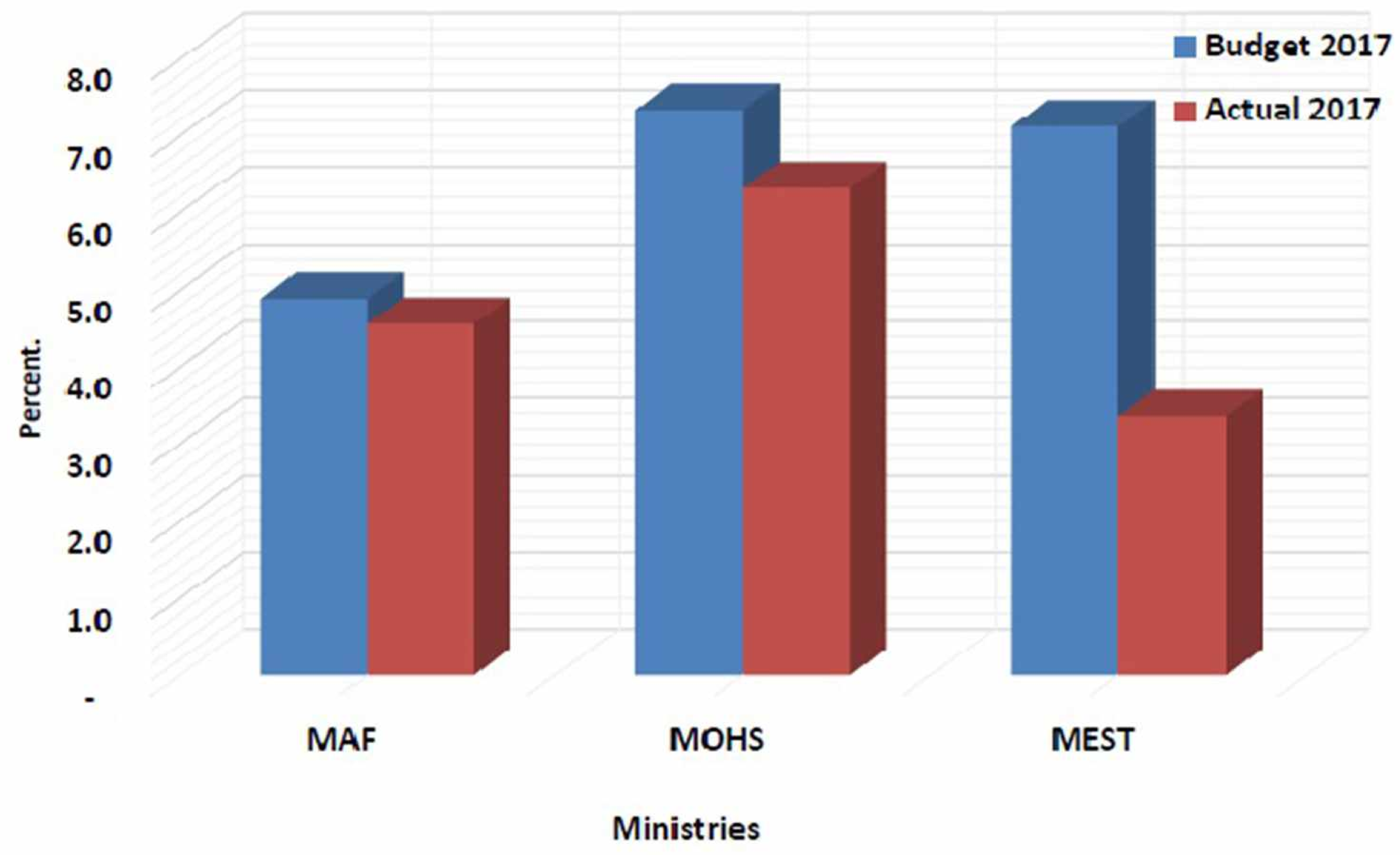
Table 3: Goods and services budget (Le millions) and percentage

	Budget			Percent of Goods & Services		
	2017	2018	2019	2017	2018	2019
Goods and Services	1,292,771	1,885,883	2,129,911			
MAF	63,265	53,517	101,423	4.9	2.8	4.8
MoHS	94,937	112,435	174,014	7.3	6.0	8.2
MEST/MTHE	92,142	18,355	215,798	7.1	1.0	10.1
MBSSE	-	94,837	137,637	-	5.0	6.5

Source: General Purpose Financial Statements

The goods and services allocation to the Ministry of Agriculture and Forestry amounted to Le 63.3 billion (4.9 percent), Le 53.5 billion (2.8 percent) and Le 101.4 billion (4.8 percent) in 2017, 2018 and 2019 respectively. Actual goods and services disbursements to the Ministry of Agriculture was Le 60 billion (4.6 percent), Le 21.6 billion (1.4 percent) and Le 42 billion (2.1 percent) in 2017, 2018 and 2019 respectively. Figures 2, 3 and 4 show budgets versus actual goods and services expenditure as a percent of total expenditure for the Ministries of Agriculture and Forestry, Health and Sanitation and Education Science and Technology as a percent of total expenditure in 2017, 2018 and 2019 respectively.

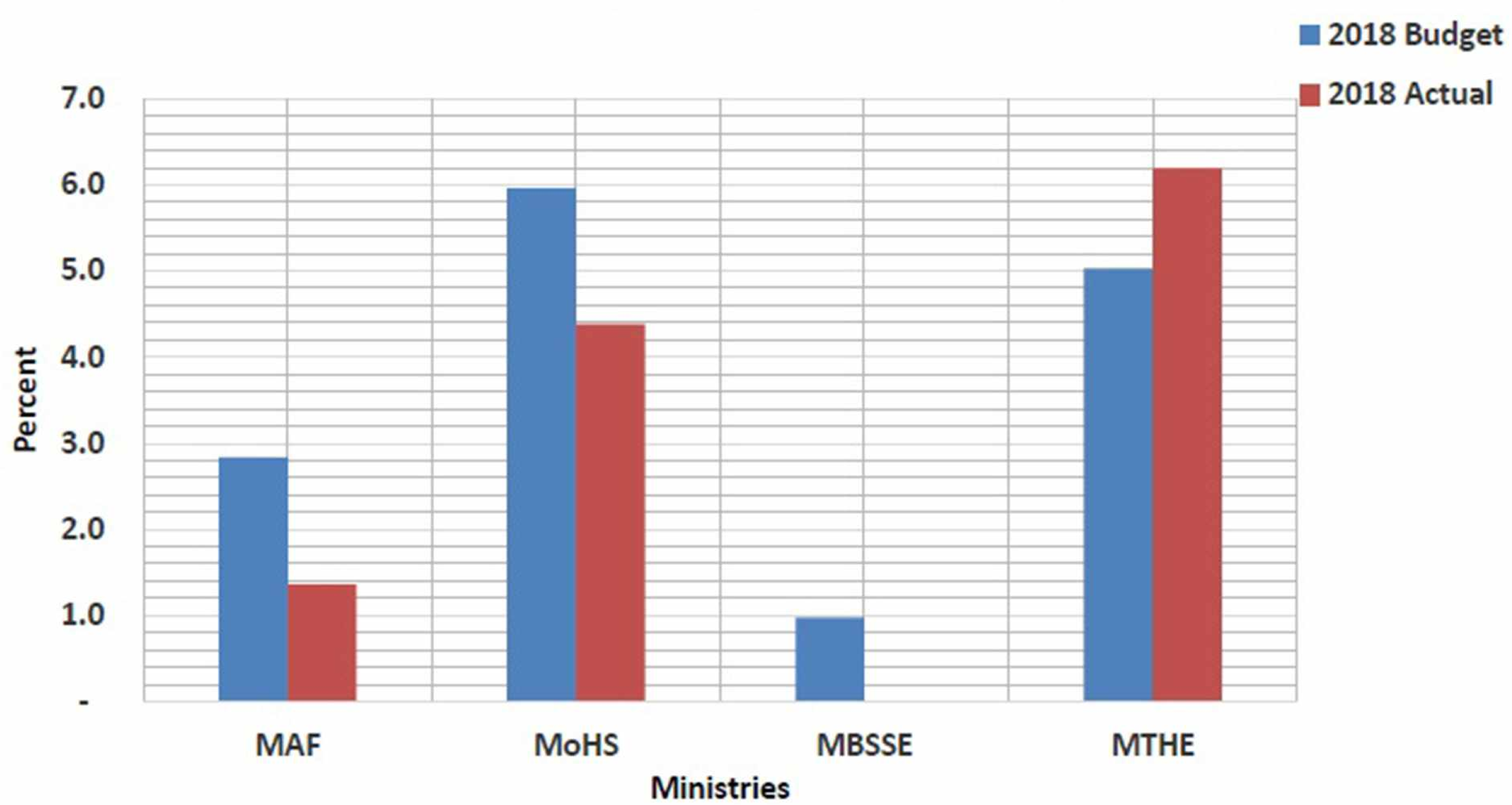
Figure 2: Good and Services (Budget vs Actual) as a % of Total Expenditure- 2017



Source: General Purpose Financial Statements

The goods and services allocation to the Ministry of Health and Sanitation amounted to Le 95 billion (4.9 percent), Le 112.4 billion (2.8 percent) and Le 174 billion (4.8 percent) in 2017, 2018 and 2019 respectively. Actual goods and services disbursement to the Ministry of Health and Sanitation was Le 83.1 billion (6.3 percent), Le 70 billion (4.4 percent) and Le 98.5 billion (4.9 percent) in 2017, 2018 and 2019 respectively.

Figure 3: Good and Services (Budget vs Actual) as a % of Total Expenditure – 2018

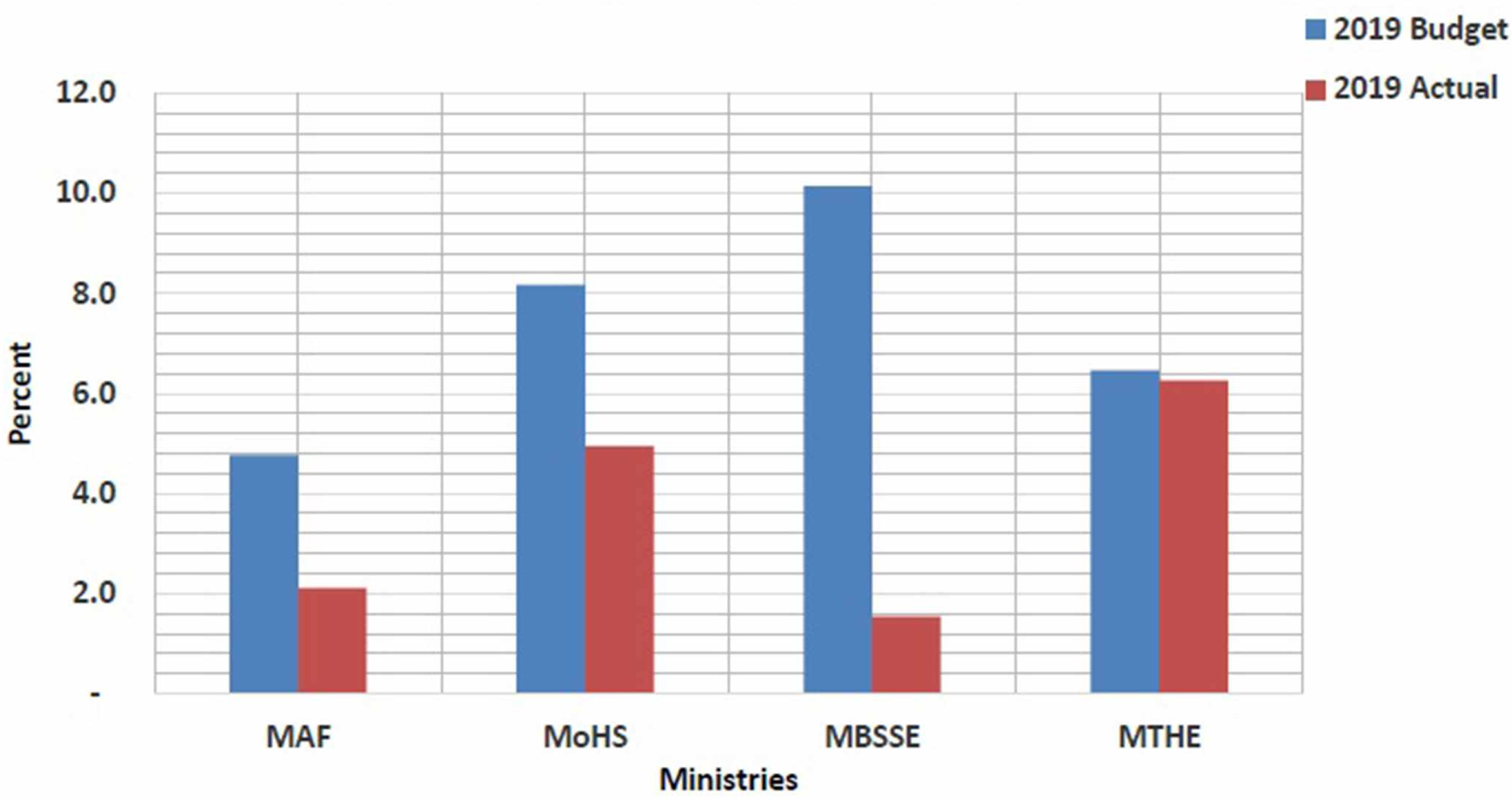


Source: General Purpose Financial Statements

The goods and services allocation to the Ministry of Education, Science and Technology in 2017 amounted to Le 92 billion (7.1 percent). Actual disbursement in 2017 amounted to Le 44.2 billion (3.4 percent). In 2018, the Ministry was split into two – the Ministry of Technical and Higher Education (MTHE) and the Ministry of Basic and Senior Secondary Education (MBSSE). The allocation to MTHE amounted to Le 18.4 billion (1 percent) and Le 215.8 billion (10.1) percent of the goods and services budget for 2018 and 2019 respectively. There was no disbursement to the MTHE in 2018 and actual disbursement in 2019 amounted to Le 30.7 billion (1.5 percent) of the goods and services expenditure. Allocation to the MBSSE amounted to Le 94.8 billion (5 percent) and Le 137.6 billion (6.5 percent) of the goods and services budget for 2018 and 2019 respectively. Actual goods and services disbursement amounted to Le 98 billion (6.2 percent) and Le 124.5 billion (6.3 percent) in 2018 and 2019 respectively. The huge increase in the goods and services budget of MBSSE is because of the new government's Free Quality Education programme, and involved the procurement of teaching and learning materials and textbooks.

THE HUGE INCREASE IN THE GOODS AND SERVICES BUDGET OF MBSSE IS BECAUSE OF THE NEW GOVERNMENT'S FREE QUALITY EDUCATION PROGRAMME, AND INVOLVED THE PROCUREMENT OF TEACHING AND LEARNING MATERIALS AND TEXTBOOKS.

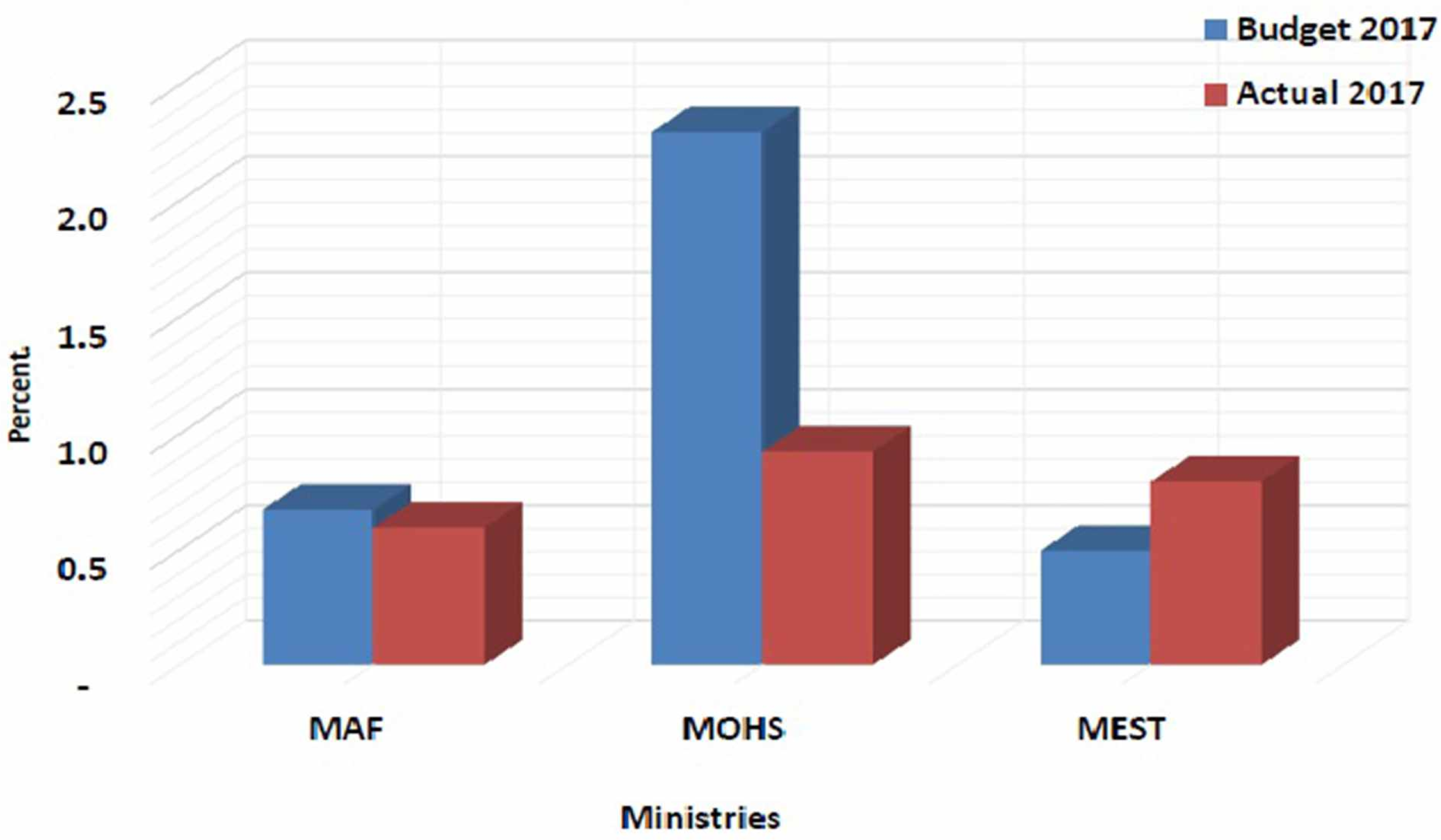
Figure 4: Goods and Service (Budget vs Actual) as a % of Total Expenditure -2019



Source: General Purpose Financial Statements

The development budget for 2017, 2018 and 2019 amounted to Le 563.9 billion, Le 800.7 billion and Le 901.2 billion respectively. The development expenditure allocation to the Ministry of Agriculture amounted to Le 3.8 billion (0.7 percent), Le 12.5 billion (1.5 percent) and Le 70.6 billion (7.8 percent) budget in 2017, 2018 and 2019 respectively. Actual disbursement to the Ministry of Agriculture was Le 5.6 billion (0.6 percent), Le 5.2 billion (0.8 percent) and Le 8 billion (1.5 percent) of the development expenditure in 2017, 2018 and 2019. Figures 5, 6 and 7 show budgets versus actual development expenditure as a percent of total expenditure for the Ministries of Agriculture and Forestry, Health and Sanitation and Education Science and Technology for 2017, 2018 and 2019 respectively.

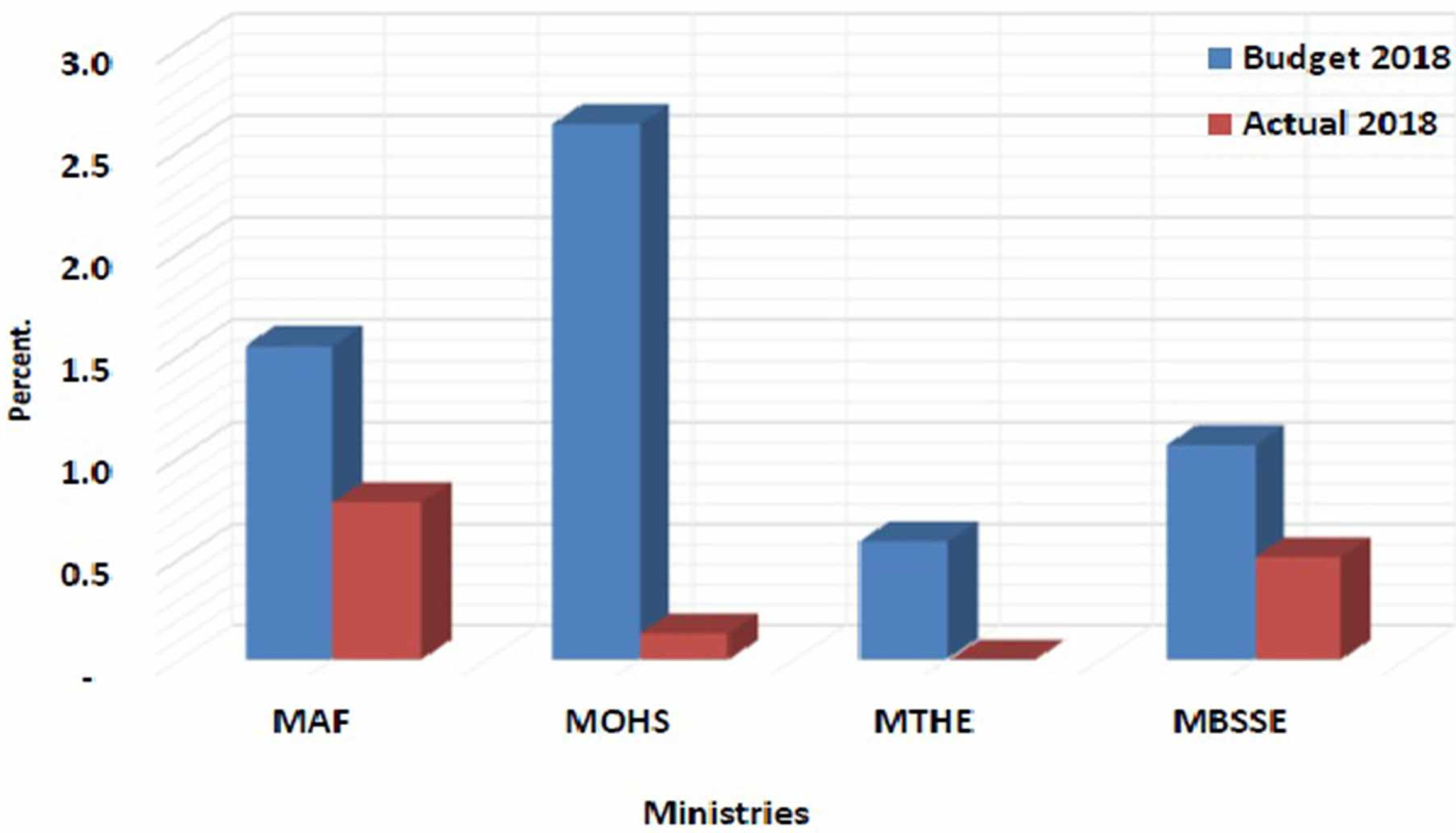
Figure 5: Development Expenditure (Budget vs Actual) as % of Total Expenditure-2017



Source: General Purpose Financial Statements

The development expenditure allocation to the Ministry of Health and Sanitation amounted to Le 13 billion (2.3 percent), Le 21.1 billion (2.6 percent) and Le 52 billion (5.8 percent) in 2017, 2018 and 2019 respectively. Actual development expenditure disbursement to the Ministry of Health and Sanitation was Le 8.7 billion (0.9 percent), Le 0.9 billion (0.1 percent) and Le 1.8 billion (1.6 percent) in 2017, 2018 and 2019 respectively.

Figure 6: Development Expenditure (Budget vs Actual) as % of Total Expenditure -2018

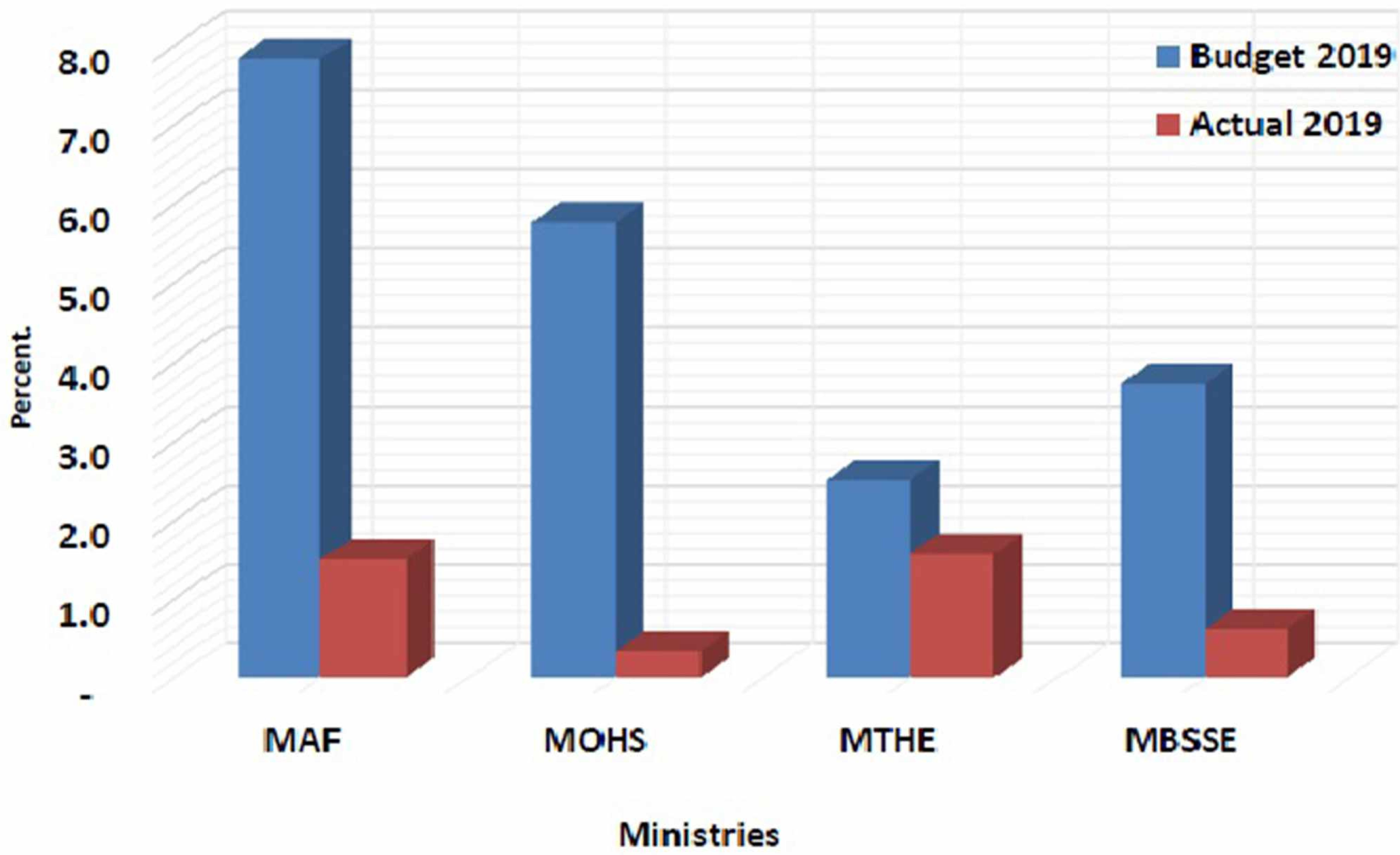


Source: General Purpose Financial Statements

The development expenditure allocation to the Ministry of Education, Science and Technology in 2017 amounted to Le 2.8 billion (7.1 percent). Actual disbursement amounted to Le 7.5 billion (0.8 percent). The development expenditure allocation to MTHE amounted to Le 4.7 billion (0.6 percent) and Le 22.7 billion (2.5 percent) for 2018 and 2019 respectively. As in the goods and services budget, there was not development expenditure disbursement to the MTHE in 2018 and actual disbursement in 2019 amounted to Le 8.4 billion (1.5 percent) of the development expenditure. Allocation to the MBSSE amounted to Le 8.5 billion (1.1 percent) and Le 33.7 billion (3.7 percent) of the development expenditure budget for 2018 and 2019 respectively. Actual development expenditure disbursement amounted to Le 3.4 billion (0.5 percent) and Le 3.3 billion (0.6 percent) in 2018 and 2019 respectively.

A RECURRING THEME IN BUDGET EXECUTION IS THE IMPLEMENTATION OF ACTIVITIES THAT WERE NOT PART OF THE BUDGET APPROVED BY PARLIAMENT.

Figure 7: Development Expenditure (Budget vs Actual) as % of Total Expenditure-2019



Source: General Purpose Financial Statements

The above analysis has shown that allocations to these important service sectors have not been matched by actual disbursements. This has affected the ability of MDAs to achieve their key deliverables in their recurrent and development expenditure estimates. A recurring theme in budget execution is the implementation of activities that were not part of the budget approved by Parliament. This is not only applicable across MDAs but can be seen within MDAs where some programmes are allocated more than their approved budgets. This is mainly because of poor budget planning. For example, the procurement of textbooks and teaching and learning materials in 2018 resulted in the reallocation of resources within the Ministry of Basic and Senior Secondary Education.

In contrast, other Ministries are spending more than their budget allocation. In 2019, actual allocations (goods and services and development expenditures) to the Ministry of Foreign Affairs and International Cooperation, the Ministry of Works, Housing and Infrastructure and the Office of the President exceeded their budgetary allocation by 30.3%, 63.8% and 25.8% respectively.

Although the Cash Management Committee of the Ministry of Finance meets on a weekly basis to review revenue forecast and make decisions on disbursements, many MDAs received allocations that were significantly lower than their approved budget in 2019, despite improved performance in domestic revenue mobilization, further efforts are needed to strengthen cash management and ensure MDAs are receiving their allocations.

In order to stem the accumulation of arrears by MDAs and improve the process of accessing funds, the Government is automating the Public Expenditure Tracking Survey (PETS) Form I. The automated forms are designed in a way that will prevent any MDA from initiating a payment process unless funds have been released to the particular MDA.

DESPITE IMPROVED PERFORMANCE IN DOMESTIC REVENUE MOBILIZATION, FURTHER EFFORTS ARE NEEDED TO STRENGTHEN CASH MANAGEMENT AND ENSURE MDAS ARE RECEIVING THEIR ALLOCATIONS.

6

6.0 The context of fiscal management in Sierra Leone

Over the review period, the government has shown commitment towards fiscal and debt sustainability. The fiscal targets remain consistent with the programme targets under the ECF arrangement. The government has implemented policies to increase revenue mobilization, plug revenue leakages and tighten expenditure control, including operationalizing Treasury Single Account, liberalizing domestic fuel prices, rationalizing duty and tax waivers, implementing the ECOWAS Common External Tariff, revising of fees/rates levied by Ministries, Departments and Agencies (MDAs) including fisheries licenses, data-matching and special tax audits, strict enforcement of tax legislation, and migrating from ASYCUDA++ to ASYCUDA World.

Even with all these measures to increase revenue, the government public debt continued to rise. In 2017, total debt was Le 14.9 trillion which represent 51% of the GDP. In 2018, it increased by Le 18 trillion (59% of GDP) and it further increased to Le 21.5 trillion (58% of GDP) in 2019.

Over the years, revenue and expenditure do not match, with expenditure always exceeding revenue, leading to budget deficit which is mostly financed by external and domestic borrowing. In 2017, the cash deficit was Le 1.8 trillion (6% of GDP). However, with external borrowing of Le 531 billion, domestic borrowing of Le 635 billion, less loan amortization of Le 264 billion and other items to the sum of Le 229 billion, the overall cash deficit reduced to 1.2 trillion (4% of GDP). In 2018, the overall cash deficit reduced to Le 542 billion (1% of GDP). In 2019, there was an overall cash surplus of Le 65 billion (0.002% of GDP).

During the implementation of the budget, government failed most of the time to meet some of its obligations in terms of payment which is called arrears. Over the past three years, government arrears have been on the decrease. In 2017, arrears payment was Le 169 billion, dropped to Le 112 billion in 2018 and further decreased to Le 86 billion in 2019. This means that government has increased its obligation on payment.

"OVERALL CASH DEFICIT REDUCED FROM LE 1.8 TRILLION (6% OF GDP) IN 2017 TO LE 542 BILLION (1% OF GDP) IN 2018. HOWEVER, IN 2019 THERE WAS AN OVERALL CASH SURPLUS LE 65 BILLION (0.002% OF GDP) "

The Global COVID-19 pandemic and the outbreak in Sierra Leone in March 2020 is going to pose adverse social and economic implications for the country. The economic implications operate through both direct and indirect channels, and as such may be difficult to quantify precisely, especially in light of the uncertainties related to the intensity and duration of the outbreak. Like other countries, Sierra Leone would have to adapt to dynamic ways to addressing the ever-growing challenges of the pandemic. Already, we have seen the government launched a Quick Action Economic Response Programme (QAERP) as a fiscal stimulus to address the challenges that the COVID-19 may pose.

The overall objective of the Quick Action Economic Response Programme (QAERP) is to maintain macro-economic and financial stability and mitigate the impact of the COVID-19 shock on businesses and households. The main objectives of the QAERP are:

- *Building and maintaining an adequate stock level of essential commodities at stable prices.*
- *Providing support to hardest-hit businesses to enable them to continue operations, avert lay-offs of employees and reduce non-performing loans.*
- *Providing safety nets to vulnerable groups.*
- *Supporting labor-based public works.*
- *Providing assistance for the local production and processing of staple food items.*

On the revenue side, tax on goods and services as well as corporate income tax and personal income tax, which represent more than 60 percent of tax revenue, will be negatively affected by the depressed economic activity on account of the outbreak. Tax on international trade would also decline as a result of reduced trade flows. Overall, tax revenue is likely to decline by 0.9 percentage point of GDP in 2020. On the expenditure side, the fiscal cost of supporting the health system in terms of surveillance, isolation and treatment of those affected by the disease is likely to be substantial, thereby widening the fiscal deficit and worsening the debt dynamics. Total expenditure (including on health) is expected to increase by 1.4 percentage points of GDP in 2020. The fiscal deficit is estimated to deteriorate by 2.1 percent of GDP in 2020 relative to pre-COVID period.

In Sierra Leone, the adverse impact of COVID -19 will be with us for several months and will take a few years for our economy to get back to the projected growth path that was envisaged over the medium term. Maintaining budget credibility and reliability is going to be very challenging under the current scenario. Resources are being diverted to support the health sector in responding to the COVID-19 pandemic. Despite this, it is imperative that any re-orientation of the budget should be done within the provisions of the Public Financial Management (PFM) Act, 2016.

7

7.0 Conclusion and recommendations

Budget credibility is important both for the attainment of macroeconomic goals and the effective delivery of public services. It also promotes social acceptance of taxation and spending, and contributes to a general strengthening of the power of formal institutions to shape the behavior of individuals. The non-credibility of the budget may have different kinds of impacts. For example, non-credibility of the budget in terms of overall revenue and expenditure will have an impact on a country's fiscal balance, with associated macroeconomic implications. Non-credibility of allocations to high-level votes within the budget may not have macroeconomic implications if overall expenditure levels are adhered to, but it might undermine legitimacy and trust in government if it appears that the government is disregarding the allocative decisions presented by itself and approved by Parliament.

The overall budget performance indicates no improvement in budget credibility as the budget is not fully implemented as approved. Allocations to MDAs are unpredictable and not done on time. Macroeconomic forecast of revenue has improved with actual values approaching forecast in 2019. On the other hand, the variance between total expenditure and net lending is still large, indicating that although the budget deficit has improved, government has not been able to allocate more resources to MDAs even though the possibility exists to do so. Furthermore, the reduction in total expenditure has been mainly of development expenditure, and as such, some development projects that had started are due to experience delays in their completion time. This has the tendency of reducing the fiscal space available for new projects over the medium term.

The implementation of a credible budget was also hampered by the allocation of additional resources to some MDAs, whilst other critical programmes remained underfunded.

To ensure budget credibility is improved over the medium term, the following policies recommendations have been made:

- The roll-out of the (online) electronic PETS Form I should include all MDAs.
- The cash management committee should ensure that allocations are made on a quarterly basis to all MDAs.
- In-year expenditure to a large extent are to be covered under the Presidential Warrant or the unallocated expenditure head. This will help ensure that the estimates under the Appropriation Act are preserved.

Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (i)

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Read the results for each of the three years for each indicator in table 5.

Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1 - Fiscal years for assessment

Year 1 =	2017
Year 2 =	2018
Year 3 =	2019

Table 2 (Leones millions)

Data for year =	2017					
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Ministry of Education, Science and Technology	723,779	514,904	723,650.0	-208,745.9	208,745.9	28.8%
Ministry of Health and Sanitation	266,695	253,131	266,647.4	-13,516.4	13,516.4	5.1%
Road Maintenance Fund	232,354	606,797	232,312.6	374,484.0	374,484.0	161.2%
Sierra Leone Police	223,487	202,856	223,447.5	-20,591.5	20,591.5	9.2%
Ministry of Defence	213,015	244,882	212,976.9	31,905.4	31,905.4	15.0%
National Civil Registration Authority	187,258	-	187,224.4	-187,224.4	187,224.4	100.0%
Ministry of Energy	181,080	293,462	181,047.7	112,414.0	112,414.0	62.1%
Govt. contribution of social security	143,529	102,343	143,503.4	-41,160.0	41,160.0	28.7%

TRANSFERS TO LOCAL COUNCILS	114,853	68,259	114,832.6	-46,573.7	46,573.7	40.6%
Ministry of Foreign Affairs & International Co-operation	109,892	124,617	109,872.6	14,744.5	14,744.5	13.4%
Ministry of Agriculture, Forestry and Food Security	96,662	46,465	96,644.6	-50,179.1	50,179.1	51.9%
Office of the President	81,215	81,568	81,200.8	366.9	366.9	0.5%
Ministry of Finance and Economic Development	71,244	97,385	71,230.8	26,154.6	26,154.6	36.7%
National Revenue Authority (NRA)	68,975	38,760	68,962.8	-30,202.8	30,202.8	43.8%
Pensions	64,530	94,923	64,518.5	30,404.6	30,404.6	47.1%
Prisons Department	56,584	57,342	56,573.4	768.7	768.7	1.4%
National Electoral Commission (NEC)	47,313	159,795	47,304.6	112,490.7	112,490.7	237.8%
Ministry of Local Government & Rural Development	33,035	25,526	33,029.0	-7,503.4	7,503.4	22.7%
Office of the Chief of Staff	29,646	23,203	29,640.2	-6,437.6	6,437.6	21.7%
Audit Service Sierra Leone	27,621	18,609	27,615.9	-9,007.0	9,007.0	32.6%
21 (= sum of rest)	538,607	455,920	538,511.3	-82,591.4	82,591.4	15.3%
Allocated expenditure	3,511,373	3,510,747	3,510,747.1	0.0	1,407,466.6	
Interest payment	548,178	602,054				
Contingency	115,449	88,769				
Externally financed expenditure	-	-				
total expenditure	4,175,000	4,201,570				
overall (PI-1) variance						100.6%
composition (PI-2) variance						40.1%
contingency share of budget						2.1%

Table 3 (Leones millions)						
Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry of Basic and Senior Secondary Education	676,808	537,640	623,171.1	(85,531.1)	85,531.1	13.7%
Road Maintenance Fund	583,638	570,309	537,384.8	32,924.2	32,924.2	6.1%
Ministry of Works, Housing and Infrastructure	382,064	517,916	351,785.4	166,130.6	166,130.6	47.2%
Ministry of Health and Sanitation	317,315	238,620	292,167.8	(53,547.8)	53,547.8	18.3%
Ministry of Energy	256,943	59,106	236,580.3	(177,474.3)	177,474.3	75.0%
Sierra Leone Police	254,810	261,602	234,616.1	26,985.5	26,985.5	11.5%
Ministry of Defence	236,040	214,121	217,333.7	(3,212.7)	3,212.7	1.5%
Ministry of Foreign Affairs & International Co-operation	201,991	190,056	185,983.2	4,072.8	4,072.8	2.2%

Ministry of Finance and Economic Development	135,286	142,660	124,564.6	18,095.4	18,095.4	14.5%
Pensions	107,530	181,672	99,008.3	82,663.7	82,663.7	83.5%
Office of the President	103,200	155,279	95,021.4	60,257.6	60,257.6	63.4%
Ministry of Water Resources	101,674	56,309	93,616.1	(37,307.1)	37,307.1	39.9%
National Revenue Authority (NRA)	90,962	90,462	83,753.1	6,708.8	6,708.8	8.0%
Charged Emoluments	86,433	88,617	79,583.2	9,033.8	9,033.8	11.4%
Prisons Department	84,409	104,936	77,719.2	27,216.8	27,216.8	35.0%
Ministry of Agriculture, Forestry and Food Security	82,574	39,478	76,030.0	(36,552.0)	36,552.0	48.1%
Transfers to Local Council	74,695	119,401	68,775.8	50,624.7	50,624.7	73.6%
National Electoral Commission (NEC)	73,422	55,741	67,603.3	(11,862.4)	11,862.4	17.5%
National Civil Registration Authority	70,145	12,313	64,586.3	(52,273.4)	52,273.4	80.9%
National Telecommunications Commission (NATCOM)	69,879	74,268	64,341.1	9,926.9	9,926.9	15.4%
21 (= sum of rest)	1,022,014	904,139	941,019.1	(36,880.0)	36,880.0	3.9%
allocated expenditure	5,011,831	4,614,644	4,614,644.0	0.0	989,281.6	
Interest payments	952,000	903,661				
Contingency	164,851	147,372				
Externally financed expenditure	-	-				
total expenditure	6,128,682	5,665,677				
overall (PI-1) variance						92.4%
composition (PI-2) variance						21.4%
contingency share of budget						2.4%

Table 4 (Leones millions)						
Data for year =	2019					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry of Basic and Secondary Education	432,647	408,558	395,686.9	12,871.1	12,871.1	3.3%
Ministry of Health and Sanitation	275,797	150,773	252,236.3	(101,463.3)	101,463.3	40.2%
Ministry of Technical and Higher Education	270,858	276,306	247,719.2	28,586.8	28,586.8	11.5%
Sierra Leone Police	258,654	221,175	236,557.8	(15,382.8)	15,382.8	6.5%
Ministry of Defence	215,086	280,313	196,711.7	83,601.3	83,601.3	42.5%
Ministry of Foreign Affairs & International Co-operation	211,539	161,204	193,467.7	(32,263.7)	32,263.7	16.7%
Ministry of Energy	203,590	11,808	186,197.8	(174,389.8)	174,389.8	93.7%
Transfers to Local Councils	190,136	311,546	173,893.1	137,652.9	137,652.9	79.2%
Ministry of Works, Housing and Infrastructure	186,678	65,263	170,730.5	(105,467.5)	105,467.5	61.8%
Ministry of Agriculture, Forestry and Food Security	154,749	122,404	141,529.1	(19,125.1)	19,125.1	13.5%
Ministry of Finance and Economic Development	154,696	213,090	141,480.7	71,609.3	71,609.3	50.6%
Pensions	154,611	191,084	141,402.9	49,681.1	49,681.1	35.1%

Road Maintenance Fund	126,909	77,081	116,067.4	(38,986.4)	38,986.4	33.6%
Ministry of Water Resources	117,409	117,434	107,379.0	10,055.0	10,055.0	9.4%
Charged Emoluments	106,103	133,535	97,038.9	36,496.1	36,496.1	37.6%
Office of the President	100,000	157,161	91,457.2	65,703.8	65,703.8	71.8%
National Revenue Authority (NRA)	88,224	87,320	80,687.2	6,632.8	6,632.8	8.2%
Prisons Department	75,353	-	68,915.8	(68,915.8)	68,915.8	100.0%
National Civil Registration Authority	58,251	59,863	53,274.7	6,588.3	6,588.3	12.4%
National Telecommunications Commission (NATCOM)	58,240	26,560	53,264.7	(26,704.7)	26,704.7	50.1%
21 (= sum of rest)	1,079,313	1,060,330	987,109.7	73,220.5	73,220.5	7.4%
Allocated expenditure	4,518,843	4,132,808	4,132,808.2	(0.0)	1,165,398.0	
Interest payment	548,178	602,054				
Contingency	31,645	44,290				
Externally financed expenditure	-	-				
total expenditure	5,098,666	4,779,152				
overall (PI-1) variance						93.7%
composition (PI-2) variance						28.2%
contingency share of budget						0.9%

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